ELECTRONIC ARTS

Q1 FY12 PREPARED COMMENTS

JULY 26, 2011

Rob Sison:

Thank you.

Welcome to EA's fiscal 2012 first quarter earnings call. With me on the call today is John Riccitiello, our CEO, Eric Brown, CFO, Peter Moore, President of EA Sports, and Frank Gibeau, President of EA Games.

Please note that our SEC filings and our earnings release are available at ir.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-K for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of July 26th, 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 slides 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:

Thanks, Rob.

Our first quarter was an excellent start to FY12 with results ahead of expectations, both top and bottom line versus the guidance provided on our Q4 call. We came in at the high end of the range for both revenue and non-GAAP EPS versus the updated guidance provided on our July 12 call when we announced the agreement to acquire PopCap Games. Our top line reflected strong performance of Portal 2. The bottom line reflected strong performance from digital games and services and ongoing cost management initiatives.

We are off to a good start to the year and feel bolstered by strong pre-orders for BF3 and Star Wars. We are also pleased to see that the NFL lock-out is resolved. While we are increasing revenue guidance to include the addition of PopCap, we feel it is still too early in the year to revise our FY12 EPS guidance. Accordingly, we are reaffirming our non-GAAP EPS range of $0.70 to $0.90.

On today's call, I'll update you on the progress of key titles and initiatives. Eric will provide a financial and sector update on Q1 followed by greater detail on our financial guidance for Q2 and FY12. Peter will offer some color on our football and soccer franchises as well as our free-to-play sports titles.

Before we begin, I'd like to offer a brief overview on the industry. Most of us on this call recognize that the industry has radically changed and the pace of change has accelerated dramatically. Gone forever is the 4-to-5 year console cadence that gave developers ample time to invest and retool for the next big wave. Consider that just 18 months ago there was no iPad, Google was experimenting with Android, and most big games were limited to a single revenue opportunity at launch. Consider that each of the major consoles now has a controller that encourages users to get off the couch and get into the action. On smartphones and tablets like iPhone and iPad, the top paid apps are all games. Recognize that the fastest growing revenue streams for console, PC, smart phones and tablets are all digital. And, that EA is partnering with its retail and platform partners to help jointly grow these digital revenue streams. While the game industry has fundamentally changed, games are reaching a far larger audience base than ever before.

With this in mind, we are building our business around three key strategies.

IP: First, we are building the strength of our most important IP. And for EA this means about a dozen very substantial IPs. Each of these will be transformed into year-round businesses with major packaged goods launches, social launches, mobile launches, downloadable content and micro-transactions. EA's FY12 multi-sku and title focus on Battlefield, Need For Speed, Madden, FIFA, The Sims and Mass Effect are great examples of this strategy.

Earlier this month we announced the acquisition of PopCap Games and when this transaction closes, this incredibly talented team will further strengthen EA's already strong portfolio of IP.

Platform: Second, we are working to establish EA as a platform, while maintaining a strong partnership with key retailers both retail and digital retailers. GameStop, with 11.5 million registered users of their PowerUpRewards program, is proving to be one of our best partners in digital. In June, we unveiled Origin as a leading direct to consumer digital service and now offer several titles on the platform. We believe that Origin will scale quickly with the addition of third parties and with the launch of *Battlefield 3* and *Star Wars* later this year.

Talent: Third, our creative teams are taking on the challenge to develop and manage content across the full spectrum of our many channels and business models. This makes for jobs that are more interesting and rewarding – and also connects them more closely with the changing marketplace. We recognize that creative and engineering talent is at the core of what we do, and we are making sure that EA is the best place to work for these industry leaders. The investment we are making in Austin, Texas is a great example of our commitment to this strategy.

With that, I will turn the call over to Eric.

Eric Brown:

Thank you, John.

EA performance in Q1 exceeded the non-GAAP revenue and EPS guidance that we provided on the Q4 earnings call, and is at the upper end of the financial update that we provided on July 12th.

Q1 non-GAAP revenue was $524 million, driven by strong performance of Portal 2, which sold-in over two million units in the quarter. Catalogue revenue was $144 million or 27% of Q1 non-GAAP revenue, resulting from strong performance by *Crysis 2*, *FIFA 11*, and *Tiger Woods PGA TOUR 12: The Masters*.

Q1 digital non-GAAP revenue was a record $209 million, growing 11% year-over-year. Excluding non-recurring adjustments in Q1 FY11, non-GAAP digital revenue increased 24% year-over-year. On a trailing twelve month basis, console DLC and micro-transactions grew over 100%.

Q1 non-GAAP gross profit margin was 55.0% compared to 59.6% a year ago. The decrease is due to higher distribution revenue. On a GAAP basis, gross profit margin was 76.0% compared to 72.8% last year.

Q1 non-GAAP operating expenses were $462 million compared to $430 million a year ago, but better than our May guidance due to tight cost controls. The year-over-year increase is mainly due to FX and higher costs from recent acquisitions. GAAP operating expenses were $532 million in the quarter.

Q1 non-GAAP operating loss was $174 million versus a non-GAAP operating loss of $109 million a year ago. On a GAAP basis, operating income was $227 million versus $98 million a year ago.

Non-GAAP loss per share was ($0.37) versus a loss per share of ($0.24) a year ago. GAAP diluted earnings per share was $0.66 versus diluted earnings per share of $0.29 a year ago.

Headcount – we ended the quarter with 7,973 employees versus 7,758 a year ago and 7,645 in Q4 FY11. 22% of our employees are in low cost locations and the breakdown of headcount is 5,783 in R&D, 988 in Marketing & Sales, 1,010 in G&A and 192 in Cost of Goods. Recent acquisitions have added approximately 141 headcount year over-year.

Cash flow from operations this quarter totaled a loss of ($274) million versus a loss of ($148) million a year ago. The change in operating cash flow is primarily due to prepaid royalties. Trailing twelve month operating cash flow was $194 million.

EA has approximately **$5.58 per share in cash**, **short-term investments, and marketable securities**. Roughly 55% of our cash and short-term investments are onshore.

Inventory levels were well managed in the quarter, at $75 million compared to $82 million in the prior year.

Reserves for Sales Returns and Allowances, as a percentage of trailing six month non-GAAP net revenue, were 15%, up from 13% a year ago, and are up on a nine month basis to 8% from 7% last year.

Sector Performance:

Overall, the worldwide interactive entertainment segment was up mid-single digits in the June quarter. Packaged Goods were down 11% for the quarter, but digital continues to perform well and is up over 20% for the quarter.

For the June quarter, the western world packaged goods market was down 5% comprised of 4% growth in high definition platforms and a 19% decline in low definition platforms. Calendar year-to-date, the western world packaged goods market was down 9% comprised of a 2% decline in high definition platforms and a 19% decline in low definition platforms. EA was the #1 publisher in the Western world for the quarter, with 16% share in North America, 17% share in Europe and 16% share overall in the western world versus 14% a year ago.

Digital Highlights for Q1 Fiscal 2012

Q1 Non-GAAP digital revenue increased by 24% year-over-year to $209 million, excluding the $20 million of non-recurring revenue that we identified in Q1 last year. DLC and free-to-play micro transaction content was $70 million in Q1, up 32% versus last year. Mobile and other handheld digital revenue was $59 million up 9% versus last year thanks to growth in smartphone related revenue, which more than offset a reduction in feature phone related revenue. Full game downloads were $32 million, up 39% year-over-year. Revenue from subscriptions, advertising and other was $48 million, down 17% year-over-year due to non-recurring items last year.

The top three digital revenue generators for Q1 were *FIFA 11*, *Battlefield: Bad Company 2* and *Dragon Age 2*. Notable console DLC contributors include *FIFA 11*, *Battlefield: Bad Company 2*, and *Mass Effect 2*. Notable digital full game downloads include *Dragon Age 2*, *Crysis 2*, and *Battlefield: Bad Company 2*.

As of the end of Q1, we had approximately 125 million users in our Nucleus consumer registration system, up from 67 million a year ago.

In social network gaming, EA has 32 million monthly active users (MAUs) and 5 million daily active users (DAUs). Playfish experienced improved monetization on the continued strength of Pet Society, Restaurant City, FIFA Superstars and Madden Superstars, with non-GAAP revenue up 75% year-over-year.

Moving on to FY12 Guidance.

EA is reaffirming its full year non-GAAP EPS guidance of $0.70 to $0.90 diluted earnings per share, which shows EPS growth of more than 14% at the midpoint versus our fiscal '11 result. This assumes that the PopCap transaction closes in August.

There are several key assumptions worth noting:

- The PopCap acquisition is expected to be non-GAAP EPS neutral to EA's fiscal year 2012 due to one-time transaction costs, which impact our Q2 results.
- *Star Wars: The Old Republic* is targeted to launch in holiday of 2011, but our guidance range accounts for a range of ship dates within the fiscal year.

Fiscal '12 non-GAAP Revenue:

EA is increasing its full year non-GAAP revenue guidance to $3.900 billion to $4.100 billion, up a total of $150 million from our May guidance. This upward revision is driven by two factors. First, as noted on our July 12 call, we are adding $50 to $75 million in revenue for PopCap. Secondly, we are increasing our forecast due to FX and higher distribution revenue. Our distribution revenue expectations are now approximately $250 million versus our previous estimate of $200 million. EA is increasing its non-GAAP digital revenue expectations to $1.100

billion to $1.150 billion compared to previous guidance of approximately $1.050 billion to $1.100 billion due to the PopCap acquisition. And for EA published titles, our non-GAAP revenue expectations are now $2.550 billion to $2.700 billion. Our fiscal '12 title slate is reaffirmed, and includes a total of 22 primary titles.

Fiscal '12 GAAP Revenue and EPS: Including PopCap, our fiscal '12 GAAP net revenue guidance is approximately $3.825 billion to $4.025 billion. Our fiscal '12 GAAP EPS guidance now ranges from a loss of ($0.10) to earnings of $0.21, which is approximately $0.05 lower than we provided on July 12th primarily due to the impact of the convertible notes offering that we closed on July 20th. GAAP tax is expected to be a benefit of approximately $30 million.

Gross Profit Margins: Consistent with our previous guidance, we expect full year GAAP gross profit margins of approximately 61% and we expect full year non-GAAP gross profit margins of approximately 63%.

Operating Expenses: We expect fiscal '12 non-GAAP operating expenses to be approximately $2.150 billion, which is up due to FX and the new PopCap operating expenses. GAAP operating expenses are expected to be approximately $2.4 billion.

Our fiscal '12 non-GAAP EPS guidance range corresponds to a **non-GAAP operating income margin** of approximately 8% to 10%, with approximately $5 million in Other Income and Expense, a full year non-GAAP tax rate of 28%, and an increased share count due to the acquisition resulting in an estimated 334 million diluted shares for the year.

Q2 and Full Year Phasing

For Q2 fiscal '12 we expect the following for non-GAAP results: Revenue between $925 million and $975 million and non-GAAP loss per share of ($0.13) to ($0.03), an increase of $0.02 since our July 12th call. Non-GAAP gross profit margin is expected to be approximately 58%, operating expense is expected to be between $580 million to $600 million, a non-GAAP tax rate of 28%, and diluted share count is an estimated 331 million.

For GAAP results we expect the following for Q2 fiscal '12: Revenue between $675 million and $725 million and GAAP diluted loss per share of ($1.03) to ($0.87). Gross profit margin is expected to be 41% to 42%, operating expense is expected to be $650 million to $670 million, and share count is an estimated 331 million.

For full year phasing please consider the following:

In the second half, we expect to begin seeing a more ratable and profitable P&L based on subscription revenue growth from *Star Wars: The Old Republic* and leverage from higher unit sales of key owned IP, such as *Battlefield 3*.

We expect fiscal ’12’s quarterly revenue phasing to be similar to fiscal ’11, with non-GAAP revenue distributed as follows:

- Q1: approximately 13%
- Q2: approximately 24%,
- Q3: approximately 39%,
- Q4: approximately 24%

Cash Flow: We expect fiscal ’12 operating cash flow to be $250 million to $300 million, consistent with our previous guidance. We expect fiscal ’12 capital spending of $125 million to $150 million.

Foreign Exchange: Our guidance assumes the following FX rates for the fiscal year: $1.44 USD to the Euro, $1.03 USD to the Canadian Dollar, and $1.61 USD to the British Pound. The weakness in the US dollar since our May call has been reflected in our updated guidance.

On July 20, 2011, we completed our private placement of $632.5 million aggregate principal amount of 0.75% Convertible Senior Notes due 2016. The overall after tax cost of capital on this transaction is approximately 1.5%. There is minimal potential shareholder dilution as the call spread overlay increased the effective conversion premium and price to 75% and $41.14, respectively. There is no ownership dilution to common stock holders below $41.14 per share and only half a percentage point of dilution for each $5 increment above $41. This financing allows us to complete the PopCap transaction while giving us the flexibility to keep the share repurchase program intact.

In Q1 fiscal ’12, EA repurchased 4 million shares at a cost of $91 million. $451 million remains authorized for the repurchase program over the next twelve months.

We expect that EA will exit fiscal ’12 with a non-GAAP EPS run rate and operating margin greater than what is indicated by our full year guidance range. The principal driver here is the ship date of Star Wars. We open the year with Star Wars in development and incurring expense; we close the year with Star Wars in operation, generating high margin, ratable, digital revenue and profits. PopCap will also be non-GAAP EPS accretive to fiscal ’13 by at least $0.10.

Lastly, our assumptions on the sector: We expect the worldwide interactive entertainment segment will grow 5% to 10% in calendar ’11 versus calendar ‘10, with more than 20% growth in digital and an approximate 6% decrease in packaged goods. We expect the packaged goods segment to remain bifurcated, with stronger growth of approximately 5% in high definition-consoles and PC offsetting a 19% decline in standard definition.

Now, I’ll turn the call over to Peter Moore for an update on EA SPORTS.

Peter Moore:

Thanks Eric – I'm dialing in from New York where the Madden team and I just came out of a meeting with our NFL partners. We're working closely with both the NFL and the Players Association – both sides recognize that between signing free agents, rookies and other undrafted players there's a lot to do before the start of the season. We are now fully engaged in the promotional ramp up to the launch of Madden NFL on August 30. Like the players and owners, we couldn't be happier with this resolution and we're beyond excited about having a full season of football this year.

As you know, we have two outstanding American football franchises: Madden NFL and NCAA Football. This year's product and marketing strategy was designed to limit any downside from the potential of an NFL lockout. We built a plan to double down on college football and that strategy has paid out nicely – after two weeks of sales we were up 17 percent year-on-year with more than 700,000 units sold through. We're hopeful that the strong performance that we have seen to date will carry on through the college season.

Let's move to FIFA. FIFA 12 will launch on 12 platforms this year and we expect double digit growth over last year's game.

Our wildly successful FIFA Ultimate Team digital mode is a big part of our growth forecast. Last year, FIFA 11 Ultimate Team captured 3.3 million players with a net average revenue per "paying" user of $51 dollars. As impressive as that number is, keep in mind that it represents only 40 percent of the installed base who actually downloaded this feature. Next month at GamesComm in Cologne, we will unveil a plan to give FIFA 12 owners 100 percent access to this mode. I believe Ultimate Team could add as much as $5 of net revenue to every packaged goods unit of FIFA 12.

Next, a quick update on SSX – a fan favorite and one of the most critically acclaimed franchises of the last generation. We unveiled the new game at E3 and critics responded with seven "Sports Game of the Show" awards. Ramping up the global appeal of this game, we'll debut new content in Cologne next month. We are excited to have another global title of this magnitude and plan to release SSX in Q4.

Finally, I want to update you on our progress on Facebook, where we host the Superstars series for Madden, FIFA and World Series baseball. Each of these games has shown good monthly growth and built a strong base of dedicated fans. We see EA SPORTS on Facebook not only as a scalable stand-alone business, but also as a gateway for bringing new players to deeper EA SPORTS experiences on consoles, tablets and smart phones. Among those who do spend money on Superstars, the average lifetime revenue per paying user is $56, surpassing the net revenue we receive from players on consoles. Facebook is a platform we will grow on with deeper and more engaging experiences for our fans.

All in all, on discs and online, it’s shaping up to be another good year for EA SPORTS.

Now back to John…

John Riccitiello:

Thanks, Peter.

Starting in FY12, our focus is on:

(1) IP -- Building roughly twelve key franchises into year-round businesses across a range of platforms, package goods and digital,

(2) Platform -- Building a solid ecosystem for leveraging our content and services, focusing on our own platform, Origin, while supporting our retail partners, and

(3) Talent -- Investing in our creative and engineering talent to drive and manage our IP across multiple platforms, from console to social and pc to mobile.

FY12 is not just about strategy. It is about some explosive programs and tangible objectives which will mark FY12 as a positive inflection point for EA. Among the most exciting are these:

- We will launch *Star Wars: The Old Republic* and compete for a big slice of the MMO market.
- We will launch *Battlefield 3* head to head against a tough competitor, leveraging the strength we are now seeing in pre-orders to take share in the all important FPS sector.
- Madden will hit the market in August, perfectly positioned to leverage the renewed excitement around this year's NFL season.
- Our FIFA franchise will be propelled to new heights, across a multitude of platforms, digital and packaged goods.
- The Sims is going social. This year, the brand hits social and, if it goes as we hope, social will never be the same.
- Origin is now live – we will continue to expand those capabilities and services to better support our customers on a 24/7 basis.
- We expect to close the PopCap transaction in August, bringing one of the most talented studio teams to EA.
- We started the fiscal year with single digit operating margins and expect to finish the fiscal year in double digit operating margins.
- And we will have a digital business with revenues well above $1 billion.

We intend to finish this year a much different company than we started – more diversified, more digital, more profitable.

With that, Peter, Eric, Frank and I will take your questions.

Non-GAAP Financial Measures

To supplement the Company's unaudited condensed consolidated financial statements presented in accordance with GAAP, Electronic Arts uses certain non-GAAP measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. The non-GAAP financial measures used by Electronic Arts include: non-GAAP net revenue, non-GAAP gross profit, non-GAAP operating income (loss), non-GAAP net income (loss) and historical and estimated non-GAAP diluted earnings (loss) per share. These non-GAAP financial measures exclude the following items, as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations:

- Acquisition-related expenses
- Amortization of debt discount
- Change in deferred net revenue (packaged goods and digital content)
- Gain (loss) on strategic investments
- Loss on lease obligation and facilities acquisition
- Loss on licensed intellectual property commitment
- Restructuring charges
- Stock-based compensation
- Income tax adjustments

Electronic Arts may consider whether other significant non-recurring items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses.

Electronic Arts believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding the Company's performance by excluding certain items that may not be indicative of the Company's core business, operating results or future outlook. Electronic Arts' management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing the Company's operating results both as a consolidated entity and at the business unit level, as well as when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate comparisons of the Company's performance to prior periods. In its earnings press release dated July 26, 2011, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to the historical non-GAAP measures.

Forward-Looking Statements

Some statements set forth in this document, including the estimates relating to EA's second quarter and full fiscal year 2012 guidance information, and the fiscal year 2012 title slate, 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 preliminary estimates and expectations based on current information and are subject to business and economic 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 the Company's results to differ materially from its expectations include the following: sales of the Company's titles; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the Company's ability to realize the anticipated benefits of acquisitions, including the PopCap acquisition; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company's ability to predict consumer preferences among competing platforms; the Company's ability to service and support digital product offerings; general economic conditions; and other factors described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

These forward-looking statements are current as of July 26, 2011. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended June 30, 2011.