Electronic Arts shares dive on weak outlook

February 8 2010, By BARBARA ORTUTAY , AP Technology Writer

Wii and PlayStation 3 versions of Madden NFL 10, an Electronic Arts game, are shown at Best Buy in Mountain View, Calif., Monday, Feb. 8, 2010. Electronic Arts Inc. is showing a smaller net loss in its last quarter even though its video game sales declined. (AP Photo/Paul Sakuma)

(AP) -- A disappointing outlook from Electronic Arts Inc. sent shares of the video game publisher sharply lower Monday, a sign that significant cost-cuts and layoffs have not ended the company's slump.

The company, whose games include the popular "Madden" series and "Mass Effect 2," said Monday it narrowed its net loss in the last quarter even as game sales declined. It blamed the revenue falloff on having fewer titles than it did in the 2008 holiday period. EA also cited weak sales in Europe, which accounts for about a third of its revenue.

The results for the October-December period were not a surprise, because EA had warned in January it would miss forecasts, leading analysts to lower their estimates.

The company lost $82 million, 20 cents per share. In the same period a year earlier it lost $641 million, $2 per share.

Revenue fell 25 percent to $1.24 billion.

Accounting for deferred revenue in games with online components, EA earned 33 cents per share, down from 56 cents per share a year earlier. Analysts were expecting 31 cents, according to Thomson Reuters.

But the company gave a forecast below Wall Street's expectations for the current quarter, even though it is launching several big-name titles during the period. And Chief Financial Officer Eric Brown said in an interview that "Mass Effect 2," the science-fiction epic that launched in late January, has sold 2 million copies so far. EA ran its first-ever Super Bowl ad Sunday to promote the upcoming "Dante's Inferno."

For the fiscal fourth quarter ending March 31, EA is forecasting a profit of 2 cents to 6 cents per share on an adjusted basis, on revenue of $800 million to $850 million. This is below average analyst estimates of a profit of 13 cents per share on sales of $851 million.

Shares of EA, which is based in Redwood City, Calif., fell $1.65, 9.4 percent, to $15.84 in extended trading after the earnings report.

EA said in November it was cutting its work force by 17 percent, or 1,500 people, as it tries to align its business with transformations in the industry. Game development costs are skyrocketing, forcing publishers to sell blockbuster amounts of games to justify the expenses. In turn, EA is creating fewer games - cutting out projects it is less certain can become big hits.

Third-quarter operating costs declined 33 percent to $696 million.

Besides lackluster sales and a decline in consumer spending, EA is also dealing with the changing ways people consume - and pay for - games.

Instead of spending $60 on a shiny new disc, many people are playing free or cheap games online, on their mobile devices and on Facebook. They are spending a few dollars here and there to buy virtual add-ons for the games, or they are signing up for subscription-based online games.

EA has been aggressive about such new revenue streams, and last year bought Playfish Inc., a maker of online social games, for $275 million. While digital content still is a small part of EA's business, the company's ability to master online gaming could determine the shape the company is in when game discs go the way of CDs.

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