FINAL TRANSCRIPT

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PRESENTATION

Operator

Good afternoon. My name is Casey, and I will be your conference operator today. At this time, I would like to welcome everyone to the third-quarter fiscal-year 2011 earnings conference call. (Operator Instructions). I will now turn the conference over to Peter Ausnit, Vice President of Investor Relations. Mr. Ausnit, you may begin.

Peter Ausnit - *Electronic Arts - VP IR*

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 news 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 1, 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 guides 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 - *Electronic Arts - CEO*

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 its focus on our three strategic objectives to drive shareholder value -- producing fewer, better, bigger package-goods games; driving growth in digital; controlling costs 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're tracking toward 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, microtransactions and free to play. Digital revenues derived from packaged goods were up over 100% year over year.

Our focus on cost 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 put us in a position to raise our non-GAAP EPS guidance and build shareholder value. We also are creating shareholder value through our capital structure. Based on the operational progress we are making and the improved visibility we have in our business, we are announcing a $600 million share repurchase program.

Now I'll turn the call over to Eric.

Eric Brown - *Electronic Arts - EVP, CFO*

Thank you, John. Non-GAAP revenue of $1.41 billion reflected solid frontline title performance on Need for Speed Hot Pursuit, Medal of Honor, and The Sims on console.

Catalog 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 billion 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 12 months ended Q3 fiscal 2011, 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 minus 0.1% to positive 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 fiscal 2011. 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 12 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 million 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 were up on a nine-month basis to 12% from 8% last year, driven by increased reserves relating to be 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 approximately 25% for the year.

Packaged goods -- EA was the number one 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 fiscal 2011 was 15% overall, with 14% in North America and 17% in Europe.

Industry software sales and high-definition consoles and PCs remains strong, and played 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 fiscal 2011, 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, PlayStation 2, 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 over 5 million units to date. EA Sports Active 2 is well below our expectations for the quarter.

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

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, or MAUs, and 7 million daily active users, or DAUs.

Playfish experience 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 license 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 fiscal 2011 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 fiscal 2011 GAAP net revenue guidance is $3.47 billion to $3.57 billion, and our fiscal 2011 GAAP EPS guidance is a loss of $0.90 to a loss of $0.70(Sic-see press release) per share, which includes restructuring charges.

For Q4 fiscal 2011, 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 per share. Non-GAAP gross profit margin is expected to be approximately 67% to 68%. Operating expense is expected to be approximately $505 million to $520 million, and share count is an estimated 337 million.

Our updated guidance assumes the following foreign exchange rates for the balance of the fiscal year -- $1.31 to the euro, $1.00 to the Canadian dollar, and $1.54 to the British pound. As 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 billion to $3.78 billion in fiscal 2011 revenue. Our packaged-goods expectations call for publishing revenue ranging from $2.73 billion 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 fiscal 2011 versus 35 titles previously. EA plans for at least 10 titles in Q4. Our top 20 titles for fiscal 2011 are expected to generate approximately 77% of total non-distribution packaged goods revenue. This compares to 76% in fiscal 2010.

We expect full-year non-GAAP operating expenses to be approximately $2 billion, and we expect 26% to 27% R&D, 19% to 20% marketing and sales, 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 fiscal 2011. We expect to end fiscal 2011 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 fiscal 2011.

We will provide FY 2012 guidance when we report Q4 results. For now, we will provide only the highest level framing for our FY 2012 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 FY 2012 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 fiscal 2012.

We are also planning our NFL business conservatively, given the possibility of a lockout.

In terms of phasing, we expect the year to be a bit more backend-loaded, given our expected title ship dates, and to have Q1 fiscal 2012 non-GAAP EPS coming approximately $0.15 to $0.20 below our Q1 fiscal 2011 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 fiscal 2012 outlook and look forward to sharing our plans with you next quarter.

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

John Schappert - *Electronic Arts - COO*

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 high-definition 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, while 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 databases. 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 takeaway 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, over in 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 was up 16% from last year, selling at 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 was up 25% year over year. For 2010, we had five titles that sold over 5 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 disk 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 2 million units sold in with double the sellthrough 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 2, Dark Spore, Tiger Woods PGA 12, The Masters, Fight Night Champion, Crysis 2, and Bulletstorm.

Now I'll turn to our digital business. As Eric mentioned, we were 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 smartphones, 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 [ILS].

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 number one publisher on Apple's iOS platform, both iPhone and iPad, number one on Windows Phone 7, number one on BlackBerry's App World, number one 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 number one selling game for both iPhone and iPad in 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 is stabilized with a current estimate of 290 million gamers playing an average of 3.5 hours per month.

EA's Playfish is the number two publisher in this category with a lot of potential for growth. Our leadership on mobile and smartphones 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 multiplatform 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 as 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're 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 number two on Facebook with a follow-up strategy for introducing and monetizing high-quality, globally-recognized properties.

Games are rapidly transforming to 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 - *Electronic Arts - CEO*

Thanks, John. We started fiscal 2011 with much to prove. We opened the year with a strong balance sheet and a plan to have fewer titles to 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 fiscal 2011, the proof is in our results.

EA is executing against 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 in the growing high-definition platforms, but also in 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 the 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 Masters 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 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.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Brian Pitz, UBS.

Brian Pitz - *UBS - Analyst*

A couple questions. Would you share with us your ARPU within the Facebook portfolio currently, and any trends you can comment on with respect to monetization of the 298 million-plus users, and any commentary on ARPU just generally? Are they encouraging or not? And then, I just have a follow-up on another point.

John Schappert - *Electronic Arts - COO*

Hi Brian, John Schappert. With respect to ARPU and Playfish -- or Facebook, we don't break that out, per se.

What I can tell you is we had a relatively light release schedule this quarter, and we've been focusing on improving our ARPU and monetization, and we are very happy with that. And in fact, our run rate of revenue and our ARPU are up double digits, quarter to quarter. So, very pleased with the results there.

And we're certainly seeing the platform stabilize. In fact, we are seeing some new life as some new competition has arrived with new players coming back there, and certainly, the addition of Facebook credits, we think, is going to be a long-term positive, too.

Brian Pitz - *UBS - Analyst*

Just on the Kinect, can you give us an update on your outlook for Kinect titles over the next calendar year? And do you think EA Sports Active 2 would have fared better if it were a Kinect title? Thanks.

John Schappert - *Electronic Arts - COO*

First, EA Sports Active 2 was a Kinect title. In fact, it was only for the Kinect on the Xbox platform.

And so, I think it actually was a very good title format platform. We think that Kinect did very, very well. We congratulate Microsoft on its success there. We were happy with our showing with Active, as well as Harry Potter. We saw a nice lift on Harry Potter with the Kinect support in it. And we look forward to them continuing to sell Kinects and continue to move hardware installed base of the Xbox 360 where we are the number one publisher on that platform.

John Riccitiello - *Electronic Arts - CEO*

This is John. Just to add to that, both Microsoft and Sony had good holidays with their hardware peripherals, Kinect and Move. We're optimistic they're going to show continued growth and strength through the calendar year, and we'll be ready.

Operator

Justin Post, Bank of America Merrill Lynch.

Justin Post - *BofA Merrill Lynch - Analyst*

John, you had the buyback question for many years now. Can you give us more light on why now? Do you feel any better about EA's cash flows or margin structure? And then maybe, on the other side of the coin, maybe your exposure to the NFL strike, how that might affect Madden, and what payments to the NFL are kind of fixed versus variable? Thank you.

John Riccitiello - *Electronic Arts - CEO*

I'm going to touch lightly on the buyback and have Eric go into that a little bit deeper, Justin, and then I'll come back to the NFL.

But in principle, what we've said on the call in terms of our previous comments is pretty straightforward. We feel very good about our business. We are up year over year, year to date, very sharply in terms of our EPS, our margins are growing, and we have improved visibility on our digital business, given how strongly it's been growing several quarters in a row. That, in combination with our views our stock is a bargain at its current price, got us to move. Eric, do you want to expand on that?

Eric Brown - *Electronic Arts - EVP, CFO*

Yes, the other thing we've said is that we would finish up, or largely finish up this fiscal year, assess uses of our capital vis-a-vis M&A. We've decided that, number one, for the foreseeable future we're not going to entertain large-scale M&A.

We still reserve the right to do small-scale M&A like Chillingo, which has been working out quite nicely for us. Our margin structure has been improving. Our digital plan is on track. We're confident we're going to hit the $750 million digital for the full year, and given the excess capital, we think that this is an appropriate time to return some of it to the stockholders.

In terms of the NFL, I can tell you that our base assumption going into the plan is a very conservative one. Of course, we, like you, are looking forward to the NFL and the PA resolving their differences and starting the season on time this year. But in terms of the planning assumption, which is also baked into the limited guidance we provided, which was double-digit growth year over year in EPS, we've baked in, at least in our thinking, the most conservative assumption, meaning no season. We're optimistic it can be better than that and generate further upside.

Operator

Edward Williams, BMO Capital Markets.

Edward Williams - *BMO Capital Markets - Analyst*

Just a couple of questions. Can you comment a little bit about how you are seeing DLC revenue for packaged-goods sales? What sort of incremental revenue are you getting on a per-game basis and how should we think about modeling it on a going-forward basis?

Eric Brown - *Electronic Arts - EVP, CFO*

This is Eric. Actually, we posted some additional slides on the website here that will show you examples of the DLC attach rates that we are seeing.

Bad Company 2 Generation to Generation is now well into the double digits of additional digital content, and so net, DLC is performing well year over year, as well as sequentially. At this point in time, all of our titles are digitally enabled with some form of additional DLC. So, this is the highest -- one of the highest growth subsegments within digital overall, and we're fully pursuing it.

John Riccitiello - *Electronic Arts - CEO*

Just to add to that, I would say that where we are so far, it feels like we're still scratching the surface. We try a lot of different things. Not all of them work. Those that work, we do more of.

A good example was the FIFA Ultimate Team, which two years ago was a very good idea that we tried several things on other franchises in the sports franchise -- sports business. Ultimate Team took off. It expanded across the range. We're getting good results across the range with our sports titles. Expect us to continue to learn and expand here. I think it's a great growth opportunity.

Edward Williams - *BMO Capital Markets - Analyst*

What are your thoughts with regard to extending it specifically within sports or trying to drive that incremental sale within the sports properties? Are you considering ways to kind of going across brands to drive sports growth?

John Riccitiello - *Electronic Arts - CEO*

Without giving away too much of our FY 2012 plan, the answer is yes. But I would tell you -- we'll expand more on that in the next quarter or so.

But we've already expanded the Ultimate Team concept, which is that card-based, collectible, microtransaction game on the back end of our licensed sports games, and it's doing very well on all of the franchises. It's something that we're very pleased with. And frankly, it's doing better this year than last, and we expect it to continue to grow. So, we are already doing it on the range, and there's more coming.

John Schappert - *Electronic Arts - COO*

And then, I just might add that we also have it on Facebook with Madden Superstars and FIFA Superstars as well.

Edward Williams - *BMO Capital Markets - Analyst*

And then, just lastly, switching to Star Wars for a moment, I understand it's somewhere between April 1 and December 31, but can you give us an idea as to maybe what the headcount is working on the project now, or a little bit more color about how to think about the business model as we start looking into the first 12 months of that game coming out, how the publishing area shakes out, how the subscription area shakes out.

John Riccitiello - *Electronic Arts - CEO*

A couple of things. I know I'm not going to satisfy you with this answer because a fair amount of what you're asking about is either subject to NDA with our partnership with Lucas, or alternatively, we don't generally put out headcount for individual titles.

I will say the following things, though. One is we previously described to folks that 0.5 million subscribers inside the game is substantially profitable, but it's not the kind of thing that you would write home about. Anything north of 1 million subscribers, it's a very profitable business. Essentially, it turns on a dime from being most likely quite sharply negative in terms of its EPS impact to positive the day the product ships, so it's an important inflection point for us.

I will add a little bit more color on a few things. One is there's been a fair amount of talk on various blogs describing spends that are vastly higher than anything we've ever put in place. So, don't read sort of gamer blogs as having any substance. Some of them are -- they bring a chuckle, but they also bring a frustration for those that are being responsible in the management of EA's R&D dollars when they read falsehoods out in the press.

The second thing that I would tell you is that the game is looking very good. A number of you will have seen it in a variety of our consumer shows. It's only gotten stronger. We feel very good about the title. We are currently testing it with a large-scale consumer testing, but not sort of at the beta scale, and that will rise over the coming months. One of the reasons that we have pushed our guidance to May, which is where it's historically been over most of the life of Electronic Arts, is that we have a better insight on just this title and things like the NFL situation, so we can provide more precise guidance.

Operator

Arvind Bhatia, Sterne, Agee & Leach, Inc..

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

Thank you very much. A couple of questions. First, can you touch on your 3-D strategy? I know you've got Madden as one of the titles. But how many do you think you will have by June or, say, by the end of calendar year?

And then, can you also touch on your margins that you're getting on digital? Eric, I know you've talked a little bit about it in the past. But if you could maybe update us on kind of margins you are generating on the digital side. Thank you.

John Schappert - *Electronic Arts - COO*

This is John Schappert. I'll take the first question on 3DS. We have previously announced three titles for the 3DS -- Madden, FIFA, and The Sims. We expect to have two of those out on launch day and the other to follow, obviously, in the calendar year. So that's as much as we are providing right now for our 3DS strategy. But we do expect to have two of those out on launch day.

Eric Brown - *Electronic Arts - EVP, CFO*

And Arvind, this is Eric. In terms of digital margins, they're continuing to improve. Again, we don't break it out discretely.

But as our mix of digital business increases, right now, just note that we are at $721 million on a trailing 12-month actuals basis, so that's why we're confident [hitting] the $750 million target. For us, FY12 will be a bit of a step function in digital margins because the Star Wars franchise will ship. That's going to contribute significantly to digital revenue, digital margin.

Our scale digital businesses, $100 million-plus businesses, i.e., mobile, i.e., Pogo, are in the 20%-plus, 30% fully allocated net op margin range, and so, what we aspire to is creating more business in that scale category to drive digital margins well north of 20% overall.

John Riccitiello - *Electronic Arts - CEO*

So basically, one way to think about our digital businesses in general, when they start their investments in small scale, obviously, they remain investments, but what we're seeing pretty much across the board is that scale, they are higher margin than a traditional packaged-goods business. They are far more predictable than a traditional packaged-goods business, and they have nowhere near the same level of seasonality. So, there's a number of reasons to like these businesses and the transformation.

Operator

Atul Bagga, ThinkEquity LLC.

Atul Bagga - *ThinkEquity LLC - Analyst*

A couple of questions from digital business. Number one, can you talk about how big is direct download on console right now and what kind of growth you're seeing there? And also, if you can talk a little bit about your view on games as a service on console. Do you see that happening? Do you see microtransaction-based business model, [purely] microtransaction-based business model, the subscription-based business model on console? And then, lastly, on housekeeping, can you talk a little bit -- on the mobile business, can you break out how much of the smartphone business was for feature phones? Thank you.

Eric Brown - *Electronic Arts - EVP, CFO*

This is Eric. We'll take this in a couple of parts. So in terms of digital revenue breakdown, actually we provided some supplemental slides on our website, and I'm going to give you some trailing 12-month non-GAAP numbers for four types of digital revenue, and so, the sum total on a TTM basis of extra content, so it should include free to play, DLC, and microtransaction-based content, that's $220 million.

Full game downloads, to your question, which includes full game PC downloads and full game console downloads, is $88 million. The overall mobile business on a trailing 12-month basis is $228 million, and the total of our subscription adds another form to digital revenue is a total of $185 million. So that fits to the $721 million trailing 12-month digital revenue.

I think the second part of your question, I think John already touched on it, is the notion of leveraging properties within the portfolio. There isn't -- one of the things we are thinking about is ways to expand our subscription offerings, both for PC and potentially a console. That seems to be an opportunity. Right now, we are quite focused on subscription in the PC space with the upcoming Star Wars MMO. Then the third part of your question --

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John Riccitiello - *Electronic Arts - CEO*

(Multiple speakers) you asked specifically about games as a service on console. When we originally launched FIFA Ultimate Team, we sold the client and we provided a substantial amount of, if you will, what we now have as microtransactions, the cards, as part of that original sale, which mitigated against people actually trying it.

We ultimately decided to give away that Ultimate Team client and do microtransactions, which was essentially games as a service. We saw a dramatic uplift in revenue associated with Ultimate Team as a consequence of doing that. So, I would argue that, at the moment, we're already doing games as a service on console.

In many ways, we pioneered this with The Sims by basically every five years releasing a core packaged-goods title, and then expanding it with expansion content over time, and the consumers buy -- a very high percentage of original purchasers. If you will, games as a service, but managed through retail because online services weren't scaled enough and fast enough to support what you might think of as a direct-to-consumer relationship.

Today, every single one of EA's packaged-goods games has some sort of a post-release business model, including all of our console games. Titles like Battlefield, Medal of Honor, Need for Speed have rich and expansive post-release content. The only difference between, I would argue, being games as a service and hopefully downloadable content is the pricing model. We've already broken through that with FIFA and our sports titles, and I think, over time, expect us to start to monetize that post-release revenue stream on -- either through subscription or ongoing microtransaction.

One of my colleagues, John, just reminds me, by the way, we also did Mass Effect 2 day and date on the PlayStation network on a download basis, which is, again, sort of getting at the larger question of direct services on console. We're building that in so many different ways, it's almost hard to count. Your third question was mobile.

Eric Brown - *Electronic Arts - EVP, CFO*

The third question was mobile in respect to feature phones versus smartphones, and the takeaway there is feature phones are dropping dramatically while smartphones are growing, or outpacing the falloff of feature phones in a large way.

So, we're very, very happy with our position on both. But at the end of the day, feature phones are certainly falling, smartphones are outpacing that growth, and frankly, that's really with the only mature store, if you will, right now is the Apple apps store, but many others coming online in a big way. So we're seeing very, very good growth on iOS and very nice, strong growth in handsets on Android and the others as well.

Atul Bagga - *ThinkEquity LLC - Analyst*

And how big the smartphone business could be out of your overall mobile business?

John Riccitiello - *Electronic Arts - CEO*

We don't break that out. Just as one color commentary on it. Up until this past quarter, I would say that our net revenue results were often more weighed by the smartphone business than they were by -- weighed down by the feature phone business than they were weighed up by smartphones.

We've sort of flipped the bit on that one in the past quarter, and I think what's driving the boat right now for us is smartphones, iOS, Android, and the rest. So, that's another transformation that's taking place inside our business.

Operator

Andrey Glukhov, Brean Murray, Carret & Co..

Andrey Glukhov - *Brean Murray, Carret & Co. - Analyst*

Yes, for -- thanks for taking the question. I guess two things. John, first of all, can you talk about -- I realize you don't want to kind of get into the details of the guide for next year, but I think you mentioned in the past that you expect to trim the frontline title slate again a little bit in 2012. Can you maybe update us on your thoughts on how that is going to play out?

And then, Eric, just on the housekeeping, when you talk about the double-digit EPS growth next year, what assumptions, if any, are you making on the buyback impact of that?

John Riccitiello - *Electronic Arts - CEO*

The first part of your question, you're right. I'm going to pass dodge because we don't want to give half guidance today as opposed to full guidance later.

I would say one of the interesting realities of calendar 2010 is we grew share, but while cutting our title slate enormously. So, that's that fewer, better, bigger that we keep talking about. And when we show you our FY 2012 slate on the next call, I think you're going to see fewer, better, and ginormous on a couple of our titles. So, not to use bad word choice, but quite seriously, we're not intending to go backwards.

We are intending to manage our intellectual properties intelligently, and we've got some of the world's best intellectual properties with Battlefield and The Sims, with Need for Speed and Madden, with FIFA and Dragon Age and Mass Effect, and so we're getting behind these core franchises and driving them ever harder.

Eric Brown - *Electronic Arts - EVP, CFO*

This is Eric. I would just -- yes, just to emphasize that previous point a little bit, on a trailing 12-month basis on 26 EA titles ex-distribution, we've increased share versus 42 titles in the prior year trailing 12-month basis, so that really kind of punctuates the notion that we are gaining share with fewer titles. The FY12 guidance question, we do expect non-GAAP EPS to increase in the double digits, excluding any benefit from buyback and share reduction.

Operator

Colin Sebastian, Lazard Capital Markets.

Colin Sebastian - *Lazard Capital Markets - Analyst*

One question on the smartphone business. I wonder if you could talk about the pricing strategy there, what appears to be fairly rapid compression [so] that made sense at least to some of your promotions and how that translates in terms of volume and profitability in that segment. And then on the core business, Need for Speed and Medal of Honor, based on the performance there, do those have the potential to be annual franchises going forward?

John Riccitiello - *Electronic Arts - CEO*

John will take the mobile piece, and I'll do the Need for Speed, Medal of Honor.

John Schappert - *Electronic Arts - COO*

Sure, with respect to mobile, what I think you're probably speaking to is our great sale that we had really through the whole holiday period on the Apple apps store, where we had our own callout and put a lot of our titles on sale, and we did that because we knew a lot of people had iPhones and iPads under the tree, and we wanted their first experiences with gaming on those devices to be with EA games, so we put a good number of them on sale.

Our prices have since risen up. So, it was a great way to kind of get them involved and have them have our EA games installed where they could then explore other EA games. So, we're happy with the profit that we're making and we're happy with the volume that they drove.

And with respect to pricing, while there is a lot of competition in that market, again, strong brands can command a premium pricing in that market as well. And you see that on our properties when we release frontline games there.

John Riccitiello - *Electronic Arts - CEO*

So with regard to Need for Speed and Medal of Honor, I think it's fair to say that Need for Speed has been an annual title and then some for Electronic Arts for many years.

What's shifted was three years ago, we were suffering from history just before that where the quality had been in decline, and consequently, the franchise in decline. It's on a sharp uptick in the last couple of years as we've driven high-quality titles ever higher in the charts, particularly in Europe, but also in North America.

In terms of Medal of Honor, the intention for us [in place] is to have strong FPF entries each year. I don't want to give away the thunder from our call, but for quite a long time now, I've been saying that it's our long-term goal to take back first-person shooter category leadership. We made strong, strong progress in calendar 2010 over calendar 2009.

Bad Company 2 still doing well, Medal of Honor doing well, Crysis and Bulletstorm, we're clearly going to make more progress on our goal, and that's before we get to what I think is going to be a very exciting entry later in the year that we're not yet announcing.

Operator

Mike Hickey, Janco Partners.

Mike Hickey - *Janco Partners - Analyst*

Thank you, and congrats on the quarter, guys. I was just curious your view on the emergence of 3-D smartphones, and how that can impact your game business and potential pricing power. And I guess, also, how important you think 3-D is to the value proposition of any gaming handheld.

John Riccitiello - *Electronic Arts - CEO*

This is a tough one because I'd have to say that, first off, hats off to Nintendo for producing a very innovative device. Frankly, I've personally interacted or tried just about anything and everything there is to play relative to 3-D on a variety of devices.

My personal view is the larger idea, at least for the present, would be for the connected game, whether it's -- personally, I am sort of more in the camp of believing that the IPTV is a bigger idea, at least for gaming near term, than the 3-D is. It provides better social experience, and we know that consumers playing with one another is a very, very positive and powerful motivator, whether it's a Facebook game, a console game, a PC game, or a game on a casual device.

So, while we're -- there is no doubt that our industry will have its share of avatars, where 3-D is a defining aspect of the game, and we're certainly going to see some of those on 3DS and other devices. In terms of the new wave of technology, I'm mostly interested, with all the mobile devices that are coming out, in how they're being connected to one another and how the same IP is shared over the top. I think that's actually a bigger driver for Electronic Arts and the industry in the near term.

Mike Hickey - *Janco Partners - Analyst*

And then, Eric, I have a quick follow-up. Can you just explain the sales weakness in Q4 because it looks like you reiterated your pipeline, and you also announced that Tiger Woods was going to ship in Q4, and I think that's traditionally a Q1, and given that the first two games were also very strong in quality, I was a little bit surprised to see the slippage on the top line.

Eric Brown - *Electronic Arts - EVP, CFO*

Well, we are -- slight change in mix, obviously have different catalog performance Q3 going into Q4, and to be very specific, last quarter we gave guidance of $0.13 to $0.23, and we've upped to $0.15 to $0.25, so, net, we've increased guidance for Q4.

Operator

Tony Gikas, Piper Jaffray & Co..

Tony Gikas - *Piper Jaffray & Co. - Analyst*

Congrats on the progress you're making as well. International is becoming a bigger piece of the puzzle right now. Can you outline the margin profile there and what type of improvement you might be seeing?

And then, second question on Star Wars, and I know you don't need millions of users to be profitable, but how big do you think the market is? Is there a big market for MMO games here in the U.S. and Europe? I think the largest MMO game in the market isn't growing. It's actually declined in terms of number of users. But how big is that opportunity in terms of numbers of users?

John Riccitiello - *Electronic Arts - CEO*

So, I can comment briefly on the international exposure. We're doing very well internationally, particularly in Europe. Obviously, Asia remains relatively small for us.

And our packaged-goods business has a very similar margin profile domestically as it does in Europe. You might be getting at something else, and I'm going to let Eric ponder that question to see if there's more to it.

In terms of Star Wars and its potential, first off, I don't believe our leading competitor has announced that they've come down in subscribers. I think they actually announced an increase in subscribers. I'd love to know your source of data there.

I would make these points, though. Western markets, we estimate that the leading competitor has six-ish million subscribers, paying subscribers, and that they've got approximately half of the market that seems to be growing in the 5% per annum basis on the number of subscribers. So, call it 12 million people paying for subscription-based gaming in the way that we would view as competition.

We previously indicated that 1 million subscribers or more rings our bell, does very well for us economically, so it's our view that we can be very successful without fundamentally challenging the market leader because we think we'll probably hit the smaller competitors harder when we get out there. Of course, we have no particular ambition to be a distant number two. Our ambitions are higher than that, but we'd throttle back a little bit relative to our financial projections.

Eric Brown - *Electronic Arts - EVP, CFO*

In regards to the question about international, I would say that if you look year over year, Europe performed quite well for us. Europe grew 29% year over year for the quarter in terms of non-GAAP revenue.

Part of that is attributable to the strength of the FIFA title. FIFA is already at 11 million-plus units sold in and counting, and obviously that plays more to the European audience versus the North American audience. In other areas of the business, we see that microtransactions and free to play, there tends to be a higher level of monetization ARPU or ARP PPU in the -- for the North American consumer versus Europe, but -- so that represents an opportunity in Europe on the digital side, relative to where we are today.

John Riccitiello - *Electronic Arts - CEO*

In that regard, I think in general what we get -- what we tend to see with most of the business model evolution is Europe trails North America by a year or 1.5 years, and it's done that historically in lots of different ways that I can point you over the years in the game industry.

I think it's a [part] to the fact that the North American target is a large single target for the console makers and publishers, and it just takes a while to get that same level of adoption to new business models in Europe when it's a little bit more, if you will, diffused against a series of national markets.

Tony Gikas - *Piper Jaffray & Co. - Analyst*

Okay, just on the competitive game, I think they're stable at 12 million-plus users, but I think it's -- the user base is shifting to Asia, and we are seeing declines in Europe and the U.S.. Do you think that market is really declining or -- ?

John Riccitiello - *Electronic Arts - CEO*

To be honest with you, I think -- let me stop by saying I'm not going to give a snarky comment about a leading competitor. They've made a spectacular product. It's done exceptionally well for many years.

I think what you're pointing to is it might be getting tired after so many years. I don't know that to be the case. I have not seen them announce that their Western market numbers are coming down. But I do think that the market will be absolutely receptive to something fresh and new and differentiated. If you will, light sabers versus swords. I think there is a marketplace for us here, and we're going after it aggressively.

We've got time for a couple more questions.

Operator

Eric Handler, MKM Partners.

Eric Handler - *MKM Partners - Analyst*

You've got a pretty sizable slate for the March quarter. I'm just curious if you could give some commentary about what you're hearing about retail inventory levels and what the appetite is among retailers now in terms of their order flow.

Eric Brown - *Electronic Arts - EVP, CFO*

This is Eric. I'll answer part of the question. We can give you some data on the Q4 titles just launched about a week ago. Dead Space 2, rated 91 Metacritic, and is selling through extremely well. In fact, when we comp it over Dead Space 1, which launched in a holiday period in the prior iteration, it's outselling it two to one on a comparable-period basis. So that's one indicator that we have thus far on one of our key Q4 titles.

John Riccitiello - *Electronic Arts - CEO*

The other -- I think what we're actually hearing more of than anything right now is the East Coast is under three feet of snow. So, the one thing that we're also noticing is it's a little sluggish on the East Coast right now as consumers aren't getting out, but it's just affecting -- it's not that big of a deal. The consumer will come back and -- when they clear the roads.

Eric Brown - *Electronic Arts - EVP, CFO*

I would just say the other data point we have for Q4 is Mass Effect 2, which we launched on PS3, which we said in our prepared remarks was doing well in both retail and digitally online. So, our first two big dogs out the door are doing well.

John Riccitiello - *Electronic Arts - CEO*

I think if you want to get a sense of why our title count is where it's at, it's a little higher than it was last year, it's a bit higher than it was last year, we had announced we had moved Crysis from Q3 to Q4. I think -- we picked up a distribution title. If it weren't for that, we'd pretty much be tracking as we had originally planned in terms of our title slate, and the title slate ended up a little richer, and that got captured in guidance two calls ago.

So, there's nothing sort of unusual in the quarter about the size of our title slate. Q4 has often been a great quarter for us. It's sort of a second quarter of emphasis in terms of product launches relative to Q3.

Eric Handler - *MKM Partners - Analyst*

And then, just real quickly on Playfish, how are you seeing Playfish gaining traction internationally now that it's pretty well established domestically?

John Riccitiello - *Electronic Arts - CEO*

Actually, Playfish has always had a very, very good international footprint. So, that continues.

Playfish has had a very -- had a very light release schedule. They didn't have anything in new products in the quarter. And again, we've been focused on the core franchises -- Restaurant City, Pet Society, Madden, and FIFA Superstars, and doubling down in their ARPU and monetization while we ready new releases.

We just released Monopoly Millionaires on Monday. [Playbill] is in beta, and we also announced that Dragon Age Legends is also in beta. So we've got some good titles coming out the pipe, which we think will post some nice growth for them.

Last question? We're going last question now.

Operator

Daniel Ernst, Hudson Square Research.

Daniel Ernst - *Hudson Square Research - Analyst*

Two questions, if I might. Just going back to the -- I had a bunch of questions on this digital growth strategy, but looking at the slide you guys put out on your growth rates of various segments, console-based digital growth up by 130% year over year. So, there's a lot of talk in the gaming industry about kind of the death of consoles and how digital is taking over, but it's interesting to look at how the fastest growing area in digital for you is actually on the consoles. So I'm wondering how you think about that in terms of where you invest your R&D dollars or acquisition dollars for properties, if they're going to grow the digital business, given that the core console is actually delivering excellent growth in digital.

And then, second question, just to clarify a comment you made about the performance of catalog from Q3 to Q4, because you had some excellent selling numbers, and I'm wondering if that's sort of an implication for what the sellthrough has been, post-holiday. Thanks.

John Riccitiello - *Electronic Arts - CEO*

[Q3]. With regard to digital growth in console, I would also point to another fact that -- people have been, I think, misunderstanding the actual performance of the console marketplace.

We have not been describing the demise of console. What we've been describing is the rise of digital, and then within console, a rise of high definition over the prior generations and the existing generation low-definition platform. The high-definition consoles, both in hardware and in units of software sold, had a great 2010, and we have every expectation to see that repeated in 2011. That's a growth market.

On top of that, we are seeing very substantial growth in the digital revenue streams, whether it come through microtransactions or pay to play download. And we've -- to one of the questions earlier, we are going to see some more business model innovation there. So, frankly, I'm really pleased that high-definition console and the PDLC that we're getting off the back of it.

Eric Brown - *Electronic Arts - EVP, CFO*

So, there were a couple of things I just wanted to add on to that. When you look at mobile, what is misleading in mobile that's been covered in one question is you're seeing feature phones drop off while smartphones increase, so that's not a fair apples-to-apples comp when you're looking at growth there because smartphones are growing dramatically year over year, and they are more than making up for the shortfall from feature phones. And obviously, social gaming is new to us, so that's also growing very, very dramatically for us, too.

John Schappert - *Electronic Arts - COO*

So, to close it out, just to give you some stats on the high-definition software market. So Western world can calendar year 2010 versus 2009, we'd estimate PS3 software is up 28% year over year and the 360 is up 16% year over year. So, obviously, that's a high-growth area, and we're heavily invested in DLC.

The other part of your question was sell-in versus sellthrough, and what that means. Keeping the bare mind is that we had less catalog revenue this year. Again, a key change year over year is Need for Speed. It launched in Q3. It was a non-catalog title, i.e., a frontline title this year versus last year.

The other point I would make is we actually increased our SRA reserves. We had a bit of weakness in EA Sports Active. We're very profitably reserved against that title, so that's been taken into account in the ending Q3 balance sheet.

John Riccitiello - *Electronic Arts - CEO*

Thanks for joining us on the call. That concludes our comments.

Operator

Ladies and gentlemen, that does conclude today's conference call. Thank you for your participation. You may now disconnect.
