Electronic Arts lowers 2010 guidance as sales weak

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In this Feb. 25, 2008 file photo, the exterior view of Electronic Arts Inc. headquarters in Redwood City, Calif. is shown. Video game publisher Electronic Arts Inc. on Monday, Jan. 11, 2010 cut its full-year guidance as it blamed weak demand in Europe and a shift toward games with lower profit margins in North America. (AP Photo/Paul Sakuma, file)

(AP) -- Video game publisher Electronic Arts Inc. cut its full-year guidance on Monday, as ongoing weakness in its game disc sales didn't ease up over the holidays as the company had hoped.

The news sent shares down sharply in extended trading.

EA, best known for such games as the "Madden" football series and "The Sims," blamed weak sales in Europe as well as a shift toward titles it distributes for others, which have a lower profit margin than that for games it creates internally. Europe makes up roughly a third of the company's sales.

But beyond that, many of EA's packaged games - titles sold in stores such as GameStop and Best Buy - haven't been selling too well, and its digital business, though growing, is still too small to make up for it.

For the fiscal year ending in March, EA lowered its adjusted profit outlook to between 40 cents and 55 cents per share. That is down sharply from its earlier outlook of 70 cents to $1 per share, and below analysts' expectations of 79 cents per share, as polled by Thomson Reuters.

EA also gave a disappointing outlook for the October-December quarter, a crucial period for video game companies that rely heavily on holiday sales.

Wedbush Morgan analyst Michael Pachter said the company simply "did not have the products that people wanted" and should be acknowledging that rather than "blaming everything on the environment."

"This company lacks introspection," he said. "Their core business is not performing well and they can't explain why."

Last year was a challenging one for EA as well as for the video game industry, which took a late hit from the economic downturn after initially seeming resistant to the recession.

In November, the company cut its work force by 17 percent - 1,500 people - but also paid $275 million to buy Playfish Inc. a maker of social online games. The moves, announced on the same day, signaled EA's attempts to align its business with a video game industry that's evolving from selling packaged goods to distributing games online, on mobile devices and in bite-sized bits.

EA expects a third-quarter net loss to fall between 24 cents and 32 cents per share. Adjusted for changes in deferred revenue for digital content and online-enabled games, as well as restructuring charges and other items, EA expects earnings of 29 cents to 33 cents per share for the quarter, well below Wall Street's estimates of 56 cents per share.

EA is forecasting sales of about $1.23 billion to $1.25 billion during the quarter. Adjusting for those same factors, EA projects adjusted revenue of $1.33 billion to $1.35 billion, short of Wall Street's expectations of $1.42 billion in sales.

For the full fiscal year, EA sees net sales at $3.6 billion to $3.68 billion, compared with its prior outlook of $3.6 billion to $3.9 billion. On an adjusted basis, it expects sales of about $4.13 billion to $4.2 billion. Analysts expected adjusted sales of $4.26 billion.

Shares in EA, which is based in Redwood City, Calif., dropped $1.72, or 9.4 percent, to $16.55 in after-hours trading. The stock had closed down 13 cents at $18.27.