Earnings Conference Call
First Quarter Fiscal 2005 – Ended June 30, 2004

Today's Call

Table of Contents

EA Conference Call

Welcome and Safe Harbor

Good afternoon and welcome to our first quarter fiscal 2005 earnings conference call.

Today on the call we have:

Larry Probst – Chairman and Chief Executive Officer, and

Warren Jenson – Chief Financial and Administrative Officer

Before we begin – I'd like to remind you that:

1. You may find copies of our SEC filings, our earnings release and a replay of the webcast at http://investor.ea.com. Shortly after the call – we will post a copy of Warren's remarks on our website.
2. Throughout this conference 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 amortization of intangibles – and their related tax effects. 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 with the copy of Warren's remarks we post on our website.

EA Conference Call

Welcome and Safe Harbor

3. 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.
4. All comparisons made in the course of this conference call are against the same period for the prior year – unless otherwise stated.
5. During the course of this conference 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 10-K for a discussion of risk factors that could cause our actual results to differ materially from those discussed today. We make these statements as of July 22, 2004 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.

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

First – coming out of E3 – our line up looks great. Collectively our teams walked away with five Best of E3 awards:

- Def Jam: Fight for NY – best Fighting game
- Burnout 3 – best Racing game
- The Sims 2 – best Simulation game
- Madden NFL 2005 – best Sports game
- The Lord of the Rings, The Battle for Middle-earth – best Strategy game

Congratulations to our studio and global marketing teams – we could not have started fiscal 2005 any stronger.

Highlights

Our Performance

Second – our titles are selling better than ever. Three of our Q1 releases went platinum – and by the way – first week sales of NCAA and pre-orders of Madden are well ahead of last year.

Third – we continue to deliver while investing for our future. Even with 40 plus percent growth in R&D – our net income this quarter increased by 32 percent.

And finally – we are pleased to report another strong quarter.

Net Revenue was $432 million – up 22 percent year-over-year.

Fight Night, Euro 2004 and Harry Potter and the Prisoner of Azkaban reached platinum status. Harry Potter sold more than 2.5 million units.

Diluted Earnings per Share increased by 33 percent to 8 cents.

Highlights

Our Performance

Trailing Twelve Month Operating Cash Flow was $638 million.

Trailing Twelve Month Return on Invested Capital was 84 percent.*

Our balance sheet continues to be strong. Inventory and reserves are at appropriate levels.

In summary – one quarter into our new fiscal year – our titles look terrific, our financial performance is on track and from an investment perspective – we are exactly where we want to be as we head into a new generation of markets and technology.

**Please see Non-GAAP Financial Measures and reconciliation information on page 3 of this document and the supplemental schedule demonstrating how we calculate ROIC on page 33 of this document.*

EA Conference Call

Agenda

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

First – I'll talk about our Q1 results in detail

Second – Our market outlook, and

Third – Our financial guidance for the second quarter and fiscal year.

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

First Quarter Fiscal 2005

Net Revenue

Our first quarter results:

Net revenue for the quarter was $432 million – up 22 percent. We released 11 SKUs in the quarter – compared to 10 a year ago.

- **Harry Potter and the Prisoner of Azkaban** sold more than 2.5 million units globally – and 60 percent of those sales were International.
- **Fight Night was a great game and a solid success. It sold close to 1.5 million units in the quarter.** This title brought us solidly back into the fighting category.
- **Euro 2004** sold over 1 million units – and approximately 90 percent of those sales were International.
- **Need for Speed: Underground, MVP Baseball and The Sims franchise** showed continued strength – each selling over 500 thousand additional units. And by the way – unit sales of Underground have now passed 7 million.

First Quarter Fiscal 2005

Net Revenue by Geography / Foreign Exchange Impact

Geographically – our growth was driven by Europe where the launches of Harry Potter and Euro 2004 were particularly strong.

- **In total – International revenue was $221 million – up 43 percent.** Europe revenue was $190 million – up 49 percent. Asia Pacific revenue was $18 million – up 22 percent. Growth rates were in excess of 80 percent on both the PS2 and Xbox in Europe and Asia Pacific.

- **North America revenue was $211 million – up 6 percent year-over-year**. Xbox revenue was up almost 80 percent as a result of strong sales of Fight Night, Harry Potter, MVP Baseball and Need for Speed. Microsoft's price reduction to $149 clearly drove higher software sales in the quarter. PS2 revenue increased modestly given the prior year strength of NBA STREET and Def Jam VENDETTA. PC revenue was down sharply year-over-year given the strength of Sims Superstar in the prior period.

- Foreign currency movement impacted our top line by roughly $13 million or 4 percent in the quarter.

First Quarter Fiscal 2005

Net Revenue by Platform

Next – Our Revenue by Platform:

Please keep in mind that our U.S. segment shares are based on NPD TRSTS and NPD Techworld data. U.S. console segment shares are through June 2004 while PC segment shares are through May. In Europe – segment share information is based on EA estimates as no services comparable to NPD TRSTS or NPD Techworld are in place.

First – on the PlayStation 2:

- **PS2 revenue was 38 percent of total revenue or $162 million – up 37 percent year-over-year.** The increase was driven by strong sales of Fight Night, Harry Potter and the Prisoner of Azkaban, Euro 2004, Need for Speed: Underground and MVP Baseball.
- **In the U.S. – we had 2 top-10 titles and 26 percent segment share – up 4 points from a year ago**. (Fight Night, MVP Baseball)
- **In Europe – we estimate EA had 5 top-10 titles and approximately 24 percent segment share – up 9 points from a year ago.** (Bond Everything or Nothing, UEFA Euro 2004, Need for Speed Underground, Final Fantasy X-2, FIFA 2004)

First Quarter Fiscal 2005

Net Revenue by Platform

On the PC:

- **PC revenue was 15 percent of total revenue or $67 million – down 17 percent year-over-year**. Last year, our PC revenue was driven principally by Sims Superstar.
- **In the U.S. – EA had 1 top-10 PC title and 19 percent segment share as of May – down 4 points from a year ago**. (Battlefield Vietnam)
- **In Europe – we estimate EA had 4 top-10 PC titles and 21 percent segment share – down 1 point from a year ago**. (Battlefield Vietnam, Sims Double Deluxe, Sims Makin' Magic, Sims Unleashed)

First Quarter Fiscal 2005

Net Revenue by Platform

On Xbox:

- **Sales represented 13 percent of total revenue or $57 million – up 81 percent** driven by strong sales of Fight Night, Harry Potter, Euro 2004, Need for Speed and MVP Baseball.
- **Our leading U.S. segment share was 19 percent** – up 3 points from the prior year – with 2 top-10 titles. (Fight Night, MVP Baseball)
- **In Europe – we estimate EA had 3 top-10 titles and 17 percent segment share – up 2 points from a year ago**. (Euro 2004, Fight Night, FIFA 2004)

On GameCube:

- **Sales represented 6 percent of total revenue or $26 million – up 25 percent** driven by strong sales of Harry Potter and MVP Baseball.
- **Our U.S. segment share was 17 percent** – up one point from the prior year – with 1 top-10 title. (Harry Potter)
- **In Europe – we estimate EA had 17 percent segment share – up five points.**

First Quarter Fiscal 2005

Net Revenue by Platform

Co-Publishing and Distribution:

- **Revenue was 16 percent of total revenue or $67 million – down 6 percent** reflecting last year's performance of Final Fantasy.

Subscription Services:

- **Revenue (which includes subscription fees and packaged goods sales for online products) – was $13 million down $1 million year-over-year.** Revenue from persistent state world games declined while revenue from Pogo subscription services increased.
- **At the end of the quarter – we had approximately 698 thousand active players using our subscription services vs. 338 thousand a year ago.** Subscriber growth was driven by Club Pogo which ended the quarter with roughly 465 thousand active players.
- **EA SPORTS and Games Nation. Our online console services continue to thrive with millions of registered accounts.** We now have 17 titles on PS2 Online, and expect to build to a similar amount on Xbox Live this year. Our first Xbox Live title – NCAA Football is off to a great start.

First Quarter Fiscal 2005

Gross Profit / Margin

Moving on to the rest of the income statement:

Gross Profit in the quarter was $255 million – up 25 percent.

Gross Margin was 59.1 percent – up 150 basis points year-over-year. The increase was primarily driven by:

- Lower outside development costs as we continued to shift to more internal development – and higher margins on our co-publishing related revenue
- Improvements were partially offset by higher manufacturing-related costs and higher licensing royalties

First Quarter Fiscal 2005

Operating Expense

Operating Expense:

Marketing and Sales expense was $63 million – up 7 percent year-over-year. The increase was driven in large part by additional headcount – most notably in Europe.

General and Administrative. G&A was $35 million – up $4 million year-over-year. This increase was driven primarily by higher outside service costs and higher salaries and wages. As a percentage of revenue – G&A was 8 percent compared to 9 percent a year ago.

First Quarter Fiscal 2005

Operating Expense

Research and Development. R&D increased by 43 percent year-over-year to $131 million. The increase was driven by:

- A significant increase in SKUs under development;
- Expansion of our co-publishing business;
- Development of next generation tools, technologies and capabilities; and
- Higher spending on selected current generation titles.

R&D related headcount was up 28 percent year-over-year to roughly 3100.

As a percentage of revenue, R&D was up 4 points to 30 percent.

First Quarter Fiscal 2005

Operating Income / Margin

On to the bottom-line:

Operating Income was $25 million vs. $22 million in the year-ago quarter.

Non-GAAP Operating income was $26 million vs. $22 million.*

Operating Margin was 6 percent in the quarter and flat year-over-year.

Non-GAAP Operating Margin was 6 percent – also flat to the prior year*

** Please see Non-GAAP Financial Measures and reconciliation information on page 3 of this document and also in the supplemental schedule to our earnings release.*

First Quarter Fiscal 2005

Tax Rate / Net Income / Earnings per Share

Our Effective Tax Rate was 29 percent – down two points.

Net Income was $24 million vs. $18 million – up 32 percent.

Diluted Earnings per Share were $0.08 vs. $0.06.

Non-GAAP Net Income was $25 million vs. $19 million.*

Non-GAAP EPS was $0.08 vs. $0.06.*

Our diluted share count was 316 million vs. 300 million a year ago. Our option share overhang was 17 percent – flat to a year ago. On a trailing 12 month basis – options issued represented approximately 3 percent of weighted average basic shares outstanding.

** Please see Non-GAAP Financial Measures and reconciliation information on page 3 of this document and also in the supplemental schedule to our earnings release.*

First Quarter Fiscal 2005

Balance Sheet

Now – the Balance Sheet:

Cash, short-term investments and marketable equity securities were $2.4 billion – up $748 million year-over-year.

Gross accounts receivables were $291 million vs. $166 million – an increase of $125 million. The increase was driven by our release schedule. This year, over 40 percent of our Q1 revenue was realized in the month of June, compared to 28 percent a year ago.

Reserves against outstanding receivables totaled $121 million vs. $129 million in the prior year. Reserve levels were 12 percent as a percentage of trailing six month net revenue vs. 16 percent a year ago. As a percentage of trailing nine month net revenue – reserves were 5 percent vs. 6 percent a year ago.

Ending inventory was $53 million – down $2 million from March and up $27 million year-over-year. No one title currently represents more than $4 million of exposure.

One final housekeeping matter – In the quarter, we made the decision to recognize certain long-term royalty-related commitments on the balance sheet. This increased total assets and liabilities by $57 million at June 30 and by $63 million as of March 31, 2004. This did not and will not impact our income statement, cash flows or net equity.

In short – our balance sheet continues to be solid.

Outlook

Objectives / Advantages

Before jumping into our guidance – I'd like to reinforce a few things we've talked about over the last several conference calls.

First – we are committed to making the necessary investments in tools, technology, libraries and people in order to extend our leadership into the next generation of markets. We intend to fully support next generation consoles and the PSP – and will expand our focus on both mobile gaming and Asia. As we have stated, these investments will pressure margins – in both this year and into next. We also expect pricing pressure over the next couple of years as console prices trend lower.

Second – despite these investments – it is our clear objective to grow both our top and bottom lines straight through the end of the current console cycle. Our performance this quarter is indicative of what we will work to accomplish.

Third – we think this cycle will likely be very different than the last and we think that EA is very different, too.

Outlook

Market Transformation

So – when will the transition hit and what does that mean?

Well – as to the first question – we think it's already here and in fact – we are right in the middle of it. Fiscal 2005 for EA will likely be the year we experience our highest growth rates in R&D spending. The good news here is that pricing on top tier titles remains globally strong – and likely will – through at least the remainder of this year.

This transition however – is not just about consoles. In fact, it is much bigger – it is about markets. Here is how we see the breadth of this market transition.

- **Content and the Relative Value of What We Create. The entertainment world is beginning to understand the value of interactive content.** We think this will only accelerate. Our industry advantage is demographic and technology-based. We also possess proprietary tools and development know-how that is not easily replicated. Every year our audience is expanding and technology is making our products better.
- **The Entertainment Value Proposition. The entertainment value proposition for our products will continue to challenge that of traditional linear film and television**. In the markets of the next generation – our products will benefit from the convergence of motion picture quality cinematography, cutting edge music and sound and the emotion that only interactive technology can provide. As this element of transition takes place – our markets should very naturally expand.

Outlook

Market Transformation

- **Next Generation Console Transition.** This is clearly a big part of what we are investing in today. The cross benefit is that our investments will generate returns in every other aspect of this market transition. If you think about it globally, the console transition really applies to North America, Europe and Japan.
- **Mobile. Historically we have called this the handheld segment.** What's going on here is truly a market transition. The market is expanding from kids handhelds to a market of fully-connected interactive mobile gaming. Mobile will include 3 sub-segments: traditional handhelds – aimed at kids; the cell phone where the demographics start at 12 years old and go up from there; and finally the 18 to 34 year olds – served by the PSP, Nintendo Dual Screen and Nokia N-Gage.
- **Online.** Online in some ways is hard to separate as a point of transition – but we felt we needed to as it will impact every form of future game play. It will be a part of next generation consoles, mobile phones and globalization. It will also enable micro transactions and real time exchanges. We also see the value of our content becoming increasingly important to MSOs, RBOCs and their global equivalents.

Outlook

Market Transformation

- **Globalization.** Technology is clearly making all kinds of things possible. In the case of online, it is now opening up huge new markets like China and others where price and piracy have been big obstacles. Mobile gaming is a big factor here as well.
- **Process-based advantage**. It is increasingly clear – for us – that global process-based efficiency and productivity will be a way of life and is a major part of this transition.

In summary – our strategy over the coming years is to position ourselves for continued leadership in the reconstituted global interactive world.

We are in the middle of this broad market transition as we speak.

The stakes are huge and the potential opportunity may be in multiples larger than the market segments we presently address. This transition is not only about next generation consoles in North America and Europe – it's also about the value and quality of our entertainment, mobile and online gaming, globalization and process-based efficiency.

In short – it's about markets.

Industry Update

Market Outlook

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

Our industry estimates for Calendar 2004 hardware and software sales remain unchanged:

Console pricing – Xbox and PlayStation 2 are currently at $149 in the U.S. We don't necessarily expect another round of price reductions – but one is possible. In Europe, it's possible that a price reduction could happen prior to the holidays.

During the year – we expect premium titles to continue to hold the $49 price point – but that lesser titles will move towards $39. Pricing on top-tier titles remains strong.

In North America we expect the following **hardware unit sales**:
- PS2 – between 6.5 to 7.5 million units
- Xbox – between 3 to 3.5 million units
- GameCube – between 2.5 and 3 million units

Industry Update

Market Outlook

In Europe we expect the following **hardware unit sales**:

- PS2 – between 7 and 8 million units
- Xbox – between 1.5 and 2 million units
- GameCube – between 1 and 1.5 million units

In North America we expect **growth in software sales** as follows:

- For the PS2 – up 8 to 12 percent
- For the Xbox – up 15 to 20 percent
- For the GameCube – up 10 to 15 percent
- PC – roughly flat

Overall, we expect software growth rates in Europe to slightly outpace the comparable growth rates in North America.

Financial Guidance

Second Quarter Ending September 30, 2004

Now – on to our Financial Guidance:

The following forward-looking statements reflect expectations as of July 22, 2004. Results may be materially different and are affected by many factors, such as changes in foreign exchange rates, development delays, the overall global economy, the popular appeal of our products, our ability to secure key licenses and other risk factors detailed in our earnings release and in our annual and quarterly SEC filings.

I'll cover our financial guidance in two parts – first I'll discuss the second quarter of 2005 and then our outlook for the full year.

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

- **Revenue** to be between \$680 and \$715 million – up 28 to 35 percent compared to the prior year, and
- **Earnings per share** to be between \$0.28 and \$0.34 – up 12 to 36 percent year-over-year.

Financial Guidance

Second Quarter Ending September 30, 2004

In Q2 – we expect to ship 35 SKUs.

As you know – we have already shipped NCAA Football 2005. This title is off to a strong start – selling at a pace of more than 50 percent ahead of last year. It went platinum in just a week.

Madden ships on August 9th and pre-orders are double last year – and the game looks great.

We expect to ship the following SKUs in the second quarter:

- NCAA Football 2005 on 3 platforms (PS2, Xbox, GameCube)
- Madden NFL 2005 on 6 platforms (PS2, Xbox, GameCube, PSX, PC, GBA)
- Madden NFL 2005 Collectors Edition on PS2
- NASCAR 2005 Chase for the Cup on three platforms (PS2, Xbox, GameCube)
- NHL 2005 on 4 platforms (PS2, Xbox, GameCube, PC)
- Tiger Woods PGA Tour 2005 on 4 platforms (PS2, Xbox, GameCube, PC)

Financial Guidance

Second Quarter Ending September 30, 2004

- Catwoman on 5 platforms (PS2, Xbox, GameCube, PC, GBA)
- Burnout 3: Takedown on 2 platforms (PS2, Xbox)
- Def Jam: Fight for NY on 3 platforms (PS2, Xbox, GameCube)
- The Sims 2 on the PC
- The Sims 2 Special Edition on the PC
- Medal of Honor Pacific Assault on the PC
- Medal of Honor Pacific Assault Director’s Edition on the PC

Financial Guidance

Full Year Ending March 31, 2005

Full Year Guidance

For the full year, we expect:

- **Revenue** to be between $3.3 and $3.4 billion – up 12 to 15 percent year-over-year.
- **Earnings per share** – to be between $2.00 and $2.10 – as compared with $1.87 for the prior year.
- **Capital expenditures** – in the quarter we made the decision to significantly expand our Vancouver studio. As a result of this decision, we expect our total capital expenditures for the year to be between $120 and $135 million.
- **As we look at our line-up for the quarters ahead** – we expect strong year-over-year comparisons for our fiscal second and fourth quarters. For our fiscal third quarter, we expect our top line to be roughly flat to last year. Our bottom line trends should be similar.

EA Conference Call

Summary

I will now conclude with a few closing thoughts.

First, we're playing from a position of global strength – with big / recurring / lasting franchises in place.

Second, we are building for the future – by investing in people, processes and technology and in new exciting global markets. At the same time, we are intent on delivering bottom line results.

We are 110 percent focused on execution and take nothing for granted.

Speaking for my EA colleagues globally – we are dedicated to combining the best in creative content with the power of technology at the highest rates of return in the global entertainment industry. We are a digital entertainment pure-play.

With that – Larry and I will open it up to your questions.

EA Conference Call

Safe Harbor Statement

Some statements set forth in this release, including those under the heading "Financial Guidance," contain forward-looking statements that involve risks and uncertainties. Statements including words such as "anticipate", "believe" or "expect" and statements in the future tense are forward-looking statements. These forward-looking statements are subject to business and economic risks and actual events or actual future results could differ materially from those set forth in the forward-looking statements due to such risks and uncertainties. Some of the factors which could cause our results to differ materially from our expectations include the following: our ability to predict consumer preferences among competing hardware platforms; the seasonality and cyclical nature of the interactive game segment; timely development and release of our products; our ability to secure licenses to valuable entertainment properties on favorable terms; consumer spending trends; our ability to attract and retain key personnel; 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; and other factors described in our Annual Report on Form 10-K for the year ended March 31, 2004. We do not intend to update these forward-looking statements, including those made under the "Financial Guidance" heading.

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.

	Q2 FY04	Q3 FY04	Q4 FY04	Q1 FY05
TTM Net Income	354	496	577	583
Equity	2,071	2,497	2,678	2,746
+ Debt	0	0	0	0
- Excess Cash (Cash minus 10% TTM Revenue)	(1,476)	(1,542)	(2,119)	(2,065)
Invested Capital	595	955	559	681
Average Invested Capital (four quarter average)				698
TTM ROIC				84%