Social game star Zynga slashes staff, closes studios (Update)

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Struggling social games star Zynga on Monday said it is cutting 18 percent of its staff to focus on mobile play.

Struggling social games star Zynga said Monday it is cutting nearly a fifth of its staff as it refocuses on games for mobile devices.

"Today is a hard day for Zynga and an emotional one for every employee of our company," founder Mark Pincus said in a blog post as the company cut 520 jobs and closed several of the San Francisco-based company's studios.

Zynga shares slid more than 11 percent to $2.99 by the close of the trading day on the Nasdaq.

The layoffs would be felt across the entire company, according to Pincus.

"None of us ever expected to face a day like today, especially when so much of our culture has been about growth," he said.

"But I think we all know this is necessary to move forward."

The company has been pulling the plug on unpopular games and investing in titles for play on smartphones or tablets, as well as its own online arena at zynga.com.

Zynga rose to stardom by tailoring games for play by friends on Facebook. But the two firms have grown apart in the past year as Facebook develops new revenue streams and Zynga seeks new consumers.

"Zynga realized tying 100 percent of their revenue to a single platform—Facebook—was an unsustainable idea," said Forrester analyst Zachary Reiss-Davis.

The San Francisco-based company has made moves into real-money gaming with the potential to generate windfalls from popular titles such as Zynga Poker.

The staff reduction was expected to be substantially completed by August and include the closure of Zynga offices in Los Angeles, New York, and Dallas.

"Mobile and touch screens are revolutionizing gaming," Pincus said in an email message to staff.

"By reducing our cost structure today we will offer our teams the runway they need to take risks and develop these breakthrough new social experiences."

He promised that laid-off workers would receive generous severance packages.

Zynga forecast that it would end the current quarter with a net loss of between $28.5 million and $39 million due in part to expenses associated with the layoffs.

Zynga will take restructuring charges of $24 million to $26 million in the second quarter, and $2 million to $5 million in the third quarter. The annualized savings from the reductions will be $70 million to $80 million.

"While our Farmville franchise continues to perform well, other games are underperforming," Zynga said in a news release updating its earnings forecast.

Zynga shares fell in April after the pioneering social games firm hit quarterly earnings targets but revealed the number of players had ebbed.

"Zynga realized that it's in a hits-driven business, like the movie industry, and not a recurring revenue software business," said Reiss-Davis.

"A game's revenue can rapidly fall off as its user base gets bored and moves on."

Zynga reported that it earned $4.1 million on revenue of $263.6 million in the three months that ended on March 31, while Wall Street analysts had expected the company to register a slight loss.

Investors soured on the San Francisco-based firm's shares, however, with word that the number of people playing Zynga games daily had dropped when compared to the same period a year earlier.

During an earnings call with financial analysts, Pincus said 2013 would be a "transition year as we face the challenging environment on the Web and invest in developing the leading franchises and network across web and mobile platforms."