



ELECTRONIC ARTS™

**Earnings Conference Call  
Second Quarter Fiscal 2006 –  
Ended September 30, 2005**

# Today's Call

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# EA Conference Call

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## Welcome and Safe Harbor

**Good afternoon and welcome to our second 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, 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

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## 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 2005 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 November 1, 2005 and disclaim any duty to update them.

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

# Highlights

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## Our Performance

**Good afternoon and thanks for joining us.**

**Our second quarter results were solid.** Netting the ins and out of title moves – particularly FIFA in Europe – we exceeded the top end of our revenue guidance and soundly came in ahead on the bottom line.

**Sports is off to a great start.** Our North American segment share is a record 75 percent – up seven points from this time last year. Of the top ten sports titles – we have nine on the PS2 and eight on the Xbox.

- Madden NFL 06 took only three weeks to become the number one console title for the year in North America. Through the end of the quarter we have sold in excess of 4 million copies. With twelve weeks of retail data, we estimate sell thru is up in the high teens year-over-year.
- NCAA Football 2006 has sold over 1.5 million copies and we estimate sell thru is up over 15 percent.

# Highlights

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## Our Performance

- FIFA 06 launched very strongly. So far we estimate our sell thru is pacing more than 30 percent ahead of last year. FIFA was at the top of the charts in Europe for three consecutive weeks. The competition is heating up -- but we are very pleased with our performance and like our prospects.
- NBA Live 2006. While only a week's worth of industry numbers are formally in – we estimate that we are outselling our nearest competitor by a factor of five. NBA Live has now surpassed the billion dollar lifetime sales mark – becoming EA's fifth billion dollar franchise.

**Burnout Revenge sold more than 1.8 million copies and joins Battlefield 2, as a top ten rated titled for the year.**

Year to date – our overall quality rating as measured by Metacritic – leads all major third party publishers. Roughly 50 percent of our titles have been rated 80 or higher – double the industry average of 24 percent.

# Highlights

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## Our Performance

**On the PSP** -- we were the number one publisher in North America with a 27 percent segment share and four top ten titles. In Europe – we estimate that our segment share was approximately 16 percent and that we were the number one third party publisher.

**While we are pleased with our overall title performance in the quarter – to be balanced** – we have seen some recent softness at retail in North America.

**On mobile phones**, we continue to build our foundation. We have recently entered into a distribution agreement with Vodafone to deliver games in Europe, Egypt, South Africa, Australia and New Zealand.

In addition, during the quarter our games did well. For September, we had four top twenty titles on Verizon mobile handsets – Madden 2D, Poppit, Madden 3D and Need for Speed Underground 2.

In the UK – FIFA is already the number one title on the Vodafone platform.

**We are also pleased to have announced a ground breaking partnership** with Steven Spielberg for the creation of three new intellectual properties.

In summary – we think we are off to a solid start for the year.

# EA Conference Call

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## Agenda

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

**First** – I'll review our Q2 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.

# Second Quarter Fiscal 2006

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## Net Revenue

### Q2 Performance

**Net revenue** was \$675 million – down six percent from a year ago driven by lower PC, console and co-publishing related revenues partially offset by a significant increase in revenue from mobile platforms. Remember that last year we launched Sims 2 on the PC. We released 37 SKUs in the quarter – of which seven were associated with mobile platforms. Last year we launched 33 SKUs – two of which were mobility based.

- Six titles went platinum in the quarter vs. four a year ago – Madden NFL 06, NCAA Football 06, Burnout Revenge, FIFA 06, NBA Live 06 and the Sims 2 Nightlife.
- As compared to our Q2 guidance – product shifts added approximately \$30 million net to our top line and approximately \$0.05 of GAAP and Non-GAAP EPS.

# Second Quarter Fiscal 2006

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## Net Revenue by Platform

**Console** revenue was \$467 million – down five percent year-over-year. While there were single digit declines on both the PS2 and Xbox – the most significant decline was on the GameCube.

**PC** revenue was \$91 million – down 35 percent primarily due to the strong launch of the Sims 2 last year. This decline was partially offset by the continued strength of Battlefield 2.

**Mobility** – revenues were up five-fold to \$62 million.

The increase was driven by the PSP and to a lesser extent the NDS. The European PSP launch was solid. In Europe – Burnout Legends and Need for Speed Rivals charted in the top five games.

**Co-Publishing and Distribution** revenue was \$32 million – down \$17 million year-over-year driven by the reclassification of the Battlefield franchise to PC.

**Internet Services, Licensing and Other** revenue was \$23 million – flat to last year. As of today, Club Pogo paying subscribers have reached one million – up 75 percent from a year ago.

# Second Quarter Fiscal 2006

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## Net Revenue by Geography / Foreign Exchange Impact

### Geographically

- **North America revenue was \$443 million – down \$30 million or six percent year-over-year.** All console platforms and the PC were down in the quarter while overall mobile revenues were up significantly. Essentially the improvements in mobile did not completely offset the prior year strength of both Def Jam – Fight for New York and the Sims 2.
- **Europe revenue was \$191 million – down \$19 million or nine percent.** The decrease was driven principally by lower PC and co-publishing related revenue which was partially offset by sales on the PSP and PS2. Console revenues for the quarter were flat year-over-year given this year's launch of FIFA.
- **Asia revenue was up 24 percent year-over-year** driven primarily by PSP and PS2.
- **Changes in foreign currency** rates had no significant impact on our top-line in the quarter. That said – we continue to expect currency movements to negatively impact the back half of the year.

# Second Quarter Fiscal 2006

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## Gross Profit / Margin

**Moving on to the rest of the income statement:**

**Gross Profit** in the quarter was \$391 million – down nine percent.

**Gross Margin** was 57.9 percent vs. 60.3 percent a year ago. The decline was driven by:

- Higher licensing royalty rates – and
- A higher mix of royalty based titles (Sims 2)
- These negatives were partially offset by lower development royalties. Last year, we accrued for royalties on Burnout – this year – we own the IP.

# Second Quarter Fiscal 2006

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## Operating Expenses

### Operating Expenses:

**Marketing and Sales.** Marketing and sales expense was \$107 million – flat to last year.

**General and Administrative.** G&A was \$52 million – up \$10 million year-over-year and relatively flat with last quarter.

The year-over-year increase was primarily driven by increased headcount, a slight increase in litigation costs and slightly higher bad debt expense.

While this increase is significant we continue to expect G&A – for the full year – to be up in the mid single digit range.

# Second Quarter Fiscal 2006

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## Operating Expenses

**Research and Development.** R&D was \$182 million – flat to last quarter and up \$25 million from a year ago.

- The increase was driven primarily by higher staffing levels resulting from the development of next generation tools, technologies and titles.
- This increase was partially offset by lower third-party development advances in the quarter.

R&D related headcount was up 39 percent to roughly 4,700. Acquisitions account for approximately 12 points of this increase.

Please remember that we are investing ahead of next gen revenue – we record the expense today, but the revenue comes later.

# Second Quarter Fiscal 2006

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## Bottom Line

**Diluted Earnings per Share** was \$0.16 vs. \$0.31 a year ago.

**Non-GAAP Diluted Earnings per Share** was \$0.15 vs. \$0.31\*.

**Our effective tax rate** was 15 percent vs. 29 percent. Our Q2 rate includes a \$9 million favorable net tax adjustment. This amount was excluded from our non-GAAP results.

Our trailing 12 month **operating cash flow** was \$592 million vs. \$664 million for the comparable period.

**We have now completed our \$750 million share repurchase program** buying a total of 13.4 million shares.

Our **diluted share count** was 314 million vs. 316 million a year ago.

*\* The difference between GAAP and non-GAAP diluted earnings per share relates primarily to favorable income tax adjustments partially offset by certain acquisition and litigation related expenses. 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 27 of this document.*

# Second Quarter Fiscal 2006

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## Balance Sheet

### On to the Balance Sheet:

**Cash, short-term investments and marketable equity securities** were \$2.4 billion – down \$686 million from March. The decrease relates primarily to the repurchase of our common stock.

**Gross accounts receivable** were \$465 million vs. \$502 million a year ago – a decrease of seven percent.

**Reserves against outstanding receivables** totaled \$137 million – up 11 percent from a year ago. Reserve levels were 13 percent as a percentage of trailing six month net revenue – up two points from last year. As a percentage of trailing nine month net revenue – reserves were nine percent – also up two points.

**Inventory** was \$74 million – up \$8 million from June driven by the inventory build for the launch of FIFA 06. Other than FIFA 06 – no one title represented more than \$4 million of net exposure.

# 2006 Outlook

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## Industry / EA

### Our Outlook

**Before we get into the numbers – let me mention a few things:**

**First – We are ready for the Xbox 360.** We will be supporting the launch with five great titles including: Madden NFL, Need for Speed, FIFA Road to the World Cup, Tiger and NBA Live. By year end, we plan to release three additional 360 titles – Fight Night Round 3, Battlefield Modern Combat and Burnout Revenge.

Currently – we are actively developing over 35 SKUs for the Xbox 360, PS3 and Revolution.

**Second – we are ready for the holidays.** Need for Speed Most Wanted and Harry Potter look great and we expect will be solid hits. These titles will be bolstered by FIFA, The Sims 2 on console, Battlefield Modern Combat and James Bond to name a few.

Our titles will be supported with marketing campaigns second to none in the industry. When you consider the absolute dollar amount we invest in marketing vs. that of our competitors – the breadth and depth of our reach is unparalleled.

# 2006 Outlook

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## Industry / EA

**Third – we have a strong line-up of new titles.** In the second half of the year we expect to launch several new first time titles including Godfather, Black, Arena Football, NCAA Baseball and NFL Head Coach.

**Owned intellectual properties.** For the year – we expect revenues from owned IP will exceed \$1.3 billion – an increase of 15 percent year-over-year.

**And – finally a word of caution.** Expect the unexpected – we are in transition. We could experience production or development snags or abrupt changes in pricing or demand. In addition – as I mentioned earlier we have seen some recent weakness in North America.

# Industry Update

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## Market Outlook

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

### **2005 Market Outlook:**

Our overall market outlook is essentially unchanged. As Tricia mentioned – you can find the detailed summary on our website.

### **Now – on to our Financial Guidance:**

The following forward-looking statements reflect our expectations as of November 1, 2005. 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

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## Third Quarter Ending December 31, 2005

### Now the numbers:

For the full year, we expect:

**Revenue** to be between \$3.25 and \$3.4 billion.

**GAAP diluted earnings per share** to be between \$1.40 and \$1.55.

**Non-GAAP diluted earnings per share** to be between \$1.45 and \$1.60.

Please note that our GAAP results include up to a \$.05 charge associated with the European reorganization and establishment of an International publishing headquarters in Geneva. We expect the charges to be split roughly evenly between our third and fourth quarters.

# Financial Guidance

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## Third Quarter Ending December 31, 2005

For the quarter ending December 31, 2005 – we expect:

**Revenue** to be between \$1.475 and \$1.575 billion.

**GAAP diluted earnings per share** to be between \$1.15 and \$1.25.

**Non-GAAP diluted earnings per share** to be between \$1.18 and \$1.28.

# Financial Guidance

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## Third Quarter Ending December 31, 2005

Specifically in Q3 – we expect to ship 55 SKUs.

Our expected line-up for the third quarter includes:

- **Battlefield Modern Combat** on console (PS2, Xbox)
- **Battlefield Modern Combat Map Pack** on the Xbox
- **Battlefield 2 Special Forces** Expansion Pack on the PC
- **Black & White 2** on the PC
- **Burnout Legends** on the NDS
- **FIFA 06** in North America on four platforms (PS2, Xbox, NGC, PSP)
- **Half Life 2** on the Xbox
- **Harry Potter and the Goblet of Fire** on seven platforms (PS2, Xbox, GC, PC, PSP, NDS, GBA)
- **James Bond: From Russia with Love** on three platforms (PS2, Xbox, NGC)
- **Lord of the Rings Tactics** on the PSP

# Financial Guidance

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## Third Quarter Ending December 31, 2005

- **Marvel Nemesis** on two platforms (PSP, NDS)
- **NBA Live 06** on the PSP
- **NCAA March Madness 06** on two platforms (PS2, Xbox)
- **Need for Speed Most Wanted** on seven platforms (PS2, Xbox, GC, PC, PSP, NDS, GBA)
- **Need for Speed Most Wanted Collector's Edition** on three platforms (PS2, Xbox, PC)
- **The Sims 2** on console and handhelds (PS2, Xbox, GC, PSP, NDS, GBA)
- **The Sims 2 Holiday** Expansion Pack
- **The Sims Bundle** on the PC
- **Total Club Manager 06** on the PC
- **SSX On Tour** on four platforms (PS2, Xbox, GC, PSP)

# Financial Guidance

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## Third Quarter Ending December 31, 2005

**On the Xbox 360**, we plan to launch five titles:

- Madden NFL 06
- NBA Live 06
- Tiger 06
- FIFA 06 Road to the World Cup
- Need for Speed Most Wanted

**In addition – on mobile phones** – we plan to launch seven games:

- In North America and Europe – FIFA 06, NBA Live 06, Tiger Woods Golf 06, Need for Speed Most Wanted and Sims 2.
- In addition – we plan to launch Pogo Harvest Mania and Pogo Word Whomp in North America.

# EA Conference Call

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## Summary

I will now conclude with a few closing thoughts.

- **First** – we are very fortunate to be in the middle of one of the most exciting global growth trends in entertainment today.
- **Second** – while there is plenty of risk and we certainly can and will make mistakes – there is no company in a better position to take advantage of this opportunity than Electronic Arts, and
- **Third** – rest assured – as a team and as a Company – we are investing for sustained long-term leadership and -- we are intent on winning.

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

# EA Conference Call

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## Safe Harbor Statement

*Some statements set forth in this release, including the estimates under the heading “Business Outlook,” 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 our results to differ materially from our expectations include the following: consumer spending trends; the seasonal and cyclical nature of the interactive game segment; timely development and release of our products; competition in the interactive entertainment industry; our 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; our ability to predict consumer preferences among competing hardware platforms; our ability to secure licenses to valuable entertainment properties on favorable terms; our ability to attract and retain key personnel; changes in our effective tax rates; adoption of new accounting regulations and standards; potential regulation of our products in key territories; developments in the law regarding protection of our products; fluctuations in foreign exchange rates; general economic trends; and other factors described in our annual report on Form 10-K for the year ended March 31, 2005 and Form 10-Q for the quarter ended June 30, 2005. Electronic Arts does not intend to update these forward-looking statements, including those made under the “Business Outlook” heading.*

# Supplemental Information

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## 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.

	Q3 FY05	Q4 FY05	Q1 FY06	Q2 FY06
<b>TTM Net Income</b>	<b>587</b>	<b>504</b>	<b>422</b>	<b>376</b>
Equity	3,335	3,498	3,167	2,984
+ Debt	-	-	-	-
- Excess Cash (Cash minus 10% TTM revenue)	(2,247)	(2,645)	(2,267)	(1,927)
Invested Capital	1,087	853	900	1,057
<b>Average Invested Capital (four quarter average)</b>				<b>974</b>
<b>TTM ROIC</b>				<b>39%</b>