

Earnings Conference Call
Third Quarter Fiscal 2004 – Ended December 31, 2003

See Safe Harbor Statements (pages 3-4, 32)

Today's Call

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EA Conference Call

Welcome and Safe Harbor

Good afternoon and welcome to our third 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, 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 January 27, 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.

First and very importantly – we send our greetings to Karen Sansot who is out on maternity leave. We have no news to report yet. While we generally disclaim any obligation to update – we promise to keep everyone posted in the days ahead.

Karen – we know you are listening today – good luck to you and Dave.

Now to business – we are pleased to report another record quarter.

- **Net Revenue** was $1.475 billion – up 20 percent year-over-year.
- **In both the U.S. and Europe we had 4 of the top-10 titles on current generation consoles.**
- **We had 11 titles which sold over 1 million units each** – four of these titles (Need for Speed Underground, Lord of the Rings: Return of the King, FIFA 2004 and Medal of Honor Rising Sun) sold in excess of 4 million units each.
- **Need for Speed Underground was the number one holiday title** in both the U.S. and Europe and in many other geographies around the world. Since launching this title we have now sold in excess of 5.5 million copies.

Highlights

Our Performance

- **Operating Income** was up 51 percent to $558 million – while our operating margin reached 38 percent.
- **Diluted Earnings per Share** were up 48 percent to $1.26 per share.
- **Trailing Twelve Month Operating Cash Flow** was $538 million.
- On a trailing twelve month basis, our **Return on Invested Capital** was 50 percent.

Highlights

Strengths

The strength of our third quarter results continues to demonstrate several important characteristics of our business:

First – great entertainment software sells. This was clearly an entertainment software-driven quarter. Great titles like Need For Speed, Lord of the Rings, Medal of Honor and FIFA allowed us to drive double-digit top line growth and to build our segment shares globally. Looking more broadly at overall industry software trends:

- Premium pricing on software held,
- Tie ratios continue to pace more than 30 percent ahead of the last cycle, and
- Current generation software sales experienced solid double-digit growth in both the U.S. and Europe while hardware sales declined in the aggregate.

Make no mistake – this was a software-driven quarter. Customers showed up to buy great entertainment.

Second – Reliability / Sustainability. On a trailing 12 month basis we had 27 platinum titles – each of which sold over a million units. Of these 27 – 9 have sold more than 2 million units each. We expect that every one of these titles will be back some time over the next two years. This strong franchise base lowers our risk, your investment beta and helps to drive the reliability and sustainability of our long-term results.

Highlights

Strengths

Third – our results demonstrate the power of our portfolio and global reach. This past quarter we launched 17 titles in more than 100 countries. Almost 50 percent of our net revenue was outside of North America and our top-selling title on any continent was FIFA 2004 in Europe.

Just like last year – our Q3 results demonstrate that we are not dependent on any one title nor are we dependent on any one region.

In summary – while we take nothing for granted – this was a great quarter for EA. While our results quarter to quarter will fluctuate based on release schedules and investment needs – the reliability of our performance continues to be grounded in our portfolio of proven franchise properties, continuously improving technology, and creative and marketing excellence. This is our advantage and the driver of our long-term growth.

EA Conference Call

Agenda

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

First – I'll talk more specifically about our Q3 results.

Second – I'd like to spend a minute and share our perspective on the current cycle. We'll talk about this cycle vs. the last – what looks the same – and what appears to be different.

Third – I will conclude with our market and financial guidance.

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

Third Quarter Results

Net Revenue

Our third quarter results:

Net revenue for the quarter was $1.475 billion – up 20 percent. We released 15 titles and 48 SKUs in the quarter. Including co-publishing – we released a total of 17 titles.

We had four titles that sold more than 4 million units:

- Need for Speed Underground
- Lord of the Rings, Return of the King
- FIFA 2004, and
- Medal of Honor Rising Sun

We had two titles that sold more than 2 million units

- Harry Potter Quidditch, and
- NBA Live 2004**,**

And finally we had five titles that sold more than a million units: Sims Bustin' Out, SSX3, Madden, Tiger Woods Golf and Sims Makin' Magic.

In total that makes 11 platinum titles in the quarter.

Third Quarter Results

Net Revenue by Geography / Foreign Exchange Impact

Geographically our results were strong:

- North America revenue was up 8 percent year-over-year.
- International revenue was up 34 percent. Sales outside North America were 49 percent of total net revenue. Europe was up 40 percent – Asia Pacific was up 12 percent – and Japan was down 29 percent.

Foreign Exchange

Like many other companies – we saw significant top line benefit from changes in year-over-year currency exchange rates – most notably the euro and British pound. Currency rate changes positively improved our top line in the quarter by $83 million, or 7 percent.

Third Quarter Results

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 through December 2003. 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 49 percent of total revenue or $732 million – up 59 percent year-over-year.** The increase was driven by strong sales of Medal of Honor, Need for Speed, FIFA, Lord of the Rings, NBA Live, Madden, SSX3 and Sims Bustin' Out.
- **In the U.S. – we had 8 top-20 titles and 31 percent segment share – up 7 points from the prior year**. (Need for Speed, Madden, Medal of Honor, NBA Live, Lord of the Rings, Tiger Woods Golf, SSX3 and NCAA Football)
- **In Europe –** we estimate that we had 4 of the top-10 titles and **approximately 35 percent segment share – up 10 points.** (FIFA, Need for Speed, Lord of the Rings and Medal of Honor)

Third Quarter Results

Net Revenue by Platform

On the PC:

- **PC revenue was 15 percent of total revenue or $220 million – virtually flat year-over-year.** Sales were driven by Sims Makin' Magic, Lord of the Rings, FIFA, Sims Double Deluxe, Need for Speed and Harry Potter Quidditch.
- **In the U.S., EA had 8 of the top-20 PC titles and 24 percent segment share**. (Sims Makin' Magic, Sims Double Deluxe, SimCity 4 Deluxe, Sims Superstar, Lord of the Rings, Sims Unleashed, Need for Speed and Battlefield 1942)
- **In Europe, we estimate that EA had 7 of the top-10 PC titles and 31 percent segment share**. (Sims Makin' Magic, Sims Double Deluxe, Need for Speed, FIFA, Total Club Manager, Lord of the Rings and Command & Conquer Generals Zero Hour)

Third Quarter Results

Net Revenue by Platform

On Xbox:

- **Sales represented 14 percent of total revenue or $205 million – up 75 percent year-over-year** driven by strong sales of Need for Speed, Medal of Honor, Lord of the Rings and FIFA.
- **Our leading U.S. segment share** was 25 percent – up 4 points from the prior year – with 7 of the top-20 titles. (Need for Speed, Medal of Honor, Madden, Lord of the Rings, NBA Live, Tiger Woods Golf and SSX3)
- **In Europe,** we estimate that EA had 4 top-10 titles and 32 percent segment share – up 12 points. (FIFA, Need for Speed, Lord of the Rings and Medal of Honor)

On GameCube:

- **Sales represented 7 percent of total revenue or $104 million – down 7 percent year-over-year.** The decline was driven by last year's relative strength of Harry Potter: Chamber of Secrets and Bond: Nightfire.
- **Our U.S. segment share** was 18 percent – up 1 point from the prior year – with 4 of the top-20 titles. (Lord of the Rings, Need for Speed, Madden, and Medal of Honor)
- **In Europe,** we estimate that EA had 3 top-10 titles and 24 percent segment share – up 3 points. (FIFA, Need for Speed and Medal of Honor)

Third Quarter Results

Net Revenue by Platform

Co-Publishing and Distribution:

- **Revenue was 8 percent of total revenue or $122 million – down 22 percent year-over-year.** Freedom Fighters sold well but did not offset last year's strong sales of Kingdom Hearts.

Subscription Services:

- **Revenue – which includes subscription fees and packaged goods sales for online products – was $12 million – up 5 percent.** The increase was driven by this year's addition of Club Pogo.
- **At the end of the quarter, we had approximately 500 thousand active players using our subscription services vs. approximately 400 thousand a year ago.** Growth was driven principally by the launch of Club Pogo which ended the quarter with approximately 225 thousand active players. Of the 225 thousand Club Pogo subscribers, approximately 80 percent are paying and the remaining 20 percent are registered but in the free trial period. Conversion from free trial to pay has been running above 90 percent.

Third Quarter Results

Net Revenue by Platform

- **EA SPORTS and Games Nation are having a great first year with approximately 1.8 million registered accounts as of January 10th.**

- **In the fourth quarter – we are adding 4 more titles to our PS2 Online family** – NFL Street, Bond Everything or Nothing, MVP Baseball 2004 and Fight Night 2004.

Third Quarter Results

Gross Profit / Margin

Moving on to the rest of the income statement:

Gross Profit in the quarter was $962 million – up 44 percent.

Gross Margin reached 65 percent – up 11 points year-over-year.

Margin improvement was driven by

- **Lower content license royalties** on this year's top titles such as Need for Speed Underground and Medal of Honor Rising Sun vs. last year's top titles such as Harry Potter: Chamber of Secrets and Bond: Nightfire,
- **Improvement was also driven by lower product costs** as a result of volume discounts and rebates,
- **Lower development royalties** due to a continued shift towards internal development, and
- **Higher mix** of PS2, Xbox and Co-Pub revenue vs. PS1 and Distribution revenue.

Third Quarter Results

Operating Expense

Operating Expense:

Marketing and Sales. In the quarter this expense grew to $180 million – up 29 percent year-over-year. The increase was primarily associated with sales and marketing investments in Europe. Franchise investments were made in FIFA, Need for Speed – the top holiday title in Europe – and Lord of the Rings. Overall – we think this paid significant dividends:

- Our Q3 revenue in Europe was up 40 percent – while overall software segment sales were up 17 percent year-over-year.
- At the same time we estimate that our Europe segment share on current generation consoles increased to 33 percent – up 9 full points year-over-year.

General and Administrative. G&A increased to $72 million – up $30 million year-over-year. The increase was driven principally by approximately $20 million in one-time only adjustments primarily related to obsolete fixed assets and investments in our University Pipeline. Our headcount in this area is about flat.

Research and Development. R&D increased by 42 percent year-over-year to $151 million. The increase was driven by overall higher development costs related to new SKU development, a 29 percent increase in studio headcount and as a result of bringing more titles in-house. By the way – this is a terrific productivity story as the offsetting benefit in this quarter's gross margin was more than 200 basis points of improvement.

Third Quarter Results

Operating Income / Net Income / Earnings per Share

On to the bottom-line:

Operating Income was $558 million vs. $369 million in the year-ago quarter – up 51 percent – driven by increased net revenue and a higher gross margin – partially offset by higher operating expenses.

Our Operating Margin reached a record level of 38 percent in the quarter compared to 30 percent a year ago.

Our Effective Tax Rate was 30 percent – down from 31 percent in the prior year primarily due to a higher mix of international vs. domestic income. The impact of the change to our Q3 net income was $7 million or $0.02 per share. While tax rates will fluctuate over time – we do not see our tax rate increasing in the foreseeable future.

Net Income was $392 million vs. $250 million a year ago – up 57 percent.

Diluted Earnings per Share were $1.26 per share vs. $0.85.

Our diluted share count ended at 311 million vs. 296 million a year ago.

Third Quarter Results

Balance Sheet

Now – the Balance Sheet:

Cash, short-term investments and marketable securities ended the third quarter at $1.83 billion – up $92 million from the September quarter. As of today our cash and short-term investments balance is approximately $2.2 billion.

Gross accounts receivables were $1.04 billion vs. $816 million – an increase of $228 million year-over-year. The increase was a result of higher revenue and a more back-end loaded quarter. The month of December contributed 37 percent of our Q3 net revenue vs. 25 percent in the prior year. Since the end of the quarter – we have collected approximately $475 million of our ending receivables.

Reserves against outstanding receivables totaled $207 million – flat vs. the prior year. Reserve levels were 10 percent as a percentage of trailing six month net revenue vs. 12 percent a year ago. As a percentage of trailing nine month net revenue, reserves were 9 percent vs. 10 percent a year ago. We feel the channel is in great shape.

Ending net inventory was $65 million vs. $54 million. No one title currently represents more than $6 million of exposure.

In short – our balance sheet continues to be solid.

Outlook

Then and Now

Now I'd like to shift gears and talk broadly about the current console cycle – where we are now and then compare it to the last cycle – what is the same and what is different. On a cycle over cycle basis – we consider EA's fiscal 2004 to be comparable to our fiscal 1999.

Where are we

We estimate that we are roughly between two and three years out from seeing next generation hardware hit the market. Looking at the remaining years of the cycle we see several things that are similar to the last. At the same time we see several important factors that are very different.

What is the same (this cycle as the last)

First – we have already started investing in new tools and technologies. Over the next few years we will be spending in advance of revenues. In the short-term these investments will create downward margin pressure – but at the same time these investments are essential for us to sustain our long-term growth objectives.

Outlook

Then and Now

Second – the challenges are – once again – very complex. Starting today every global publisher or developer that wants to stay in the game must:

- continue to get current generation products out the door,
- build for – or pass on – the Sony PSP,
- build new tools and libraries which are capable of capitalizing on next generation hardware technology, and concurrently each of us must
- retrain our entire development organizations and develop the next generation of creative leaders.

Like the last go round this will produce winners and losers.

Third – we are starting a period in which EA has historically extended its lead. Our track record proves this. On top of that – we have the advantage of size. If we do it right – scale should allow us to invest more deeply and amortize our cost more broadly. The result is a higher level of relative investment but lower unit costs – truly the best of both worlds.

Outlook

Then and Now

And finally – just like the last cycle we expect console manufacturers to continue to lower their prices which in turn will fuel unit demand. Console price reductions open up interactive entertainment to a more value-oriented customer and to younger gamers who will be early adopters the next time around. As younger gamers age – it's proven their parental negotiating skills sharpen.

In short – what is the same – the peak is still ahead, the investments start now, price works to expand global markets and finally – the fact that industry change is a competitive advantage for EA.

Outlook

Then and Now

What is different (this cycle vs. the last)

Several things.

First – EA is very different. Comparing our fiscal 2004 results to those of fiscal 1999:

- Today our annualized revenue run rate is nearly $3 billion – up almost 2.5 times
- Our trailing 12 month operating margin is 24 percent – up over 2.5 times
- Our trailing 12 month operating cash flow is $538 million – up over 3.4 times
- Our trailing 12 month return on invested capital today is 50 percent vs.17 percent
- Today we have over $2.2 billion in cash and short-term investments. In fiscal ‘99 we had approximately $300 million.

Second – our market position is very different

- On a trailing 12 month basis we had 27 platinum titles. In fiscal ‘99 we had 8.
- Today we are selling directly in over 30 countries. In fiscal ‘99 we were selling direct in less than 20 countries.

Outlook

Then and Now

- **Our console segment share is up roughly 11 full points** in the U.S. and more than that in Europe.
- **Our U.S. and European PC game segment shares** have nearly doubled.
- **Today we have a $160 million business in Asia and Japan**. In fiscal '99 we had an $80 million business.

Third – the consumer seems to be behaving differently

- **Tie ratios** in both the U.S. and Europe continue to pace over 30 percent ahead of the last cycle, and
- **Premium Pricing is holding longer.** In calendar 2003 top-20 PS2 and Xbox titles on average sold for $47 in the U.S. This is up from $41 for the top-20 PS1 titles in 1998. Premium pricing has also held in Europe.

Outlook

Then and Now

Fourth – we are optimistic that the PSP will add another meaningful platform to the mix and could add significant volume to the software segment in calendar 2005 following its projected launch late this year. This could have a significant smoothing effect.

Finally – online is catching. Today we have roughly 1.8 million registered accounts between EA SPORTS Nation and EA Games Nation. We also have approximately 500 thousand subscribers to our various online services. At the same time Asia is clearly emerging as an online model – and they seem to have cracked the code as to how to make real money.

In summary – the benefit of the mass market is coming our way. We have a lot to do and the investments are starting now. That said – we are fortunate to be in a position of leadership and strength which gives us opportunities to drive productivity and to extend our lead.

Looking back to the last cycle – the world has changed a great deal and we have changed, too.

Make no mistake – it is our objective to grow both revenue and earnings through the remaining years of this cycle.

Industry Update

Market Outlook / Guidance

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

As we look ahead to calendar 2004 – we expect:

Console prices (PS2 / Xbox) to be reduced to $129 either this Spring or at the latest by Labor Day. While it is not our call to make – we think the opportunity for the $149 price point has come and gone.

Software Prices. We expect that premium titles will continue to hold the $49 price point – but that lesser titles will move towards $39.

In North America we expect the following **hardware unit sales**:

- PS2 – between 7 and 8 million units
- Xbox – between 2.5 and 3 million units
- GameCube – between 2.5 and 3 million units

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

Industry Update

Market Outlook / Guidance

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 – flat

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

Financial Guidance

Fourth Quarter Ending March 31, 2004

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.

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

- **Revenue** to be between $550 and $570 million – up 19 to 23 percent year-over-year, and
- **Earnings per share** to be between $0.17 and $0.20 – as compared with $0.03 in the prior year. Let me remind everyone that last year's results included asset impairment and restructuring charges equating to $0.17 per share.

Given this guidance and our Q3 results – **our full year estimated results now lean toward the high end of what we said in our last conference call**.

Financial Guidance

Fourth Quarter Ending March 31, 2004

In the fourth quarter – we expect to ship 13 SKUs.

As you know we have shipped NFL Street on PS2, Xbox and GameCube**.** We are very pleased to say that our newest platinum franchise is off to a strong start – yesterday we just crossed a million units. We also understand that sell-thru is very strong.

We expect to ship the following additional SKUs in the fourth quarter:

- James Bond: Everything or Nothing on 3 platforms (PS2, Xbox, GameCube), and by the way the early reviews look great,
- MVP Baseball 2004 on 4 platforms (PS2, Xbox, GameCube, PC),
- Fight Night 2004 on 2 platforms (PS2, Xbox),
- Total Football (soccer) on the PS2 in Japan, and
- We will also co-publish Battlefield Vietnam (PC) -- the next installment of the award-winning Battlefield franchise.
- In addition – we are the sole distributor of Final Fantasy X-2 in Europe. This title is scheduled to ship in Q4.

We intend to ship Sims 2.0 and Medal of Honor Pacific Assault in either the second or third quarter of fiscal 2005. We just reviewed these titles and are very pleased with the direction and innovation. We think the additional polish time will make them even better and bigger.

EA Conference Call

Summary

I will now conclude with a few closing thoughts.

This was another record quarter for EA. We continue to deliver record performance on the top and bottom line.

We are exactly where we want to be heading into calendar 2004 – number one globally – with big / recurring / lasting franchises in place.

The next few years represent a period of opportunity for EA – and it is our objective to aggressively capitalize – taking every advantage that our position of leadership provides.

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 entertainment industry. We are a digital entertainment pure-play.

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

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 September 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.