



ELECTRONIC ARTS™

Earnings Conference Call

Second Quarter Fiscal 2004 – Ended September 30, 2003

Today's Call

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EA Conference Call

Welcome and Safe Harbor

Good afternoon and welcome to our second quarter fiscal 2004 earnings conference call.

Today on the call we have:

Larry Probst – Chairman and Chief Executive Officer

John Riccitiello – President and Chief Operating Officer

Don Matrick – President Worldwide Studios; 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, this 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.

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 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 October 22, 2003 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 are pleased to report another strong quarter.

- **Net Revenue** was \$530 million – up 17 percent year-over-year.
- **The creative quality of our titles has never been better.** On the PlayStation 2, Madden received a 95 Metacritic rating and NCAA Football a 94. NASCAR, NHL and Tiger had 85 plus ratings.
 - During the quarter, Madden sold-in more than 3.6 million units,
 - NCAA Football sold more than 1.3 million units,
 - Tiger almost 800 thousand in just one week, and
 - NASCAR Thunder and NHL each sold over 500 thousand units.
- **Our focus on quality and innovation continues to pay big performance dividends.**
- **For the quarter – our Gross Margin** was up 4 points to 59.7 percent.

Highlights

Our Performance

- **Operating Income** was up 43 percent to \$102 million – while our operating margin reached 19 percent.
- **Diluted Earnings per Share** were up 47 percent to \$0.50 per share.
- **Trailing Twelve Month Operating Cash Flow** was \$657 million, or \$4.45 per share.
- **Our Balance Sheet continues to be strong.** Reserves and Inventory are at appropriate levels. Our cash and short-term investments balance of \$1.7 billion equates to \$11.68 per share.⁽¹⁾
- On a trailing twelve month basis, our **Return on Invested Capital** was 45 percent.

1) Calculated as Cash, Cash Equivalents and Short-Term Investments of \$1,734,174,000 as of September 30, 2003 divided by the total Class A shares outstanding of 148,479,450 as of September 30, 2003

Highlights

Strengths

Our business continues to demonstrate an ability to produce stable and reliable results.

- **Trailing Twelve Month Revenue** was \$2.6 billion – up 24 percent year-over-year.
- **Trailing Twelve Month Gross Margin** was 58 percent – up 3 points.
- **Trailing Twelve Month Non-GAAP Operating Margin** was 23 percent – up 5 points.
- **On a trailing twelve month basis we had 23 platinum titles** – up 4 titles year-over-year.

Highlights

Strengths

Before jumping in to the specifics of the Quarter, I'd like to take a minute and talk about two drivers of our growth and performance reliability. Specifically – continuously improving technology coupled with innovative product development and the impact of our leading marketing and sales organization.

Separately each drives growth and helps promote performance stability and reliability. But together the whole is clearly greater than the sum of the parts.

Madden is a great example:

- **Madden NFL, a 95 rated title, is in its 14th season and having its biggest year ever.** As of this past Monday (October 20, 2003) – we estimate that our unit sell-through is up more than 56 percent year-over-year.
- **Over its lifetime, Madden sales have comfortably exceeded \$1 billion in the U.S.** This franchise is in a class with Star Wars and James Bond – the only two movie franchises to exceed \$1 billion at the U.S. box office.

Highlights

Strengths

- **The Madden franchise continues to innovate** – taking advantage of what technology makes possible. If you were to take a screenshot of Madden 2004 on PlayStation 2 – you would find as many polygons in a single football as you do in an entire screenshot of Madden on PlayStation 1.
- **Madden's entertainment value is now mainstream:**
 - ESPN uses Madden footage to diagram plays on its weekly NFL Match-Up Show and Monday Night Countdown.
 - MTV aired a 30 minute show – “Making the Game: Madden NFL 2004.” It was one of MTV's highest rated shows that week.
 - Labels recognize Madden as an important place to launch hits. Madden 2003 was a big part of launching Good Charlotte's “The Young and the Hopeless” album. It quickly shot to triple platinum. This year – Outkast and Blink 182 debuted songs on Madden 2004. Outkast's new album is number one on the charts. Blink 182 releases its new album this November.

Highlights

Strengths

While it's great to talk about different statistics, TV ratings and record sales – there is a much bigger point to all of this. At the end of the day – continuously improving technology coupled with innovative product development and the best in marketing does three very important things: Together they enhance the entertainment value of our titles, and therefore – very naturally expand the size of our market and the breadth of our reach. Together the combination is what reliably keeps our franchise properties fresh, relevant and vibrant – growing year-in and year-out. Together they allow us to just flat-out – sell more product.

While our results quarter-to-quarter will fluctuate based on release schedules, the reliability of our overall performance is grounded in proven franchise properties like Madden, FIFA, Medal of Honor and our 20 other platinum titles that continue to get better every year as technology allows us to innovate and as our marketing expands our breadth and reach. This is our advantage and the driver of our growth. For most entertainment companies – digital is a cost play. For us, it's our revenue strategy.

EA Conference Call

Agenda

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

First – I'll talk about our Q2 results;

Second – Our market outlook for Calendar 2003; and

Third – Our financial guidance for the December Quarter and Fiscal 2004.

Following my comments, Larry, John, Don and I will open it up to your questions.

Second Quarter Results

New Releases

First – Our Q2 Results:

During the quarter, we released 28 SKUS:

- **Six on Madden** (PS2, Xbox, GameCube, PS1, PC, Game Boy Advance)
- **Three on NCAA Football** (PS2, Xbox, GameCube)
- **Four on Tiger Woods Golf** (PS2, Xbox, GameCube, PC)
- **Four on NHL** (PS2, Xbox, GameCube, PC)
- **Four on NASCAR** (PS2, Xbox, PS1, PC)
- **Two on Rugby** (PS2, PC)
- **Sims Double Deluxe** on the PC
- **SimCity 4 Deluxe** on the PC; and
- **Three expansion packs on the PC for Medal of Honor, Command & Conquer and SimCity 4**

Second Quarter Results

Net Revenue

Net revenue for the quarter was \$530 million – up 17 percent – driven by sales of Madden, NCAA Football, Tiger Woods Golf, NHL, NASCAR, Soul Calibur II and PC expansion packs. Catalog sales of The Sims franchise, Medal of Honor Frontline and NBA Street Vol. 2 also contributed to our results.

As mentioned – Madden and NCAA Football broke new records for the September quarter:

- Madden, in its 14th year, sold over 3.6 million units (Metacritic rating of 95), and
- NCAA, in its 11th year, sold over 1.3 million units (Metacritic rating of 94).

NHL, Tiger and NASCAR also had strong sales – each selling over 500,000 units in under a month.

Year-in and year-out, our franchise properties continue to provide stability and predictability.

Geographically our results were strong – North American revenue was up 14 percent year-over-year while International revenue was up 23 percent. Absent a \$14 million foreign exchange benefit – our International revenue would have been up 13 percent year-over-year.

Second Quarter Results

Net Revenue by Platform

Next – Our Revenue by Platform:

Please keep in mind that our U.S. console segment shares are based on NPD TRSTS data from July to September while PC information is based on NPD Techworld estimates for July and August.

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 42 percent of total revenue or \$221 million – up 39 percent year-over-year.** The increase was driven by strong sales of Madden, NCAA Football, Tiger Woods Golf, NASCAR and NHL.
- **In the U.S., our segment share was 42 percent with 6 top 20 titles** – Madden, NCAA, Tiger Woods Golf 2004, NBA Street Vol. 2, NASCAR Thunder and Tiger Woods Golf 2003.
- In its first month of release, Madden became the #1 selling PS2 title of the year.
- **In Europe, our segment share was approximately 13 percent.** This quarter our results were driven largely by our strong North American sports titles.

Second Quarter Results

Net Revenue by Platform

On the PC:

- **PC revenue was 18 percent of total revenue or \$93 million – up 13 percent year-over-year.** Sales were driven by The Sims franchise – Deluxe, Double Deluxe and Superstar – and expansion packs for Medal of Honor, Command & Conquer and SimCity 4.
- **In the U.S., EA had 7 of the top 20 PC titles and 19 percent segment share.** Titles occupying these top spots included: Sims Deluxe, Sims Superstar, Battlefield 1942, Command & Conquer Generals, SimCity 4, Sims Unleashed and Madden.
- **In Europe, we estimate EA had 4 of the top 10 PC titles and 21 percent segment share** – Sims Superstar, Sims Deluxe, Sims Unleashed and Sims Holiday.

Second Quarter Results

Net Revenue by Platform

On Xbox:

- **Sales represented 13 percent of total revenue or \$69 million – up 83 percent year-over-year** driven by a larger installed hardware base and more EA titles.
- **Our U.S. segment share** was 27 percent with 4 of the top 20 titles. (Madden, NCAA, Tiger Woods Golf, NBA Street Vol. 2)
- **Madden and NCAA were the #1 and #2 selling football titles** on this platform. Madden had roughly four times the sales of our nearest competitor.
- **In Europe**, we estimate our segment share to be **approximately 14 percent**.

On GameCube:

- **Sales represented 5 percent of total revenue or \$25 million – down 12 percent.** Sales were virtually flat in North America but down internationally.
- **Our U.S. segment share** was 15 percent with 3 of the top 20 titles. (Madden, NCAA, NBA Street Vol. 2)
- **In Europe**, we estimate our segment share was **approximately 13 percent**.

Second Quarter Results

Net Revenue by Platform

Co-Publishing and Distribution:

- **Revenue was 17 percent of total revenue or \$92 million – down 4 percent year-over-year.** Sales of Soul Calibur II, Freedom Fighters, Battlefield 1942 and Aliens vs. Predators largely offset a difficult prior year comparison driven by sales of Kingdom Hearts.

Subscription Services:

- **Revenue – which includes subscription fees and packaged goods sales for online products – was \$11 million – up 34 percent. The increase was driven by** this year's addition of The Sims Online, Earth & Beyond and to a lesser extent, Club Pogo.
- **At the end of the quarter, we had 414 thousand active players using our subscription services vs. 265 thousand a year ago and 338 thousand in the previous quarter.** Growth was driven principally by the launch of Club Pogo which ended the quarter with approximately 130 thousand active players. Of the 130 thousand Club Pogo subscribers, approximately 60 percent are paying and the remaining 40 percent are registered but in the free trial period. While it's still early, conversion from free trial to pay has been running above 90 percent.

Second Quarter Results

Net Revenue by Platform

- **EA Sports Nation is off to a great start with 350 thousand active accounts.** On average, EA Sports Nation has been adding approximately 30,000 new players per week.
- **This fall we are launching several EA Games and EA Sports BIG titles for PS2 online** – Medal of Honor, Need for Speed, SSX 3, Lord of the Rings and Sims Bustin' Out.
- **We will also begin experimenting with some pay-for-play tournaments.**

Second Quarter Results

Gross Profit / Margin

Moving on to the rest of the income statement:

Gross Profit in the quarter was \$316 million – up 25 percent.

Gross Margin was 59.7 percent – up 4 points year-over-year.

Margin improvement was driven by a higher percentage of console and PC revenues vs. distribution in the prior year.

Second Quarter Results

Operating Income / Net Income / Earnings per Share

On to the bottom-line:

Operating Income was \$102 million vs. \$71 million in the year-ago quarter – up 43 percent.

Our Operating Margin was 19 percent in the quarter compared to 16 percent a year ago.

Net Income was \$77 million vs. \$50 million a year ago – up 52 percent.

Diluted Earnings per Share were \$0.50 per share vs. \$0.34.

Our diluted share count ended at 154 million vs. 147 million a year ago.

Second Quarter Results

Balance Sheet

Now – the Balance Sheet:

Cash, short-term investments and marketable securities ended at \$1.73 billion – up \$112 million from the June quarter.

Gross accounts receivables were \$330 million vs. \$265 million in the prior year – an increase of \$65 million year-over-year. The increase was a result of higher revenue and a more back-end loaded quarter.

Ending net inventory was \$39 million vs. \$73 million a year ago. In the year-ago quarter, we had several titles that were due to ship in early October which drove unusually high levels of inventory. No one title currently represents more than \$4 million of exposure. Please note that these numbers now include prepaid manufacturer royalties of \$15 million in the current quarter and \$36 million in the prior-year quarter as part of the cost of inventory. We believe this new classification is a preferred presentation. It has no impact on our P&L.

Reserves against outstanding receivables totaled \$127 million – up \$1 million year-over-year. Reserve levels were 14 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 9 percent vs. 10 percent a year ago.

Our balance sheet is solid.

Outlook

Market Outlook / Guidance

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

Big picture you will hear three things from us relative to our guidance:

1. **We are taking our numbers up for the year** even though some of our industry growth estimates are down slightly given the absence of hardware price cuts. Make no mistake though – this is a healthy marketplace. Top-title pricing is solid and you need look no further than our actual year-over-year performance to see what kind of shape we are in. As of Monday, we estimate year-over-year:
 - Madden sell-through is up 56 percent in North America
 - NCAA Football is up 25 percent
 - Tiger Woods Golf is up 132 percent
 - NASCAR is up 18 percent
 - NBA Live is up 96 percent
 - And while industry PC sales are pressured – fiscal year-to-date our reported PC revenue is up more than 9 percent

Outlook

Market Outlook / Guidance

2. **We expect to deliver record top and bottom line performance the back half of this year.** We expect our third quarter to be bigger than all of fiscal 2001 on the top line and all of fiscal 2003 on the bottom line.
 - Our Q3 gross margin should exceed 60 percent, and
 - Our operating margin will likely pass through 35 percent.

3. **We are bullish on not just the short-term but also the long-term.** The delay in price reductions has a huge silver lining – making it possible that calendar 2004 is a bigger hardware year than calendar 2003 – and we have not even started talking about the impact of the PSP.

Industry Update

Software

Our estimates for Calendar 2003 hardware and industry software sales are as follows:

- **Software Prices.** We continue to expect that premium titles will hold the \$49 price point – but that lesser titles will move toward \$39.
- **In North America** – we expect growth in software sales as follows:
 - For the PS2 – up 15 to 20 percent – this is a decrease of 10 points in our range
 - For the Xbox – up 20 to 25 percent – no change here
 - For the GameCube – up 25 to 30 percent based on the recent price changes – this is an increase of 10 points in our range
 - PC – flat to down five percent. This is a decrease of 5 points in our range. By way of comparison again – our PC sales are up 9 percent for the first six months of this year.

Industry Update

Hardware

- **In North America, we expect the following hardware unit sales:**
 - PS2 unit sales of between 8 and 9 million units – down 1 million units from our previous range
 - Xbox unit sales of between 2.5 and 3.0 million units – no change here
 - GameCube sales of between 2.5 and 3.0 million units – up 500 thousand units
- **In Europe, we expect the following hardware unit sales:**
 - PS2 – between 7.5 and 8.5 million units – down 500 thousand units
 - Xbox – between 2 and 2.5 million units – no change here
 - GameCube – between 1.5 and 2 million units – again no change
- **In total – for both North America and Europe – our estimates for console sales are down by a million units from our previous estimates. This translates to a current generation installed base increase of 60 to 70 percent year-over-year.**
- **Our estimates contemplate no further console price reductions this year. We expect our segment share gains to more than offset any impact of lower console sales.**

Financial Guidance

Third Quarter Ending December 31, 2003

Our Financial Guidance:

Our guidance reflects our best thinking as of today. There are plenty of unknowns and several things that could happen which could cause our actual results to be materially different. We ask you to carefully consider our risk factors when evaluating these estimates.

I'll cover our Financial Guidance in two parts – first, I'll discuss the third quarter and then our outlook for the full year.

For the **quarter ending December 31** – we expect:

- **Revenue** to be between \$1.425 and \$1.475 billion – up 16 to 20 percent, and
- **Earnings per share** to be between \$2.30 and \$2.40 – up 36 to 42 percent year-over-year.

Financial Guidance

Third Quarter Ending December 31, 2003

In Q3, we expect to ship 47 SKUS on 15 titles:

- Lord of the Rings: Return of the King on 4 platforms (PS2, Xbox, GameCube, PC)
- Harry Potter Quidditch on 5 (PS2, Xbox, GameCube, PC, Game Boy Advance)
- Harry Potter and the Sorcerer's Stone on 3 (PS2, Xbox, GameCube)
- Medal of Honor Rising Sun on 3 (PS2, Xbox, GameCube)
- Medal of Honor Infiltrator on Game Boy Advance
- Need for Speed Underground on 5 (PS2, Xbox, GameCube, PC, Game Boy Advance)
- Sims Bustin' Out on 4 (PS2, Xbox, GameCube, Game Boy Advance)
- Sims Makin' Magic on PC
- SSX 3 on 4 (PS2, Xbox, GameCube, Game Boy Advance)
- FIFA on 6 (PS2, Xbox, GameCube, PlayStation, PC, Game Boy Advance)
- Total Club Soccer Manager on 3 (PS2, Xbox, PC)
- NBA Live on 4 (PS2, Xbox, GameCube, PC)
- March Madness on 2 (PS2, Xbox)
- Tiger Woods Golf on Game Boy Advance
- Bond: Everything or Nothing on Game Boy Advance

Financial Guidance

Third Quarter Ending December 31, 2003

Broadly – we expect the coming holiday season to look a lot like last year:

- **First** – There will be winner and losers. This market will once again favor the strongest titles.
- **Second** – Retailers will be highly discriminatory in how they buy and stock their shelves.
- **And finally, while we would never claim immunity from risk** – we can tell you that – just like last year – we are ready – we love our titles – we love our marketing strategies. We can safely predict that this will be the biggest quarter in our history – both in terms of the top and bottom line.

Financial Guidance

Full Year – Fiscal 2004

For the Full Year

We expect:

- **Revenue** to be between \$2.850 and \$2.930 billion – up 15 to 18 percent. This guidance is an increase from our previous range of between \$2.8 and \$2.9 billion.
- **Diluted Earnings per Share** – to be between \$3.35 and \$3.50 – up 54 to 61 percent. This is an increase from our previous full year guidance of \$3.25 to \$3.40 per share.
- **In the fourth quarter – we have three titles** that could ship this fiscal year or in early fiscal 2005. Those include:
 - Medal of Honor: Pacific Assault on the PC,
 - The Sims 2.0 on the PC, and
 - MVP Baseball on multiple platforms.
 - As you would expect, our guidance takes this into account.

EA Conference Call

Summary

Before opening the call up to your questions, I'd like to spend a couple of minutes talking about how we see things longer-term. I will then conclude my remarks.

As we look ahead, we are decidedly optimistic – our glass is more than half full.

First – we think the real action in this cycle is yet to come.

- In the PS1 cycle, over 90 percent of all PS1 console and software unit sales took place at price points of \$150 and below.
- While we are not trying to say this cycle is only 10 percent of the way along – we know that price works – as console prices decline – volumes will accelerate.
- As we said before – the delay in console price reductions means next year could be the largest console sales year yet in the cycle.
- Tie ratios continue to be strong.
- We also see premium pricing holding much longer this cycle.

EA Conference Call

Summary

Second – we see several opportunities on the horizon which may represent clear upside that was not present during the last cycle.

- **We are bullish on the PSP and think that Sony could hit a home run.** If we are right, its potential success could add billions to the software marketplace over its lifecycle and could prove to be a great bridge into the next console cycle. Needless to say – we will be ready for the launch.
- **We are also optimistic about online.** While we clearly expect that online will have its biggest impact in the next generation of consoles – we can see online being a source of incremental growth over the coming 3 to 5 years.

Third – globalization. Our industry is still very young globally.

- We are currently in the process of further building out our international direct sales force. We now have EA teams in the Czech Republic, Hungary and Poland and for the first time a console sales force in Japan. This is an investment for the next five years of our growth and expansion.
- There are 6 billion people in the world – and neither Sony, Microsoft, Nintendo nor EA market entertainment to roughly 60 percent of this population. There is a huge market opportunity in India, China, Latin America and Eastern Europe for our titles.
- Right in front of us is an exploding market in Asia. If we play our cards right, this region of the world could start to look like another Europe within five years.

EA Conference Call

Summary

Finally – EA is reaching a point of critical mass in two important ways:

- **First – unit volumes for hit properties now create enormous bottom line leverage.** You see that in our results. Looking forward, volume leverage is a real weapon to combat pricing pressures and higher development expense.
- **Second – we are committed as a Company to making volume our friend** by driving process simplification and standardization into everything we do. Just as Wal Mart used volume to be faster and better than anyone – we want to do the same. As we become more efficient we can invest more in new technologies and in new talent – and at the same time continue to deliver strong returns on our invested capital. It's the best of both worlds.

As we look ahead, we are optimistic. Our glass is decidedly more than half full.

EA Conference Call

Summary

I will now conclude with a few closing thoughts.

This was another record quarter for EA. We continue to demonstrate quality, innovation and marketing excellence. As a result – Madden, NCAA Football, Tiger, NASCAR and NBA Live are all off to their best launches in franchise history.

We are exactly where we want to be heading into the holidays – number one globally – number one on the PS2 – and with big / recurring / lasting franchises in place. And by the way – we think our coming titles will blow you away. Our guidance is up.

We are decidedly bullish on our longer-term outlook. The delay in hardware price reductions has only one effect on EA – it makes fiscal 2005 that much bigger and better.

Based on our performance and confidence, we are pleased to announce that our Board of Directors has approved a two-for-one share split. This is the fourth share split in the history of the Company.

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

EA Conference Call

Summary

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 entertainment industry. We are a digital entertainment pure play.

We look forward to reporting our results in the quarters ahead.

EA Conference Call

Safe Harbor Statement

Some statements set forth in this presentation, 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 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; consumer spending trends; retention of 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; and other factors described in our Annual Report on Form 10K for the year ended March 31, 2003 and Form 10Q for the quarter end June 30, 2003. If any of these risks or uncertainties materializes, our results could differ materially from our expectations described in these forward-looking statements. We do not intend to update these forward-looking statements, including those made under the "Financial Guidance" heading.