ELECTRONIC ARTS™

Earnings Conference Call
First Quarter Fiscal 2006 – Ended June 30, 2005

Today's Call

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EA Conference Call

Welcome and Safe Harbor

Good afternoon and welcome to our first quarter fiscal 2006 earnings 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 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.

2. 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. 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.

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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 call are against the same period for the prior year – unless otherwise stated.
5. 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 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 26, 2005 and disclaim any duty to update them.
6. We have included our trailing twelve month platform shares and our 2005 estimated market outlook by platform in a supplemental schedule that will be posted on our website.

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 – E3. We had a great E3 – receiving seven Best of E3 awards:

- **Spore** received four awards: Best of Show, Best Original Game, Best PC Game and Best Simulation Game.
- **Madden NFL 2006** – Best Sports Game. This is the second year in a row for Madden. Madden has taken this award three of the last five years.
- **Burnout** – Best Racing Game for the second year in a row, and
- **Battlefield 2** – Best On-line Multiplayer Game.

This performance summarizes what we are all about – creativity, innovation and leadership.

Congratulations to our studio and marketing teams on these terrific accomplishments.

Highlights

Our Performance

Second – We are pleased with the performance of our Q1 titles.

Battlefield 2, with a metacritic of 90, is the #1 PC title in both North America and Europe. In just two weeks we have doubled the size of the online audience for this franchise.

Medal of Honor European Assault went platinum in the quarter. In the UK – MOH was the #1 PS2 title for four weeks post launch and in North America was the number one first person shooter for the month of June.

Third – our PSP revenue share is now 26 percent in North America. For the month of June we were the number one publisher on this platform.

Finally – We like our next generation trajectory. We can't wait to get our titles in front of our customers.

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Agenda

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

First – I'll review our Q1 financial results,

Second – I'll discuss our outlook,

Third – I'll go over our financial guidance for Q2 and the fiscal year.

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

First Quarter Fiscal 2006

Net Revenue

Q1 Performance

Net revenue was $365 million – driven by Medal of Honor European Assault, Battlefield 2 and to a lesser extent Batman Begins. The strength of these titles did not offset last year's strong performance of Harry Potter and the Prisoner of Azkaban, Fight Night and UEFA Euro 2004.

- **We had two titles that went platinum in the quarter**: Medal of Honor European Assault and Battlefield 2.
- **On the PSP** – With 6 titles in the market – **we were the #1 publisher for the month of June** in North America.

First Quarter Fiscal 2006

Net Revenue by Geography / Foreign Exchange Impact

Geographically

- **North America revenue was $184 million – down $27 million or 13 percent year-over-year.** The decline was primarily the result of significantly lower overall PS2 and co-publishing related revenue partially offset by sales on the PSP and PC.

- **Europe revenue was $144 million – down $46 million or 24 percent.** The decrease was driven principally by lower co-publishing and console related revenue. Last year's European results were driven by Harry Potter and UEFA Euro 2004.

- **Total International revenue was $181 million – down 18 percent**. Asia Pacific, which includes Japan, was up 21 percent year-over-year driven primarily by PC and PSP related sales.

- **Changes in foreign currency** rates improved our top-line by roughly $10 million – or 2 percent in the quarter. We expect this will be the last quarter in fiscal 2006 in which currency movements will favorably impact our top line.

First Quarter Fiscal 2006

Net Revenue by Platform

PC revenue was $74 million up 11 percent driven by the success of Battlefield 2 offset by last year's launch of Harry Potter.

Mobility – which includes revenue associated with all mobile devices – including handhelds and mobile phones – increased by $34 million in the quarter to $52 million, up 180 percent.

The increase was driven by the introduction of the PSP in North America and to a lesser extent the NDS. Need for Speed Underground Rivals continues to hold the #1 spot in North America – and both Tiger Woods PGA Tour 2005 and NFL Street 2 were also top 10 titles.

As of today, we have the #1 and #3 most popular mobile phone games as ranked by GameSpot.

Co-Publishing and Distribution revenue was $30 million – down 56 percent. Now that Digital Illusions is consolidated into our financials – Battlefield 2 revenue is classified as PC.

First Quarter Fiscal 2006

Net Revenue by Platform

Internet Services, Licensing and Other revenue was $26 million – down $7 million year-over-year. The decrease was primarily the result of lower licensing revenue partially offset by an increase in Club Pogo subscriptions.

If you have a chance – go check out pogo minis – the new avatars on Club Pogo. In the first three weeks post launch, 2.1 million downloads have already taken place.

First Quarter Fiscal 2006

Gross Profit / Margin

Moving on to the rest of the income statement:

Gross Profit in the quarter was $214 million – down 16 percent.

Gross Margin was 58.8 percent vs. 59.1 percent a year ago. The decline was primarily driven by:

- Higher sales return charges in Europe, offset by
- Lower overall license royalty rates. This quarter our top titles were non-licensed properties such as Battlefield 2 and Medal of Honor European Assault.

First Quarter Fiscal 2006

Operating Expenses

Operating Expenses:

Marketing and Sales. Marketing and sales expense was $75 million – up $12 million year-over-year. The increase was primarily driven by:

- Higher employee related costs and
- Increased advertising in North America associated with Madden Draft Day and overall increased ad spend related to our Q1 releases.

General and Administrative. G&A was $51 million – up $16 million year-over-year.

The increase was primarily driven by headcount costs, higher outside service costs and increased depreciation. While this quarterly increase is significant we expect G&A for the full year to be up in the mid single digit range.

First Quarter Fiscal 2006

Operating Expenses

Research and Development. R&D was $183 million – up 40 percent year-over-year. The increase was driven principally by the development of next generation tools, technologies and titles. The increase was partially offset by lower third-party development advances as we continue to focus on increased internal development.

R&D related headcount was up approximately 40 percent year-over-year to roughly 4,500. Acquisitions accounted for 13 percentage 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.

Interest and Other Income. Interest and other income was $17 million – up 85 percent year-over-year. This increase was driven by higher interest income due to higher yields and higher cash balances.

First Quarter Fiscal 2006

Bottom Line

Diluted Loss per Share was $0.19 vs. diluted earnings per share of $0.08 a year ago.

Non-GAAP Diluted Loss per Share was $0.18 vs. non-GAAP diluted earnings per share of $0.08*.

Our trailing 12 month **operating cash flow** was $669 million vs. $638 million for the comparable period.

Through the end of the quarter – we had **repurchased 7.1 million shares** at a total cost of approximately $378 million. We intend to complete our $750 million repurchase program by the end of Q2.

Our **diluted share count** was 308 million vs. 316 million a year ago. Because we had a net loss in the quarter basic share count was used in the calculation of diluted loss per share.

** The difference between GAAP and non-GAAP diluted loss per share relates primarily to certain acquisition 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 26 of this document.*

First Quarter Fiscal 2006

Balance Sheet

On to the Balance Sheet:

Cash, short-term investments and marketable equity securities were $2.7 billion – up $378 million year-over-year and down $349 million from March. The decrease from March relates primarily to the repurchase of our common stock.

Gross accounts receivable were $278 million – vs. $291 million a year ago – a decrease of $13 million. Approximately 55 percent of our quarterly revenue occurred in the month of June vs. 43 percent a year ago.

Reserves against outstanding receivables totaled $111 million – down $10 million from the prior year. Reserve levels were 12 percent as a percentage of trailing six month net revenue – consistent with last year. As a percentage of trailing nine month net revenue – reserves were 5 percent – comparable to a year ago.

Ending net inventory was $66 million – up $4 million from March driven by the inventory build for the launch of NCAA Football 2006. Other than NCAA Football – no one title represented more than $4 million of exposure.

Our balance sheet continues to be solid.

2006 Outlook

Industry / EA

Our Outlook

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

First – this is a great time for EA. It's transition. And while difficult, we believe that our ability to navigate the transition is a competitive advantage.

Second – while it's exciting to prepare for the launch of new platforms – this is also a hugely challenging time. It is a time where the certainty of expense is more pronounced vs. the promise of revenue. If you are wondering whether something in the industry could go wrong – like hardware delays, production snags or changes in demand – well – we think you should count on it. There is too much change going on to expect otherwise.

That said – while these risks are real – we are in the middle of a powerful long term secular growth trend fueled by improvements in interactive technology, expanding demographics, globalization and new avenues for distribution.

In short – this is a great time for interactive and a great time for EA.

Industry Update

Market Outlook

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

2005 Market Outlook:

We have essentially maintained our total software estimates for North American and Europe, but have slightly lowered our total hardware estimates for the year. As Tricia mentioned – you can find the detailed summary of our market outlook on our website after the call.

Now – on to our Financial Guidance:

The following forward-looking statements reflect our expectations as of July 26, 2005. Actual results may be materially different and are affected by many factors, such as development delays, hardware availability, competition, the popular appeal of our products, changes in foreign exchange rates, our effective tax rate, and other factors detailed in our earnings release and in our SEC filings.

Financial Guidance

Second Quarter Ending September 30, 2005

Now the numbers:

For the quarter ending September 30 – we expect:

- **Revenue** to be between $600 and $630 million, and
- **GAAP and non-GAAP diluted earnings per share** to be between flat and $0.05.

These expected results also include the projected impact of our share repurchase program.

Financial Guidance

Second Quarter Ending September 30, 2005

In Q2 – we expect to ship 32 SKUs.

As you know – we have already shipped NCAA Football 2006. This 90 rated title is off to a strong start – tracking ahead of last year's sell through in North America.

Pre-orders for Madden are already at record levels – and the early reviews look great.

Our expected line-up for the second quarter includes:

- **Burnout 4** on 3 platforms (PS2, Xbox, PSP)
- **Madden NFL 2006** on 7 platforms (PS2, Xbox, GameCube, PC, GBA, PSP, NDS)
- **Marvel Nemesis: Rise of the Imperfects** on 3 platforms (PS2, Xbox, GameCube)
- **NASCAR 2006** Chase for the Cup on 2 platforms (PS2, Xbox)
- **NBA Live 2006** on 5 platforms (PS2, Xbox, GameCube, PC, PSP)
- **NCAA Football 2006** on 2 platforms (PS2, Xbox)

Financial Guidance

Second Quarter Ending September 30, 2005

- **NHL 2006** on 4 platforms (PS2, Xbox, GameCube, PC)
- **Sims 2 Nightlife** Expansion Pack on the PC
- **Tiger Woods PGA Tour 2006** on 5 platforms (PS2, Xbox, GameCube, PC, PSP)

We plan to have four titles available for the **launch of the PSP in Europe**: NBA Street, Need for Speed Underground Rivals, NFL Street and Burnout Legends.

On **mobile phones**, we plan to launch six games in North America: Need for Speed Underground, Madden 2006, Tiger Woods 2006, Pogo Poppit!, Pogo Turbo and Pogo Tri Peaks Solitaire.

Financial Guidance

Full Year Ending March 31, 2006

Full Year Guidance

For the full year, we have reduced our previous range by $100 million on the top line and by 10 cents per share on the bottom line. This reflects our decision to delay Godfather. It also reflects – to a lesser extent – the impact of changing exchange rates – most notably on the top line.

Make no mistake – we were disappointed by the delay in launching Godfather. Nonetheless, it was the right thing for the long-term strength of this franchise.

For the full year, we now expect:

- **Revenue** to be between $3.3 and $3.4 billion
- **GAAP and non-GAAP diluted earnings per share** – to be between $1.45 and $1.60

These expected results include the projected impact of our share repurchase program.

Looking ahead – while we do attempt to hedge a portion of our foreign currency exposures – any material movement – most notably in the Euro and British Pound – will impact our results.

Financial Guidance

Full Year Ending March 31, 2006

Further – we now expect our revenues to fall in roughly the following percentages for the back half of the year:

- 45 - 50 percent in Q3 and
- 20 - 25 percent of the total in Q4

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Summary

I will now conclude with a few closing thoughts.

- **First** – we feel very fortunate to be in the middle of one of the most interesting global growth trends in business 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 of Game Makers – we are intent on winning.

We look forward to reporting our progress in the coming quarters.

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

Safe Harbor Statement

Some statements set forth herein and/or made during the course of the conference call, including those under the headings “2006 Outlook”, “Industry Update” and “Financial Guidance”, contain forward-looking statements that are subject to change. Statements including words such as "anticipate", "believe", “estimate”, "expect“ or “may”, 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: competition in the interactive entertainment industry; the availability of an adequate supply of hardware units; our ability to predict consumer preferences among competing hardware platforms; consumer spending trends; the seasonal and cyclical nature of the interactive game segment; timely development and release of our products; our ability to manage expenses during fiscal year 2006; 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; and other factors described in our annual report on Form 10-K for the year ended March 31, 2005. We do not intend to update these forward-looking statements, including those made under the “2006 Outlook”, “Industry Update” and “Financial Guidance” headings.

Supplemental Information

ROIC Calculation

Return on Invested Capital ("ROIC") is one measure we look at to evaluate our operational and asset efficiency. Note that ROIC is not a measure of financial performance under GAAP and should not be considered in isolation or as an alternative to net income as an indicator of company performance, or as an alternative to operating cash flow as a measure of liquidity. The following illustrates our methodology.

	Q2 FY05	Q3 FY05	Q4 FY05	Q1 FY06
TTM Net Income	**604**	**587**	**504**	**422**
Equity	2,907	3,335	3,498	3,167
+ Debt	-	-	-	-
- Excess Cash (Cash minus 10% TTM revenue)	(2,168)	(2,247)	(2,645)	(2,267)
Invested Capital	739	1,087	853	900
Average Invested Capital (four quarter average)				**895**
TTM ROIC				**47%**