

ZYNGA INC  
Form 10-Q  
August 04, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35375

Zynga Inc.

(Exact name of registrant as specified in its charter)

Delaware 42-1733483  
(State of or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

699 Eighth Street 94103  
San Francisco, CA (Zip Code)  
(Address of principal executive offices)

(855) 449-9642

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No

As of July 15, 2017, there were 776,684,172 shares of the Registrant's Class A common stock outstanding, 68,259,136 shares of the Registrant's Class B common stock outstanding and 20,517,472 shares of the Registrant's Class C common stock outstanding.

Zynga Inc.

Form 10-Q Quarterly Report

TABLE OF CONTENTS

	Page
<u>Cautionary Note Regarding Forward-Looking Statements</u>	1
 <u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>	2
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2017 and 2016</u>	3
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2017 and 2016</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	28
 <u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	29

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Item 1A.	<u>Risk Factors</u>	29
Item 2.	<u>Unregistered Sales of Equity Securities and Issuer Purchase of Equity Securities</u>	49
Item 5.	<u>Other Information</u>	49
Item 6.	<u>Exhibits</u>	49
	<u>Signatures</u>	51
	<u>Exhibit Index</u>	52

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward looking statements. All statements, other than statements of historical fact, made in this Quarterly Report on Form 10-Q are forward looking. Examples of forward-looking statements include statements related to industry prospects, our future economic performance including anticipated revenues and expenditures, results of operations or financial position, and other financial items, our business plans and objectives, including our intended product releases, and may include certain assumptions that underlie the forward-looking statements. Forward-looking statements often include words such as “outlook,” “projected,” “intends,” “will,” “anticipate,” “believe,” “target,” “expect,” and statements in the future tense are generally forward-looking.

We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. The achievement or success of the matters covered by such forward-looking statements involves significant risks, uncertainties and assumptions, including those described in “Part II. Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment and industry. New risks may also emerge from time to time. It is not possible for our management to predict all of the risks related to our business and operations, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated, predicted or implied in the forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur, and reported results should not be considered as an indication of future performance. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Except as required by law, we undertake no obligation to update any forward-looking statements for any reason to conform these statements to actual results or to changes in our expectations.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Zynga Inc.

## Consolidated Balance Sheets

(In thousands, except par value)

(Unaudited)

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$738,975	\$ 852,467
Accounts receivable, net of allowance of \$0 at June 30, 2017 and December 31, 2016	85,228	77,260
Income tax receivable	249	296
Restricted cash	11,182	6,199
Prepaid expenses and other current assets	28,078	29,254
Total current assets	863,712	965,476
Goodwill	642,681	613,335
Other intangible assets, net	43,896	25,430
Property and equipment, net	267,453	269,439
Restricted cash	250	3,050
Prepaid expenses and other long-term assets	39,401	29,119
Total assets	\$1,857,393	\$ 1,905,849
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$14,264	\$ 23,999
Income tax payable	4,638	1,889
Other current liabilities	76,935	75,754
Deferred revenue	155,085	141,998
Total current liabilities	250,922	243,640
Deferred revenue	92	158
Deferred tax liabilities	6,259	5,791
Other non-current liabilities	23,213	75,596
Total liabilities	280,486	325,185
Stockholders' equity:		
Common stock, \$0.00000625 par value, and additional paid in capital - authorized		
shares: 2,020,517; shares outstanding: 865,461 shares (Class A, 776,685, Class B,		
68,259 Class C, 20,517) as of June 30, 2017 and 886,850 (Class A, 770,269,		
Class B, 96,064, Class C, 20,517) as of December 31, 2016		
	3,390,996	3,349,714
Accumulated other comprehensive income (loss)	(111,686 )	(128,694 )
Accumulated deficit	(1,702,403)	(1,640,356 )

Total stockholders' equity	1,576,907	1,580,664
Total liabilities and stockholders' equity	\$1,857,393	\$1,905,849

See accompanying notes.

Zynga Inc.

## Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Revenue:</b>				
Online game	\$163,745	\$135,823	\$317,226	\$272,880
Advertising and other	45,486	45,912	86,289	95,576
Total revenue	209,231	181,735	403,515	368,456
<b>Costs and expenses:</b>				
Cost of revenue	64,172	56,103	129,049	113,242
Research and development	64,615	66,233	133,817	153,970
Sales and marketing	51,201	40,631	97,821	86,975
General and administrative	23,551	25,374	46,116	47,758
Total costs and expenses	203,539	188,341	406,803	401,945
Income (loss) from operations	5,692	(6,606 )	(3,288 )	(33,489 )
Interest income	1,109	761	2,046	1,466
Other income (expense), net	1,614	1,905	3,050	4,005
Income (loss) before income taxes	8,415	(3,940 )	1,808	(28,018 )
Provision for (benefit from) income taxes	3,322	506	6,189	2,986
Net income (loss)	\$5,093	\$(4,446 )	\$(4,381 )	\$(31,004 )
Net income (loss) per share attributable to common stockholders:				
Basic	\$0.01	\$(0.01 )	\$(0.01 )	\$(0.04 )
Diluted	\$0.01	\$(0.01 )	\$(0.01 )	\$(0.04 )
Weighted average common shares used to compute net income				
(loss) per share attributable to common stockholders:				
Basic	863,125	873,393	869,025	872,243
Diluted	887,991	873,393	869,025	872,243

See accompanying notes.



Zynga Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016
Net income (loss)	\$5,093	\$(4,446)	\$(4,381)	\$(31,004)
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	11,508			