PARTICIPANTS

Corporate Participants

Rob Sison – Vice President-Investor Relations, Electronic Arts, Inc.
Andrew Wilson – Chief Executive Officer & Director, Electronic Arts, Inc.
Blake J. Jorgensen – Chief Financial Officer & Executive Vice President, Electronic Arts, Inc.
Patrick Söderlund – Executive Vice President-EA Games Label, Electronic Arts, Inc.
Peter Robert Moore – Chief Operating Officer, Electronic Arts, Inc.

Other Participants

Colin A. Sebastian – Analyst, Robert W. Baird & Co. Equity Capital Markets
Edward S. Williams – Analyst, BMO Capital Markets (United States)
Ryan Gee – Analyst, Bank of America Merrill Lynch
Doug L. Creutz – Analyst, Cowen & Co. LLC
Drew E. Crum – Analyst, Stifel, Nicolaus & Co., Inc.
Stephen Ju – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Arvind Bhatia – Analyst, Sterne, Agee & Leach, Inc.
Ben Schachter – Analyst, Macquarie Capital (USA), Inc.
Tim O'shea – Analyst, Jefferies LLC
Mike J. Olson – Analyst, Piper Jaffray, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome and thank you for standing-by. At this time, all participants are in a listen-only mode. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Now, I'd like to turn the meeting over to Mr. Rob Sison, Vice President of Investor Relations. Thank you. You may begin.

Rob Sison, Vice President-Investor Relations

Thank you. Welcome to EA's Fiscal 2014 Second Quarter Earnings Call. With me on the call today are Andrew Wilson, our CEO; and Blake Jorgensen, our CFO; Peter Moore, our COO; and Patrick Söderlund, our EVP of EA Studios will be joining us for the Q&A portion of the call.

Please note that our SEC filings and our earnings releases 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-Q for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of October 29, 2013, and disclaims any duty to update them.

During this call unless otherwise stated the financial metrics will be presented on a non-GAAP basis. 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 during 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 Andrew.

Andrew Wilson, Chief Executive Officer & Director

Thanks, Rob. I'm happy to be here today, and pleased to join my first earnings call as CEO of Electronic Arts with positive news to report.

Before I get into our results and a few other thoughts, let's take a moment to recognize the launch of Battlefield 4 in North America today, the culmination of efforts by the incredible teams at our DICE Studios.

Patrick Söderlund and his team have done a spectacular job to deliver a game that not only represents the pinnacle of this console generation, but one that is also a defining title for the next-gen consoles launching in November. We're also launching Battlefield 4 Premium across current-gen and next-gen consoles to extend and enhance the experience, making this the biggest Battlefield ever. Congratulations to the team, we're proud to add Battlefield 4 to the list of hit titles including Madden NFL 25, FIFA 14 and others that we've delivered to gamers this past quarter.

As we get started here today, I'll cover a few things. A quick top line of our Q2 performance and key drivers, the opportunity in front of us and how we're positioning EA to deliver great games and services, and a quick look at EA's goals for the rest of FY 2014 and beyond.

Turning first to our quarterly results, EA delivered Q2 revenue and earnings above our guidance. Digital revenue, cost controls and delivering against our product plan all contributed to a very strong quarter. However, much of our work for this year remains ahead of us, as we prepare to launch our titles for the next-gen consoles this holiday.

Digital revenue remains a major driver in our overall performance as we deliver games and live services for our core brands across multiple platforms. We're tracking to meet or exceed our goal of generating more than 40% of our total non-GAAP FY 2014 revenue from our digital businesses.

From a product perspective, we delivered successful on-time launches in the second quarter for our major console titles from EA SPORTS, including NCAA Football 14, Madden NFL 25, NHL 14, and, of course, FIFA 14.

Madden NFL 25 and FIFA 14 also launched on iOS and Android this quarter, and of course, the much-anticipated Plants vs. Zombies 2 landed on iOS in August. Inline with our previous guidance, our current-gen EA SPORTS titles have seen some initial softness in sell through, a trend we expected moving into a console transition. However, this is tempered by the unique opportunity we have with versions of Madden NFL 25, FIFA 14, Battlefield 4, Need for Speed Rivals and NBA LIVE 14 all launching on Xbox One and PlayStation 4 in November.

Cost control measures delivered better-than-expected results in Q2, coming in $51 million ahead of our guidance. Our operating margin expansion effort is a great indicator of our increased financial discipline and focus on growing EA's bottom line. We are confident that we can continue to move faster and further than we already have on a go-forward basis. With these factors driving our current outlook, we are raising full-year guidance today.

Looking ahead, EA is in a strong position as we move into a momentous season for our company and the gaming industry at large.

Our studio teams put the finishing touches on a powerful line-up of titles for Xbox One and PlayStation 4, we continue to be encouraged by the market reception and growing consumer excitement. The latest indicators from Microsoft and Sony, along with preorder data, show strong demand for the new consoles. Both Sony and Microsoft have also committed that they will continue to fully support the existing PlayStation 3 and Xbox 360 platforms.

Meanwhile, our industry is far more dynamic and diverse moving into this console transition than ever before. The global player base for mobile games is expanding, and we're also seeing strong performance in PC-based free-to-play games around the world.

Our strategy is directly aligned to each of these key growth opportunities, next-gen consoles, mobile and free-to-play PC. EA's blueprint for success is visible with fan-favorite brands such as FIFA, where we offer experiences tailored for each of these environments: FIFA 14 for consoles, including Xbox One and PlayStation 4; FIFA 14 for iOS and Android mobile devices; as well as free-to-play online experiences for PC such as FIFA Online 3 in Korea.

Tens of millions of fans are engaging with our games every day. These titles are live services, with connected features and new content keeping the experience fresh for players long after launch.

Recent changes that we've made to EA's structure will help us more aggressively capture these opportunities. Key studio leaders Patrick Söderlund and Lucy Bradshaw have been elevated to lead our development efforts across next-gen consoles and PC. Frank Gibeau is leading a consolidation and double-down of our mobile efforts. COO, Peter Moore continues to lead and transform our operational and publishing teams and bring our games to market. And Rajat Taneja, our CTO, continues to lead development of our world-class technology platforms. While not dramatic changes, these refinements will help us better leverage our IP and integrate successful development practices across our entire portfolio.

In a moment, I'll hand over to Blake to walk through the specifics of our financial results, but as this is my first quarterly call as CEO, I wanted to take a moment to speak about three elemental beliefs that I have for EA moving forward.

First, delivering amazing games and services for gamers must be at the core of everything we do, the central strand of our DNA that defines who we are and the experiences we work to create. Our reputation as a company is built on our ability to develop strong relationships with players through the games we make, and we are committed to strengthening that bond.

Second, EA's biggest strengths are our people and our strategy. Our deeply-talented developers and business leaders are the lifeblood of EA, enabling us to bring powerful IP like Madden, FIFA, Battlefield, The Sims, Star Wars and more to gamers around the globe. Combined with our strategy to take these titles across different platforms, geographies and ways to play, EA has a foundation for decades of healthy growth.

Third, making games profitably is vital to EA's future. Simply put, we owe great games to our players and strong returns to our shareholders.

Each of these beliefs is borne out of my experience as a passionate long-time employee of this company, having had the benefit of working in multiple parts of our business across a number of continents. These are the defining characteristics of a new era at EA, one that I'm incredibly excited to lead for our gamers, for our teams and for our shareholders.

With that, I'll turn the call over to Blake Jorgensen.

Blake J. Jorgensen, Chief Financial Officer & Executive Vice President

Thanks, Andrew. Turning to our Q2 results, EA's non-GAAP net revenue was $1.04 billion, which was above our guidance and 4% lower than last year. This quarter's revenue was driven by our sports titles and continued strength in our catalog offerings, like FIFA 13, SimCity, Star Wars: The Old Republic and Battlefield 3. In line with our guidance, all of our sports titles except for FIFA 14, sold in less than the prior year. Lastly, positive foreign currency gains of $9 million also added to the revenue upside.

Q2 non-GAAP digital net revenue also contributed to the solid quarterly performance. Digital net revenue increased by 11% year-over-year to $348 million. Our digital business continues to be a diversified mix of high growth, profitable segments. The trailing 12-month digital net revenue was up 22% over the prior year to a record $1.75 billion. Breaking down our digital revenue into its key components highlights the performance of each business.

First, extra content and free-to-play contributed $127 million, up 11% over the prior year, led by continued growth in FIFA Ultimate Team, FIFA Online 3, and Star Wars: The Old Republic. This revenue relates to businesses on PCs or consoles, where consumers can enhance or extend their gaming experience by buying additional digital content.

One exciting trend to note, our year-to-date results for each of our sports Ultimate Team businesses; Hockey Ultimate Team, NCAA Football Ultimate Team, Madden Ultimate Team and of course FIFA Ultimate Team, demonstrated revenue growth year-over-year. However, our decision to sunset several of our social titles offset some of this growth, as we saw revenue declines from The Sims Social and SimCity Social.

Second, our mobile business generated $105 million for the quarter, up 19% over the prior year. Smartphones and tablets continue to represent a majority of the revenue, accounting for $87 million of the $105 million total, and growing 34% year-over-year. The Simpsons: Tapped Out, The Sims FreePlay and Real Racing 3 continue to be key revenue generators, and the launch of Plants vs. Zombies 2 also contributed to our mobile revenue.

Mobile growth was dampened by a $15 million decline in our Japanese FIFA World Class Soccer business. This product was developed and hosted on social mobile platforms, and Japanese gamers have migrated to apps built natively for the iOS and Android platforms. Going forward, we are developing and will roll out games built for the iOS and Android platforms in Japan and other key regions.

Third, full game downloads represented $54 million, up 42% over the prior year. This revenue was driven by PC-centric products. Strong demand for SimCity, as well as the deferral of Q1 SimCity revenue into Q2, were the drivers for the significant increase.

And fourth, subscriptions, advertising, and other digital revenue contributed $62 million, down 16% over the same period last year. In the previous year, the Star Wars: Old Republic (sic) [Star Wars: The Old Republic] (12:51) was a subscription-only based MMO. This year, some of the revenue was recognized in the free-to-play category as we expanded this title to be both a subscription and a free-to-play business.

Moving on to gross margin. Our non-GAAP gross margin for the quarter was 61.7%, up over last year's 60.1%, and slightly better than our guidance. The improvement was due to our growth in digital, lower processing fees as we move away from the social business, and the benefits of our new digital platform.

Operating expenses for the quarter were $499 million, down $82 million from last year, and $51 million lower than our guidance. Lower operating expenses this quarter illustrates that our cost control programs are taking hold. However, we believe all of this benefit should not be factored into the full year results. There continues to be risks associated with the transition to next-generation consoles. These risks could impact sales and marketing, and R&D expenses. In addition, some of our positive variances are due to phasing of marketing expenses into the holiday quarter.

As we continue to manage expenses and head count, we are progressing towards our goal of flat-to-down operating expenses, something we have not previously accomplished in a console transition year. Achieving this goal will help our efforts to deliver operating margins above 20%.

The resulting non-GAAP EPS was $0.33 per share. EPS exceeded our guidance of $0.12 per share due to lower operating expenses, stronger revenues and slightly higher gross profit margins.

Our cash and short-term investments at the end of the quarter were $1.42 billion, or approximately $4.60 per share. Roughly 60% of this cash and short-term investment balance is held outside of the U.S.

Also, as seen in our GAAP to non-GAAP reconciliation, this quarter we recognized a $40 million GAAP-only charge for the expected litigation settlement and license expenses related to our college football business.

Net cash used in operating activities for the quarter was $6 million. On a trailing 12-month basis, operating cash flow was $342 million. During the quarter, we did not repurchase any shares. We remain committed to our program, and as a reminder, it is the $500 million share repurchase program initiated a year ago. At this point, total shares repurchased under this program remain at 22 million, at a total cost of $278 million.

Now turning to guidance. Last week, we announced that Titanfall will launch in this current fiscal year, while The Sims 4 will be released next year. We do not expect this change to have a material impact on our previous non-GAAP guidance as the launch date and the Q4 forecast for Titanfall is broadly similar to that of The Sims 4.

Non-GAAP revenue and gross margin guidance remain at $4 billion and 66%, respectively. However, due to the favorable results of our cost control efforts, we are now estimating operating expenses to be reduced to approximately $2.1 billion, and we are raising our EPS guidance to $1.25 per share. The GAAP guidance is expected to be $3.55 billion in revenue, and a loss per share of $0.72.

As we have pointed out in past quarters, our consumers are playing our games online over longer periods of time, and this longer period affects the length of time over which we are required to recognize GAAP revenue. This fiscal year, we are lengthening this recognition period, resulting in an estimated $450 million of net revenue being deferred into fiscal 2015. This longer service period has no impact on non-GAAP revenue or on cash flows.

With respect to Q3 guidance. GAAP revenue is expected to be $775 million, as compared to $922 million in the prior year. GAAP loss per share is expected to be $1.42, as compared to $0.15 per share in the prior year. Again, this is primarily due to the longer revenue recognition period.

Non-GAAP revenue for the quarter is expected to be $1.65 billion, a 40% increase over last year's $1.18 billion. Our fiscal third quarter is expected to account for more than 40% of our full year revenue. This quarter, we are launching major titles for current and next-gen consoles.

Our Q3 non-GAAP revenue guidance is being impacted by certain upgrade programs we have rolled out in connection with the console transition. We are required to defer revenue associated with our current-gen marketing programs that allow consumers to buy a next-gen game at a discount.

As a result, we believe there will be some deferral of revenue into Q4 as some gamers delay taking advantage of this upgrade program. Our non-GAAP gross margin is forecasted to be approximately 68%, better than prior year due to our digital growth and revenue mix.

Operating expenses will be impacted by the phasing of some expenses from our previous quarters. We expect our total non-GAAP operating expenses to be $600 million. This results in a non-GAAP diluted EPS of $1.22 per share, as compared to $0.57 last year.

Regarding cash flow, we're maintaining our estimates for fiscal 2014 operating cash flow and capital expenditures of at least $400 million and $100 million, respectively. This implies expected free cash flow generation of over $300 million, or approximately 1.4 times what we generated in fiscal 2013. While the higher EPS guidance should generate more cash flow, the $40 million GAAP-only charge related to our college football business that I mentioned earlier will likely offset this benefit, causing us to maintain our previous projections.

In summary, we recognize the first half results were ahead of our guidance, but as I noted earlier, the upside is driven mainly by our cost control programs taking hold and phasing some of our operating expenses into the second half of the year.

Q3 represents more than 40% of our total non-GAAP revenue and 98% of our annual EPS. Similar to the World Series, where the remaining game or two will determine the season for Peter Moore's beloved Boston Red Sox, the next few months will determine the success of our fiscal year. Our team is battle tested and ready, and today we are sending our ace, Battlefield 4, to the mound.

Now, with that I'll turn it back to Andrew.

Andrew Wilson, Chief Executive Officer & Director

Thanks, Blake. Q2 was an exceptional quarter for EA, with digital growth, improved cost management and a slate of successful titles giving us strong momentum moving into the second half of the year.

Our attention is now looking forward to our next-gen launches, ramping up our mobile efforts and positioning our long-term IP development to deliver amazing new experiences to our gamers, wherever they want to play.

When the next-gen consoles begin to ship next month, EA will deliver an unprecedented line-up in the launch window. Battlefield 4, Madden NFL 25 and FIFA 14 will be available day one for both PlayStation 4 and Xbox One. NBA LIVE 14 and Need for Speed Rivals then join our next-gen roster just a few days later. In March, we'll launch Titanfall, a thrilling new first-person action experience from our partners at Respawn Entertainment.

In mobile, games like Plants vs. Zombies 2, FIFA 14, The Simpsons: Tapped Out and Real Racing 3 are showing how major brands can break through the cluttered ranks to continually engage players on smartphones and tablets. We will lean heavily into our key brands as we double down on mobile development to accelerate our growth in this vital segment.

In the last two weeks, you've also seen several announcements about our product slate for the remainder of this year and into FY 2015. We are refining our focus on our biggest brands and great new IP in development, including The Sims 4, EA SPORTS UFC, FIFA World Cup and Dragon Age Inquisition. Looking further out, we have a strong pipeline of new IP taking shape, including Star Wars Battlefront.

At our core, we're resolved to continue strengthening EA's relationship with the hundreds of millions of gamers that play our games around the world. Every day we hear from our gamers about what they'd like to see next from EA. This feedback is incredibly valuable, and shapes our decisions about the games we make.

Providing great experiences for our gamers, supporting our talent and executing on our strategy, as well as delivering profitable growth, these are the fundamental beliefs that define EA today. Combined, they drive us to deliver every day on commitments to our most important stakeholders:

A commitment to support our talented teams as they create the absolute best games and services. A commitment to do the work needed to be known, loved and respected by gamers for the games that we create. And a commitment to deliver profitable growth and continually improve returns to shareholders. I look forward to sharing our successes with all of you in the years to come.

With that, Blake, Peter, Patrick and I will take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Colin Sebastian from Robert Baird & Co. Your line is open.

<Q – Colin Sebastian – Robert W. Baird & Co. Equity Capital Markets>: Great. Thanks, and congrats on the good quarter. First off, just the launch of Battlefield. Wonder if you could comment on some of the initial feedback and if the game has ended up inline with your own quality expectations? And then secondly, Andrew, I wonder if you could expand a bit on how you see the next-gen cycle impacting EA and the direction that you're taking the company? And moving to the studio level, maybe, Patrick, along those same lines, how do you guys see this playing out, in terms of the expense structure and the development structure? Thank you.

<A – Patrick Söderlund – Electronic Arts, Inc.>: I'll start, Patrick. I'll start on the Battlefield question first. It's very early. We launched the game yesterday in North America. It's coming out in a couple of days in Europe. Early signs are positive. The reviews are strong. I think we have to reflect upon what the DICE team in Sweden have built. It's a game that we're launching on five platforms. It has features that have never been seen before in a game, like you can connect via tablet and play the game in a meaningful way.

There are other features like 64 players in 60 frames that console players will see for the first time. And overall, the reviews, as I said, have been positive. We're seeing a 9.5 from GameTrailers, we're seeing a 9.5 from Machinima, we've seen a 9.0 from Joystiq and on. Peter can probably comment more on market dynamics, but from a product perspective, we're very pleased with it.

<A – Peter Moore – Electronic Arts, Inc.>: Yeah, Colin. This is Peter. To your question of where we feel from a publishing perspective, the market has embraced it. We've certainly hit our planned sell-in numbers. If you hit retailer and I know you do, you'll see [indiscernible] (24:33) stuff. You've seen our marketing on television and online.

To Patrick's point, it's still early. We've just shipped in the last few hours, obviously, in the United States and Canada. We're yet to ship in Europe and we'll have a better feel for initial sell-through by the end of the week. But so far, so good. We feel all of the core elements are in place.

As you see with other AAA launches in the last few weeks, current-gen seems to be holding up. We're very, very excited and you've seen a lot of footage that Patrick and his team at DICE have put out on next-gen and we're also excited about what we're seeing on pre-orders for that.

So from our perspective, when we look at what the key dynamics are right now, feeling very good. I can tell you that on Origin, the PC version, the pre-orders are up 35% versus Battlefield 3, and that's a good precursor for the PC version of that game, and we're seeing strong engagement online already for the PC version of Battlefield 4. But early days yet, Colin.

And certainly, to answer the question around next-gen and the strategy for the company, I'd start by saying this is my third major transition at this company. And so, I've had the great benefit to see the good, the bad and the ugly as we've come through transitions. And certainly, coming out of the last transition, we were resolute in our desire to ensure that we didn't have that kind of challenge again.

So as we approach this transition, I would say we started work earlier than we ever had done before, and we worked more closely with both Microsoft and Sony throughout the entire process. And the end result is, we have a launch slate of games that are the best transition games that I've ever seen come out of this company.

And so, as I take that and look forward, I think we are starting this console generation far stronger than we ever have done before, and the platform and the foundation we have built, I believe, is going to serve to ensure that we can deliver great games to gamers for many, many years to come.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Great. Thanks, Colin. Next question.

Operator: Edward Williams from BMO Capital Markets. Your line is open.

<Q – Edward Williams – BMO Capital Markets (United States)>: Hi, good afternoon. A quick question looking at next-gen consoles, what's your thought as to develop the significance that we'll see out of next-gen consoles for revenues for properties such as FIFA, Madden and Battlefield this year? So, how do we kind of gauge what to expect on those or can last, call it, 5 months of the year?

<A – Blake Jorgensen – Electronic Arts, Inc.>: Let me start at it and then I'll have Peter talk a little bit about the market. I think, as you know, we've guided that next-gen for fiscal 2014 is a relatively small part of our overall business. Clearly, we'll be putting out 5 next-gen titles this quarter. We'll have a better feeling for how quick the uptake is and what the attach rate is to those, and we believe things like Battlefield will do extremely well on next-gen. But we also understand that the market's going to take time to build. And so, our forecast for full year seems relatively low, next-gen uptick of our core business. Peter, might want to talk about what he's hearing from the parties.

<A – Peter Moore – Electronic Arts, Inc.>: So, Edward, you and I have been through many of these transitions together and you're familiar with the way that this thing climbs and builds in the installed base and then the attach rates. When I talk to our friends at both Sony and Microsoft, I'm trying to get some indications on the numbers that are going to be available for the sale by the end of our fiscal year on March 31, and I aggregate them. I think I can squint and see 10 million units combined very easily.

Both Sony and Microsoft are proposing that this could be their best launches ever as regards their production numbers and their ability to globalize this business quickly. So, we feel bullish about our ability, to Blake's point, of having five truly next-gen titles available for that.

As regards the tax rates, we typically, as you know, see maybe 3 titles per unit, and depending on how aggressive bundling goes on with the first parties, but I don't see any indication that they would be any less than that right now from what we're seeing and hearing from our retail partners.

So, I think, overall, we feel very bullish. We've got the right product at the right time. We have not had some of the problems some of our fellow publishers in the industry have been getting. Our quality title is ready for next-gen. We feel, as we've said on previous earning calls, we're well ahead of this transition and we're going to nail it. So all-in-all, again, early days with either of them both to launch yet, but feeling good about product quality from their end, production quality from their end, franchise quality from our end and our ability to attach strongly to the boxes by the end of the fiscal year.

<Q – Edward Williams – BMO Capital Markets (United States)>: Okay. Great. And then, Blake, if you could comment a little about the phasing issue with regards to marketing. How much have you kind of scaled back your marketing that you traditionally would have spent at this point in recognition that these new consoles are launching in November?

<A – Blake Jorgensen – Electronic Arts, Inc.>: Well, our guidance originally had already made some adjustments for the new boxes being launched at Christmas time. And we're trying to be prudent in all our expenses, as you know, and there's a small amount of phasing that's going on. It's not a huge number, but we wanted to be careful that you guys don't roll all of our savings for the first half of the year into the back half of the year. We're also, as we've talked about, trying to save some dry powder for further marketing, if it's required during the holiday season, because we fully appreciate it's going to be a competitive timeframe for titles amongst all the publishers.

<Q – Edward Williams – BMO Capital Markets (United States)>: Okay. Great. Thank you.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Thanks. Next question?

Operator: Justin Post of Bank of America. Your line is open. Please check your mute button.

<Q – Ryan Gee – Bank of America Merrill Lynch>: Hi, guys. This is Ryan Gee actually in for Justin. Blake, this is probably a question for you. Talking about the softness you're seeing on the current-gen titles, I'm wondering for 3Q how much of the guidance assumes that you make up some of that shortcoming on next-gen with sports titles, be it Madden or FIFA? How much do the next-gen console launches help you in 3Q? Or is it really just predicated on the frontline titles hitting? I'm just trying to get a sense of the risk for that quarter, if maybe Madden or FIFA don't see much of a bump.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Yeah. No. I mean, as we started the year, we forecasted that all the sports title, with the exception of FIFA, would be down. And year-to-date, that has proven to be exactly as we had forecasted, in line with our guidance.

We are assuming that will continue in the back half of the year, and thus, the mix that we originally forecasted on Gen 4 versus Gen 3 will continue as we guided and as we're continuing to observe in our guidance of $4 billion for the full year.

I would say, if there's greater interest in next-gen boxes or the software attach rate is higher, then that's upside for us, because we have not built that in as a critical component of our business plan for the year, since most of our titles shipped before the next-gen boxes. So, long-winded way of saying, it's basically in line with our original guidance and we're still seeing that play out in the marketplace and we're confident going forward that that will be consistent in the back half.

<Q – Ryan Gee – Bank of America Merrill Lynch>: Okay. Great. And then looking ahead just to the next-gen, it might be a little early, but you guys have already talked about Star Wars and we know Titanfall is coming. I was wondering if you can give us a sense for really your next-gen endeavors beyond those two. Either talk about your percent of resources that are being allocated towards next-gen or maybe even just the number of titles you guys have in the works. One of your competitors today talked about a number of next-gen titles they have coming. So, if you could do anything around that, that would be great.

<A – Peter Moore – Electronic Arts, Inc.>: I don't know that we've got a lot to share at this point other than you can expect us to continue to invest behind the big brands that we've talked about today. The second piece I would say is that we are continuing to invest heavily both in our Frostbite engine and our IGNITE engine and our underlying digital platform. And while we certainly have incubation going on through the company, we believe that those engines, in and of themselves, will ensure that any products that we bring out in the future will certainly be genre-defining and hopefully industry-defining titles.

<A – Blake Jorgensen – Electronic Arts, Inc.>: And we have, I think as you know, we've talked about, without specifics on timing, we've talked obviously about titles like UFC, which is being developed and introduced next year. Obviously, a FIFA World Cup. We've talked about Dragon Age and obviously the Star Wars titles ultimately in the future years. And so, there's a lot going on and much of our cost base is turning from Gen 3 development to Gen 4 development. Historically, that's been a problem for us. This time I think we've managed it extremely well and that's why we're able to hold our cost down and we'll continue to reduce our costs in Gen 3 development as our Gen 4 takes over the full development.

But we will have Gen 3 and Gen 4 titles in the mix for a long time to come, just as, it's no different than we still ship the occasional Gen 2 title that we're still making. So, it's part of how we operate the business and I think we've got a very good handle on the costs and that shift and should help us continue to bring our costs down in the future.

<Q – Ryan Gee – Bank of America Merrill Lynch>: Okay. Very good. Thanks, guys.

<A – Blake Jorgensen – Electronic Arts, Inc.>: All right. Next question.

Operator: Doug Creutz from Cowen & Company. Your line is open.

<Q – Doug Creutz – Cowen & Co. LLC>: Yeah, thanks. I wonder if you could talk maybe about FIFA a bit. I think in your prepared comments, you certainly implied that your selling for FIFA in the September quarter was not down year-over-year. We've certainly seen some evidence that the sell-through has been weak. Could you maybe talk about how that's trending? Is embedded in your December quarter guidance maybe a little bit less of reorders of FIFA than you might normally expect to see in the year? Thanks.

<A – Peter Moore – Electronic Arts, Inc.>: Hey, Doug. It's Peter. Yeah, we hit our selling numbers as you know. Our sell-through right now was a little softer than we projected, but nothing that we didn't expect ultimately given the commentary you've heard from Blake here.

I think the important thing to look at here is data that we can see, is the engagement levels that we're enjoying on FIFA right now and they're certainly up year-on-year versus FIFA 13. Why is that important? Because of the amount of digital revenue we can continue to drive. You know very well the importance of FIFA Ultimate Team and the other Ultimate Teams that Blake alluded to in his prepared comments and how important that is to the growth going forward. Engagement is what we're looking at right now.

FIFA has got a very long tail and next-gen will give it a boost on top of that. But we're ready for an exciting next-gen FIFA. You've seen the trailer this week that we launched. We think that helps us enormously. And current-gen certainly on a global basis, on a global title like this, still will be very important for a number of years to come. So yes, selling was a plan. I think replenishment will continue. Engagement is above plan, which is very important to us and we'll continue to push hard as we always do.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Yeah, and I think remember as well that we're doing some bundling with Microsoft in Europe around Xbox One. And while we think we've done a good job of predicting, it's hard to determine how much that may have impacted sell-through in any key markets. And that product obviously is built into the Q3 and Q4 forecast, but remember also that part of the reason that Q3 revenues shifted into Q4 is some of the upgrade programs where we're providing an upgrade for users from a Gen 3 title to a Gen 4. We won't recognize that revenue until Q4 and thus some of the phasing difference.

<Q – Doug Creutz – Cowen & Co. LLC>: Okay. Thank you.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Next question?

Operator: Drew Crum from Stifel, Nicolaus. Your line is open.

<Q – Drew Crum – Stifel, Nicolaus & Co., Inc.>: Thanks. Good afternoon, everyone. So, Blake, I wonder if you could dig in a little deeper on the gross margin guidance for the third quarter. 68% looks relatively high to prior quarters and we'd think it could be a little lower given the console launch for Battlefield. And then a question on Titanfall, we've got some history with The Sims. You're suggesting that the slate shift will be neutral to earnings. Can you talk about your assumptions or expectations for Titanfall? And can you let us know if this is a times exclusive or not? Thanks.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Yeah, so first on the gross margin. Gross margin guidance of 68% relative to 66% in Q3 FY 2013 – excuse me, is – it's higher for a couple of reasons. One, higher shift of packaged goods to digital – mix shift. Overall revenue mix shift and obviously Battlefield is a very high-margin title relative to what we saw in Q3 of last year. So, we're very confident in that gross margin forecast and much of it has to do with both Battlefield and the digital piece.

On Titanfall versus The Sims, a couple of things to note. First, with our partners at Respawn, who've done an amazing job developing what looks like a fabulous game, they've done a fantastic job keeping that on schedule and possibly even ahead of schedule in some ways.

We saw an opportunity at a launch window in the fourth quarter, because of some of the critical titles that were planned to be there moving out of the quarter, like Watchdogs or The Crew or some other titles, it looked like they're being delayed.

Titanfall is a title that also has an amazing following already in the market. Ever since it was shown at E3, people have been highly interested in it. Microsoft wanted to include it in its marketing campaign associated with Xbox, which you're seeing in the market today, and all of that led us to decide to move it into the year.

The Sims is a title that can be shipped almost anytime in the year. The Sims 3 was shipped in June 2009. It can ship in the summer, in the winter, in the fall. It's a title that have a huge following and we can always continue to develop, because much of that title is based on not just the base title, but also expansion packs. And so we'll use the additional time to continue to develop greater expansion packs and the product.

In terms of the forecast, both products were expected to ship in the last part of the quarter, essentially the middle of March, so it's only two weeks of sales. In the case of Titanfall, it's a brand-new IP and it's exclusive only for the life of the title on Xbox One and Xbox 360 and PCs. It's a first-person shooter, and two of the biggest shooters are our own shooter, Battlefield, and obviously, Call of Duty, will have already shipped in the holiday. And so, we're being somewhat conservative in our forecast for what the revenue is, and it's similar to what we expected for The Sims.

Second, The Sims is a high-margin product, because it's wholly-owned IP. Titanfall is obviously a product that we share the revenues and profits with Respawn. But as any of our developed titles through our partnership agreements, we typically invest in the title and expense those costs along the way.

And so for the year, the profitability of Titanfall is similar to The Sims, because we've already expensed the bulk of that R&D. And thus, the trade-off in profitability is equal, and we've found that it was a good time to shift one for the other. And so, that's the quick story and we're extremely excited about both Titanfall and The Sims, but we think it's going to help make not just this year, but next year very, very strong.

<Q – Drew Crum – Stifel, Nicolaus & Co., Inc.>: Great. Thanks, guys. Very helpful.

Operator: Thank you. Stephen Ju from Credit Suisse. Your line is open.

<Q – Steve Ju – Credit Suisse Securities (USA) LLC (Broker)>: Andrew, sorry to sound like a worrywart, and Blake, you addressed this a little bit, but I mean, frankly, we're not used to seeing game release dates come early, it's usually the other way. So, we're wondering if Titanfall is being rushed a little bit and what extra steps you might be taking to ensure the quality is there? As this first release should hopefully be one of many. And Blake, in your quarterly disclosure, you have some off-balance sheet liabilities reaching about $1.3 billion right now, so I'm just wondering what this is and if you can give color as to where this is coming from? Thanks.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Yeah, Stephen, let me start with the off-balance sheet item, and then I'll have Patrick and Andrew talk to the Titanfall. Patrick's been very close to the Titanfall development. As a simple reminder, we always said Titanfall was spring of this year, so we were always planning either March, April, May, right in there. So, it's not a big movement in title, but Patrick's been working with the team at Respawn, and he can talk to that.

On the off-balance sheet liabilities, I know that the question that comes up, because I've heard it from quite a few investors as well as analysts, and people tend to worry about anything they see as off-balance sheet. I think critical in our business is, we want to make sure people understand what our forward commitments are for any of our developer or licenser agreements. We have those with, obviously, sports leagues, with athletes, a whole variety of people. The key to remember is, those are tied to products.

So, the risk would be, we stop making the product, and I don't think we're going to stop making FIFA at anytime soon. And thus, any of those future commitments that are associated with FIFA revenue, i.e., royalty on FIFA revenue, we would continue to be able to make. So, the case out there that says, the off-balance sheet liabilities are our problem, have to imply that we would actually exit products and be on the hook for those liabilities.

And in most cases, they're tied directly to products like FIFA, like Madden, like Star Wars, where we have all intentions of making the product and all intentions of making a really strong product that would easily cover the royalties within the goals of our profitability plans going forward.

So with that, let me turn it to Patrick and Andrew on the Respawn ship dates.

<A – Patrick Söderlund – Electronic Arts, Inc.>: Yeah, this is Patrick. So on the quality side, and if we're rushing a game, I would say no, we're not doing that at all. This is a very experienced, seasoned team, one of the best in the industry. They've got a bunch of great games under their belt. We have been monitoring and working with them for a long time. This has been a game that's been in development for multiple years. And all the data that we have in front of us suggest that this game will not only be highly rated, but very highly rated. So, I feel better than I would normally do at this time, on a game like this.

<A – Andrew Wilson – Electronic Arts, Inc.>: And certainly, I think your perception is right. [indiscernible] (44:30) our industry, that might be different, but having seen the game, having seen what's coming, we are very, very excited about the launch of Titanfall, and truly believe it's going to define this platform generation from the outset.

<Q – Steve Ju – Credit Suisse Securities (USA) LLC (Broker)>: All right. Thanks, guys.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Next question?

Operator: Arvind Bhatia from Sterne, Agee. Your line is open.

<Q – Arvind Bhatia – Sterne, Agee & Leach, Inc.>: Thank you very much. My question is on FIFA 14 Xbox One bundle in Europe. Blake, can you help us maybe understand the economics and the accounting a little bit better? Will the profitability of FIFA 14 with this bundle be very similar, maybe a little better, because you get some help from Microsoft? Or is it a little bit less, but you're making it up on volumes? Just curious, how it's all going to work?

<A – Blake Jorgensen – Electronic Arts, Inc.>: Yeah, I can't comment on the specifics. What I would say is that it's a part of a Microsoft bundle, and so thus we're not reserving any sales reserves or price protection that we might normally reserve on a normal product in the channel. It's going in through a Microsoft box. But you should trust us, we're not providing a major discount on the product. We want to maintain the profitability of the FIFA franchise, and that's critical to us. What we're really trying to do is help introduce new players to FIFA, and Microsoft is trying to build a bigger share in Europe for Xbox, and those two fit really well together. Peter, you want to...

<A – Peter Moore – Electronic Arts, Inc.>: Yeah, I think – and the third leg to that stool is the fact that the more people that obviously get FIFA in their hands, the more opportunity we have to be able to provide them with the digital services, FIFA Ultimate Team, particularly in the European market where we see very strong engagement levels.

So, to Blake's point, this is about Xbox One being driven hard with a world-class game that gamers, particularly again in the European marketplace flock to. It allows us to get obviously 100% of those consoles attached to FIFA; and as a result, our attach rate to our digital consumers and the digital services in the form of FIFA Ultimate Team benefit us. So, I think it's a win-win for both companies.

<Q – Arvind Bhatia – Sterne, Agee & Leach, Inc.>: Thank you. One bigger picture, longer-term question for you guys as a management team. As you forecast and look out in this next-generation, I know that previously a lot of people were thinking this coming generation is going to be perhaps slightly smaller than the last gen. As you guys now think about everything you know, the titles that are coming out, the number of units, et cetera, in terms of consoles, has your opinion shifted at all one way or the other? Are you incrementally more bullish? Are you thinking the next cycle's going to be similar, bigger, smaller? Just curious how you think about the next 5 years or so?

<A – Andrew Wilson – Electronic Arts, Inc.>: Yeah, I think it's a great question. Certainly, as we look at this console generation, I think we, as a company, have always been excited about it. What has made us progressively more excited and more bullish, I believe, this would come through this year, is as we've seen the kind of energy and excitement at a consumer level, really start to resonate. I think it really started to heat up at E3. We saw an energy around our industry that we hadn't seen in a little while. It certainly reached a roar by Gamescom, which is a consumer-driven show, and we really saw an energy there.

And again, when you look at the success of a console generation it's really the combination of two things; great consoles and great software. And as I talked about earlier, I think that our launch software this time is head and shoulders above where we were last time, and certainly will, I believe, satiate the appetite for gamers and actually grow the industry over time. So, we are certainly bullish as we come into this platform generation, particularly as well as we have executed.

<A – Blake Jorgensen – Electronic Arts, Inc.>: I think the other thing to remember is, we're a completely different company than we were during the last console transition. A huge portion, over $1.75 billion of our revenue is coming from digital. And what that really means is, we're looking for ways to not just diversify our revenue, but also to enter new parts of the market that didn't exist before, mobile, free-to-play PC. Many of these didn't exist in the last console transition, certainly weren't monetized like they are today. And we're trying to make sure we're focused on all of those areas.

And we're trying to take our current product strength and extend that through building the life of the product at a much more exciting gameplay that goes on for a year or two years. We were selling, in Q2 of this year, Battlefield 3. And the reason for that is, Battlefield Premium, the love for the product and the excitement around the product. We'd like all of our products to have that type of life, that is extending the gameplay over time, and we think that's going to be critical to our success.

<A – Andrew Wilson – Electronic Arts, Inc.>: Yeah, and one more point, actually a couple more points on that, is that this is the third transition I've gone through, and both companies here have pieces of hardware that feel to me, certainly, from my experience, that the pricing can come down pretty aggressively over the next few years.

Sony is starting off a full, what, $200 cheaper than they did in the previous generation. The services attached to these consoles now are incredibly sticky, and both companies are touting their entertainment features, which make this a must-have device, not just for hard-core gamers but for households, for families. And when you bring all of that together, I think our ability to be able, as a company, to take advantage of that is huge.

But to Blake's point, we're a different company than we were 8 years ago, when this previous generation started. And the diversification of our content offerings, our ability to deliver live services, allows us to be somewhat inoculated from the bumpiness of console transitions. And I think you're certainly seeing that in this past quarter, and you're going to see that going forward here.

But certain amount of bullishness that I think I certainly can talk about, and what retailers around the world talk to me about, versus maybe where we were 6 months ago when we were looking at this console generation transition.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Next question?

Operator: Ben Schachter from Macquarie's Research (sic) [Macquarie Research] (50:54). Your line is open.

<Q – Ben Schachter – Macquarie Capital (USA), Inc.>: There's a couple of high-level questions, and then one quick housekeeping one. I'm not asking for guidance, but over the next few years, how do you think ASPs or ARPU can really differ on this next-gen versus the current-gen? And what are going to be the key drivers for that?

And then the second one is just on mobile. Understanding that franchises and big franchises are key on mobile, but aside from that, what are the other big advantages that you can bring to mobile, because of the scale of EA?

<A – Andrew Wilson – Electronic Arts, Inc.>: I'll take a crack at that. Certainly, I think it's hard to predict the average return per user over time, and certainly as part of the console generation. But here is what I would say is that our games are, in fact, engaging gamers for longer and with greater immersion than they ever had.

As we think about a gamer that has a certain entertainment spend apportioned in their wallet from week-to-week, month-to-month, the more of their engagement time that we can drive, and the greater and deeper experiences that we can drive, we should almost certainly benefit from a greater proportion of that predetermined entertainment spend.

And so, as we look forward when we're thinking about developing games, we now always build games plus services. We're moving from product to product plus service. You've seen it in the trailing 12 months to 18 months, and you will certainly see it on a go forward basis. And that's good for us, and it's good for gamers, and we believe that is the future of this company.

When you think about mobile and what we can do there, again, if I think about how gamers play, more and more gamers are playing and they're playing for more and more time, and their desire for more integrated, immersive experiences with high-fidelity controls, high-fidelity graphics, stronger store reactions, just greater levels of engagement opportunity overall, that starts to play to our strengths.

And so, when we think about mobile on a go-forward basis, some of the greatest things that we have been doing through the history of this company really start to become a strength, as the personality of mobile gamers advances and evolves, and as platform hardware increases in processing, GPU output and memory.

So all things considered, if you combine the services against console that we believe are the foundation for the future of this company, and you look at where mobile is going and how that plays into the strength of us as a company, that potentially some of our newer competitors do not share, we feel very good about the future.

<Q – Ben Schachter – Macquarie Capital (USA), Inc.>: Thanks. And just quick housekeeping. I came on a little late. But Peter, I think you said 10 million units combined for the next-gen? Was that your fiscal year?

<A – Peter Moore – Electronic Arts, Inc.>: That's the estimate for what I see, and speaking with our partners at Sony and Microsoft. Those are available for sale on the shelf by March 31 of 2014, yeah.

<Q – Ben Schachter – Macquarie Capital (USA), Inc.>: Thank you.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Thanks, Ben. Next question?

Operator: Brian Pitz of Jefferies. Your line is open.

<Q – Tim O'shea – Jefferies LLC>: Yes. Hi. It's Tim O'shea for Brian. Thanks for taking the question. Just given the strong competitive launch and some of the new hardware on the horizon, I'm wondering if you can give us a high-level sense for what you're seeing at retail? To what extent, do you see consumers trimming the spend? And I'm just curious if the EA SPORTS upgrade program might address some of this behavior? And then, quickly, do you think that we could ever expect to see this type of upgrade planned for other games like Battlefield? Thanks.

<A – Peter Moore – Electronic Arts, Inc.>: Yeah, Tim, this is Peter. Certainly, what we're seeing now at retail is a great expectation on next-gen. In fact, I was in retail yesterday, and you can see, if you all visit, how retailers, the big box guys like Walmart and Best Buy, the specialty guys like GameStop, are getting ready for next-gen.

I want to remind everyone on the call, this is the first time that we've had two major console launches in the same couple of weeks, never happened before with the magnitude that we're seeing. If you're paying any attention at all, I know you are on television, you're starting to see Microsoft and Sony gear up to what should be a massive investment in marketing over the period between now and the holidays. And I think retailers, in particular, are starting to see that.

You've seen a recent AAA launch when you have the right content that captures the imagination of gamers blow through the roof. And I think that bodes well for retail. Certainly, we're enjoying the fact that they have clearly had a very strong month and that gives them the bullishness and the investment levels to be able to invest, going forward, both in current-gen and next-gen.

But I, for one, couldn't be more excited about what I'm feeling right now in the marketplace. Retailers around the world are gearing up with great anticipation. And our partners at Sony and Microsoft are about, I believe, to embark upon a level of unprecedented spend that we've never seen in this industry yet. So, I think it's all coming together very, very well.

<A – Blake Jorgensen – Electronic Arts, Inc.>: And just a clarification, if I understood your question, we have upgrade programs on sports titles. We also have it on Battlefield 4 for Sony that's running through their program for Gen 3 to Gen 4 upgrade.

<A – Peter Moore – Electronic Arts, Inc.>: Yeah, and just to be clear on that, if everybody's not familiar, it's a way of allowing consumers to invest in current-gen and yet protecting their investment if and when they get a next-gen box, in which, in most cases, they can spend $9.99 and get the next-gen version of the same game.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Yeah. So our programs are two-fold. One is to protect people's Ultimate Team investment, as it transitions from Gen 3 to Gen 4, as well as to upgrade people with the physical title or electronic title from Gen 3 to Gen 4. Next question?

Operator: Thank you. Our last question comes from Mike Olson from Piper Jaffray. Your line is open.

<Q – Mike Olson – Piper Jaffray, Inc.>: All right. Thanks. Good afternoon. Two quick ones here. Blake, regarding the op margin target, you kind of reiterated, you're pushing towards the 20%-plus. Not to kind of put you on the spot, but would you be willing to offer under what kind of timeframe do you think about achieving that range of op margin?

And then the other question on Battlefield. Obviously, Battlefield 4 shipped today, so I know you don't want to talk about Battlefield 5, but it would be important for fiscal 2015. Can you just provide some thoughts on why it would or would not make sense to annualize Battlefield versus coming out with another first-person shooter to fill its place every other year? Thanks.

<A – Blake Jorgensen – Electronic Arts, Inc.>: Well, I'll take a crack at the first part of the question and then I'll have Patrick, since he's the guy who's got to build it. I'll let Patrick answer the second part.

So on the op margin, we've talked publicly about our goal of moving our operating margins into the 20%s. And we've talked about that over a three-year period without providing explicit guidance. This is the first year in that three-year period, and we're making the right moves to start to move that number up. We obviously guided to a higher number, and we've been exceeding that in the first half of the year. We're very focused on, I would say we're all 100% aligned on making that happen. And it's a journey that we need to just continue to move on out through the next couple of years, but then on into the future. And it's going to require great products, stuff that consumers really gravitate to and love, and a huge portion of that being delivered either digitally or mobily, as well as continuing to have build off a great franchise that we have like Battlefield and FIFA.

<A – Patrick Söderlund – Electronic Arts, Inc.>: Yeah, this is Patrick. So, when it comes to Battlefield on an annual basis, I mean, from my perspective, this is a day where we just, today launched Battlefield 4. And obviously, there's been a lot of long hours that's gone into getting it into the market. And again, I think it's a major achievement from our dev teams. I don't have anything to announce. To be honest, as it relates to Battlefield, apart from the fact that we need to lick our wounds a little bit on this one, enjoy the success and then come back at a later time.

<A – Blake Jorgensen – Electronic Arts, Inc.>: We're highly conscious of the fact that if Battlefield is as successful as we believe it'll be, that, that sets ourselves up for a challenge next year. But remember, we're introducing NBA this year. We're introducing UFC next year. We have Sims next year, we would most likely, possibly have Dragon Age next year. And so, a World Cup next year as well, and so there's a lot to fill the deep hole that Battlefield may create, which will be a good problem to have. But you'll hear more about our ultimate revenues and plans and title plans when we give guidance later in the year.

<A – Andrew Wilson – Electronic Arts, Inc.>: And when Patrick said lick his wounds, that's Swedish for enjoy the launch of what is a [indiscernible] (59:28). Yes.

<A – Patrick Söderlund – Electronic Arts, Inc.>: Yeah.

<A – Blake Jorgensen – Electronic Arts, Inc.>: So thank you, everybody.

Peter Robert Moore, Chief Operating Officer

Thanks a lot, everyone.

Andrew Wilson, Chief Executive Officer & Director

Thank you so much.

Operator: Thank you. That does conclude today's conference. Thank you for your participation. You may now disconnect from the audio portion.