ZYNGA INC
Form 10-Q
November 02, 2018

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 September 30, 2018

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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
699 Eighth Street San Francisco, CA	94103
(Address of principal executive offices)	(Zip Code)

(855) 449-9642

(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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	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 October 15, 2018, there were 861,881,814 shares of the Registrant's Class A common stock outstanding.

Zynga Inc.

Form 10-Q Quarterly Report

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Zynga, the Zynga logo and other trademarks or service marks of Zynga appearing in this report are the property of Zynga. Trade names, trademarks and service marks of other companies appearing in this report are the property of their respective holders.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward looking statements reflecting our current expectations that involve risks and uncertainties. These forward-looking statements include, but are not limited to, 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 growth strategies and 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 largely 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 (Unaudited)

Zynga Inc.

Consolidated Balance Sheets

(In thousands, except par value)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 236,447	$ 372,870
Short-term investments	183,834	308,506
Accounts receivable, net of allowance of $281 at September 30, 2018 and $0 at December 31, 2017	107,119	103,677
Restricted cash	10,006	12,807
Prepaid expenses	20,483	24,253
Other current assets	12,764	8,837
Total current assets	570,653	830,950
Goodwill	947,730	730,464
Intangible assets, net	127,851	64,258
Property and equipment, net	266,085	266,589
Restricted cash	25,000	20,000
Prepaid expenses	35,851	23,821
Other non-current assets	46,257	43,251
Total assets	$ 2,019,427	$ 1,979,333
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 9,242	$ 18,938
Income tax payable	1,734	6,677
Deferred revenue	172,172	134,007
Other current liabilities	119,782	123,089
Total current liabilities	302,930	282,711
Deferred revenue	2,135	568
Deferred tax liabilities, net	18,468	5,902
Other non-current liabilities	79,456	48,912
Total liabilities	402,989	338,093
Stockholders' equity:		
Common stock, $0.00000625 par value, and additional paid in capital - authorized shares: 2,020,517; shares outstanding: 861,857 shares (Class A) as of September 30, 2018 and 870,660 (Class A, 783,376, Class B, 66,767, Class C, 20,517) as of December 31, 2017	3,485,667	3,426,505

Accumulated other comprehensive income (loss)	(103,210)	(93,497)
Accumulated deficit	(1,766,019)	(1,691,768)
Total stockholders' equity	1,616,438	1,641,240
Total liabilities and stockholders' equity	$ 2,019,427	$ 1,979,333

See accompanying notes to consolidated financial statements.

Zynga Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
Online game	$167,716	$175,253	$493,949	$492,479
Advertising and other	65,527	49,342	164,571	135,631
Total revenue	233,243	224,595	658,520	628,110
Costs and expenses:				
Cost of revenue	78,592	65,907	221,816	194,956
Research and development	71,124	60,966	199,340	194,783
Sales and marketing	55,613	53,944	159,346	151,765
General and administrative	23,144	23,826	71,977	69,942
Total costs and expenses	228,473	204,643	652,479	611,446
Income (loss) from operations	4,770	19,952	6,041	16,664
Interest income	1,421	1,502	5,031	3,548
Other income (expense), net	4,014	1,181	10,020	4,231
Income (loss) before income taxes	10,205	22,635	21,092	24,443
Provision for (benefit from) income taxes	5	4,544	6,194	10,733
Net income (loss)	$10,200	$18,091	$14,898	$13,710
Net income (loss) per share attributable to common stockholders:				
Basic	$0.01	$0.02	$0.02	$0.02
Diluted	$0.01	$0.02	$0.02	$0.02
Weighted average common shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	860,988	867,377	863,062	868,707
Diluted	887,228	893,684	890,146	895,207

See accompanying notes to consolidated financial statements.

Zynga Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$10,200	$18,091	$14,898	$13,710
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(3,141)	20,490	(9,863)	37,479
Net change in unrealized gains (losses) on available-for-sale marketable debt securities, net of tax	42	(27)	150	(8)
Other comprehensive income (loss), net of tax	(3,099)	20,463	(9,713)	37,471
Comprehensive income (loss)	$7,101	$38,554	$5,185	$51,181

See accompanying notes to consolidated financial statements.

Zynga Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017 (As Adjusted)[1]
Cash flows from operating activities:		
Net income (loss)	$ 14,898	$ 13,710
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	29,363	23,889
Stock-based compensation expense	50,236	49,346
(Gain) loss from foreign currency, sales of investments, assets and other, net	497	(206)
(Accretion) and amortization on marketable debt securities, net	(2,043)	(172)
Noncash consideration received	(1,494)	—
Change in deferred income taxes and other	(1,809)	4,222
Changes in operating assets and liabilities:		
Accounts receivable, net	7,302	(12,150)
Other assets	(14,833)	359
Accounts payable	(18,613)	(6,012)
Deferred revenue	43,758	1,913
Income tax payable	(5,180)	2,003
Other liabilities	(23,770)	(8,907)
Net cash provided by (used in) operating activities	78,312	67,995
Cash flows from investing activities:		
Purchases of short-term investments	(267,435)	(255,301)
Maturities of short-term investments	384,300	—
Sales of short-term investments	9,999	—
Acquisition of property and equipment	(7,505)	(6,878)
Proceeds from sale of property and equipment	33	221
Business acquisitions, net of cash acquired and restricted cash held in escrow	(222,075)	(27,581)
Release of restricted cash escrow from business combinations	(22,800)	(2,500)
Other investing activities, net	375	(7,225)
Net cash provided by (used in) investing activities	(125,108)	(299,264)
Cash flows from financing activities:		
Taxes paid related to net share settlement of stockholders' equity awards	(19,363)	(14,576)
Repurchases of common stock	(73,811)	(96,924)
Proceeds from issuance of common stock	8,925	8,249
Acquisition-related contingent consideration payment	—	(5,115)
Net cash provided by (used in) financing activities	(84,249)	(108,366)

Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3,179)	4,108
Net change in cash, cash equivalents and restricted cash	(134,224)	(335,527)
Cash, cash equivalents and restricted cash, beginning of period	405,677	861,716
Cash, cash equivalents and restricted cash, end of period	$ 271,453	$ 526,189
Supplemental cash flow information:		
Income taxes paid	$ 13,991	$ 3,559
Noncash investing activity:		
Software acquired as noncash consideration	$ 1,494	$ —

(1) Prior period amounts retrospectively adjusted to reflect the adoption of ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash". Refer to Note 1 – "Overview and Summary of Significant Accounting Policies" in the notes to the interim consolidated financial statements for further discussion on the adoption.

See accompanying notes to consolidated financial statements.

Zynga Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Overview and Summary of Significant Accounting Policies

Organization and Description of Business

Zynga Inc. (“Zynga,” “we” or the “Company”) is a leading provider of social game services. We develop, market and operate social games as live services played on mobile platforms such as iOS and Android and social networking sites, such as Facebook. Generally, all of our games are free to play, and we generate substantially all of our revenue through the sale of in-game virtual items and advertising services. Our operations are headquartered in San Francisco, California, and we have several operating locations in the U.S. as well as various international office locations in North America, Asia and Europe.

We completed our initial public offering in December 2011 and our Class A common stock is listed on the NASDAQ Global Select Market under the symbol “ZNGA.”

Basis of Presentation and Consolidation

The accompanying interim consolidated financial statements are presented in accordance with United States generally accepted accounting principles (“U.S. GAAP”). The consolidated financial statements include the operations of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidation.

The accompanying interim consolidated financial statements and these related notes should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheets as of September 30, 2018 and December 31, 2017, the interim consolidated statements of operations and statements of comprehensive income (loss) for the three and nine months ended September 30, 2018 and 2017, the statements of cash flows for the nine months ended September 30, 2018 and 2017 and the notes to interim consolidated financial statements are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with U.S. GAAP. In management’s opinion, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of the Company’s statement of financial position and operating results for the periods presented. The results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results expected for the full fiscal year or any other future period.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the interim consolidated financial statements and notes thereto. Significant estimates and assumptions reflected in the financial statements include, but are not limited to, the estimated average playing period of payers that we use for revenue recognition, useful lives of property and equipment and intangible assets, accrued liabilities, income taxes, the fair value of assets and liabilities acquired through business combinations, contingent consideration obligations, stock-based compensation expense and evaluation of recoverability of goodwill, intangible assets, and long-lived assets. Actual results could differ materially from those estimates.

For the nine months ended September 30, 2018, we recognized $0.9 million of online game revenue and income from operations from games that have been discontinued as there is no further performance obligation. This change in estimate did not impact our reported earnings per share in the nine months ended September 30, 2018. For the three months ended September 30, 2018, there were no discontinued games that required adjusting the recognition period of deferred revenue generated in prior periods. Further, there were no changes in our estimated average playing period of payers that required adjusting the recognition period of deferred revenue generated in prior periods for the three and nine months ended September 30, 2018.

For the three and nine months ended September 30, 2017, we recognized $0.3 million of online game revenue from changes in our estimated average playing period of payers, which was the result of adjusting the remaining recognition period of deferred revenue generated in prior periods at the time of a change in estimate. These changes in estimates did not impact our earnings per share for the three months ended September 30, 2017. Further, these changes did not impact our basic earnings per share, but had a $0.01 per share impact on our diluted earnings per share for the nine months ended September 30, 2017. There were no discontinued games that required adjusting the recognition period of deferred revenue generated in prior periods for the three and nine months ended September 30, 2017.

Recent Accounting Pronouncements

Issued But Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842),” which requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months, using a modified retrospective transition method. For lessors, accounting for leases will remain substantially the same as in prior periods. The standard is effective in the first quarter of 2019 and early adoption is permitted. In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842) – Targeted Improvements,” which provides an alternative transition approach allowing companies to initially apply the new leases standard by recognizing a cumulative-effect adjustment on adoption date, which the Company plans to elect.

The Company will adopt on January 1, 2019 and expects adoption of this new standard to increase reported assets and liabilities, specifically with respect to leased office facilities, at a minimum. We are finalizing our analysis of the transition adjustment for our real estate contracts, including the determination of the rates used to discount the individual lease liabilities. We are, however, continuing to assess the full impact on our consolidated financial statements, which includes changes to our processes and controls and continued review of non-real estate arrangements.

In August 2018, the FASB issued ASU 2018-15, “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract”, which aligns the accounting for implementation costs incurred with a cloud computing arrangement accounted for as a service arrangement with the guidance in ASC Topic 350-40, Internal-Use Software to determine which implementation costs should be capitalized. The ASU permits either a prospective or retrospective transition approach and is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing this standard’s impact on its consolidated financial statements.

Issued And Adopted

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 (“ASC Topic 606”) supersedes the existing revenue recognition guidance and is effective for interim and annual reporting periods beginning after December 15, 2017. We adopted ASC Topic 606 on January 1, 2018 using the modified retrospective transition approach. Refer to Note 2 – “Revenue from Contracts with Customers” for further details on the impact from adoption.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which provides guidance on specific topics related to how certain cash receipts and cash payments are classified in the statement of cash flows. Later, in November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Our restricted cash primarily consists of funds held in escrow in accordance with the terms of our business acquisition agreements. The restrictions release based upon the satisfaction of required milestones or lapse of defined time periods. Both standards are effective for interim and annual reporting periods beginning after December 15, 2017. On January 1, 2018, we adopted both standards using the retrospective transition approach and there was no impact upon adoption of ASU 2016-15.

As a result of adopting ASU 2016-18, the primary impact to the consolidated statement of cash flows relates to cash flows provided by (used in) investing and financing activities. Specifically, our business acquisitions typically involve restricted cash held in escrow at the date of acquisition which is later released. These transactions are now reflected in investing activities. Further, certain acquisition related contingent consideration payments involve restricted cash, the payment of which is reflected in financing activities.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805) Clarifying the Definition of a Business," which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The standard is effective for interim and annual periods beginning after December 15, 2017. On January 1, 2018, we adopted the standard using the prospective transition approach, with no financial statement impact upon adoption. Moving forward, the impact of this ASU will be fact dependent, but we expect that some transactions that were previously accounted for as business combinations or disposal transactions will be accounted for as asset purchases or asset sales under the ASU.

Revenue Recognition

Note: Refer to Note 1 of our consolidated financial statements contained in our previously-filed Annual Report on Form 10-K for the year ended December 31, 2017 for our revenue recognition accounting policy as it relates to revenue transactions prior to

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January 1, 2018. The revenue recognition accounting policy described below relates to revenue transactions from January 1, 2018 and onward, which are accounted for in accordance with ASC Topic 606.

We primarily derive revenue from the sale of virtual items associated with our online games and the sale of advertising.

Online Game. We operate our games as live services that allow players to play for free. Within these games however, players can purchase virtual currency to obtain virtual goods or virtual goods directly (together, defined as “virtual items”) to enhance their game-playing experience. Our identified performance obligation is to display the virtual items within the game over the estimated life of the paying player or until it is consumed in game play based upon the nature of the virtual item. Payment is required at time of purchase and the purchase price is a fixed amount.

Players can purchase our virtual items through various widely accepted payment methods offered in the games, including Apple iTunes accounts, Google Play accounts, Facebook local currency payments, PayPal and credit cards. Payments from players for virtual items are non-refundable and relate to non-cancellable contracts that specify our obligations. Such payments are initially recorded to deferred revenue.

For revenue earned through mobile platforms, the transaction price is equal to the gross amount we request to be charged to our player because we are the principal in the transaction. We expense the related platform and payment processing fees as cost of revenue in the period incurred.

For revenue earned on our web based games through Facebook, our players utilize Facebook’s local currency-based payments program to purchase virtual items in our games. For all payment transactions on the Facebook platform, Facebook remits to us 70% of the price we request to be charged to the player for each transaction, which represents the transaction price. Despite being the principal in the transaction, we recognize revenue net of the amounts retained by Facebook for platform and payment processing fees because Facebook may choose to alter our requested price, for example by offering a discount or other incentives to players playing on their platform, and we do not receive information from Facebook indicating the amount of such discounts or incentives or the actual amount paid by our players. Accordingly, we are unable to determine the gross amount paid by our players on the Facebook platform.

The satisfaction of our performance obligation is dependent on the nature of the virtual item purchased and as a result, we categorize our virtual items as either consumable or durable.

- Consumable virtual items represent goods that can be consumed by a specific player action. Common characteristics of consumable virtual items may include items that are no longer displayed on the player’s game board after a short period of time, do not provide the player any continuing benefit following consumption, or often times enable a player to perform an in-game action immediately (e.g. chips in Zynga Poker). For the sale of consumable virtual items, we recognize revenue as the items are consumed (i.e., over time), which approximates one month.

- Durable virtual items represent items that are accessible to the player over an extended period of time (e.g. animals in Farmville 2). We recognize revenue from the sale of durable virtual items ratably over the estimated average playing period of payers for the applicable game (i.e., over time), which represents our best estimate of the average life of the durable virtual item.

- If we do not have the ability to differentiate between revenue attributable to consumable virtual items versus durable virtual items for a specific game, we recognize revenue ratably over the estimated average playing period of payers for the applicable game.

Historically, we have had sufficient data to separately account for consumable and durable virtual items for substantially all of our web games. However, for our standalone mobile games, we do not have the requisite data to separately account for consumable and durable virtual items and therefore recognize mobile revenue ratably over the estimated average playing period of payers.

We expect that in future periods, there will be changes in the mix of consumable and durable virtual items offered and sold, reduced virtual item sales in some existing games, changes in estimates of the average playing period of payers and/or changes in our ability to make such estimates. When such changes occur, and in particular if more of our revenue in any period is derived from durable virtual items or the estimated average playing period of payers increases on average, the amount of revenue that we recognize in a current or future period may be reduced, perhaps significantly. Conversely, if the estimated average playing period of payers decreases on average, the amount of revenue that we recognize in a current or future period may be accelerated, perhaps significantly.

On a quarterly basis, we determine the estimated average playing period of payers by game beginning at the time of a payer's first purchase in the respective game and ending on a date when that paying player is deemed to be no longer playing. To determine when paying players are no longer playing a given game, we analyze monthly cohorts of payers who made their first in-game payment between six and 18 months prior to the beginning of each quarter and determine whether each payer within the cohort is an active or inactive player as of the date of our analysis. To determine which payers are inactive, we analyze the dates that each payer last logged into that game. We determine a payer to be inactive once they have reached a period of inactivity for which it is probable that they will not return to a specific game. For the payers deemed inactive as of our analysis date, we analyze the dates they last logged into that game to determine the rate at which inactive payers stopped playing. Based on these dates, we then project a date at which all payers for each monthly cohort are expected to cease playing our games. We then average the time periods from first purchase date and the date the last payer is expected to cease playing the game for each of the monthly cohorts to determine the total playing period of payers for that game. To determine the estimated average playing period of payers, we then divide this total period by two. The use of this “average” approach is supported by our observations that payers typically become inactive at a relatively consistent rate for our games. If future data indicates payers do not become inactive at a relatively consistent rate, we will modify our calculations accordingly. When a new game is launched and only a limited period of payer data is available for our analysis, then we also consider other factors to determine the estimated average playing period of payers, such as the estimated average playing period of payers for other recently launched games with similar characteristics.

Advertising. We have contractual relationships with advertising networks, agencies, advertising brokers and directly with advertisers for advertisements in our games. For all advertising arrangements, we are the principal and our performance obligation is to provide the inventory for advertisements to be displayed in our games. For contracts made directly with advertisers, we are also obligated to serve the advertisements in our games. However, for those direct advertising arrangements, providing the advertising inventory and serving the advertisement is considered a single performance obligation, as the advertiser cannot benefit from the advertising space without its advertisements being displayed.

For advertising transactions not placed directly with the advertiser, the transaction price is equal to the amount collected, which is generally based on our revenue share stated in the contract for the advertising inventory.

The pricing and terms for all our advertising arrangements are governed by either a master contract or insertion order and generally stipulate payment terms as a specific number of days subsequent to the end of the month, generally ranging from 30 to 60 days. The transaction price in advertising arrangements is generally the product of the number of advertising units delivered (e.g., impressions, offers completed, videos viewed, etc.) and the contractually agreed upon price per advertising unit. The number of advertising units delivered is determined at the end of each month, which resolves any uncertainty in the transaction price during the reporting period.

For a limited number of advertising network arrangements, the transaction price is determined based on a volume-tiered pricing structure, whereby the price per advertising unit in a given month is determined by the number of impressions delivered in that month. However, the number of impressions delivered is resolved at the end of each month, therefore, eliminating any uncertainty with respect to the price per advertising unit for each reporting period.

For in-game display ads, in-game offers, engagement advertisements and other advertisements, our performance obligation is satisfied over the life of contract (i.e., over time), with revenue being recognized as advertising units are delivered.

For in-game sponsorships with branded virtual items, revenue is initially recorded to deferred revenue and then recognized ratably over the estimated life of the branded virtual item, similar to online game revenue, or over the term of the advertising arrangement, depending on the nature of the agreement.

Arrangements with Multiple Performance Obligations. For arrangements with multiple performance obligations, we allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which we expect to be entitled in exchange for satisfying each performance obligation, which is based on the standalone selling price. The standalone selling price represents the observable price which we would sell the advertising placement separately in a similar circumstance, to a similar customer.

Taxes Collected from Customers. We present taxes collected from customers and remitted to governmental authorities on a net basis within our consolidated statement of operations.

2. Revenue from Contracts with Customers

On January 1, 2018, we adopted ASC Topic 606 using the modified retrospective transition method applied to contracts that were not complete as of the adoption date. Consolidated financial results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts continue to be reported in accordance with ASC Topic 605, "Revenue Recognition".

As of January 1, 2018, we recorded a net reduction of $4.0 million to our opening deferred revenue and accumulated deficit balances, net of tax, due to the cumulative impact of adopting ASC Topic 606. The impact was driven by the recognition of revenue for certain advertising arrangements for which revenue was not previously recognized until payment was certain, partially offset by the deferral of previously recognized revenue for a symbolic license arrangement, for which revenue is recognized over the term of the license under ASC Topic 606.

The impact of adopting ASC Topic 606 on our consolidated balance sheet as of September 30, 2018 was as follows (in thousands):

	As of September 30, 2018		
	Amounts as Reported	Amounts without Adoption of ASC Topic 606	Increase (Decrease) from ASC Topic 606 Adoption
Current liabilities:			
Deferred revenue	$172,172	$183,158	$(10,986)
Total current liabilities	302,930	313,916	(10,986)
Deferred revenue	2,135	1,523	612
Total liabilities	402,989	413,363	(10,374)
Accumulated deficit	(1,766,019)	(1,776,393)	10,374
Total stockholders' equity	1,616,438	1,606,064	10,374
Total liabilities and stockholders' equity	$2,019,427	$2,019,427	$—

As a result of adopting ASC Topic 606, deferred revenue as of September 30, 2018 decreased from certain advertising arrangements for which revenue would otherwise not be recognized until payment was certain under ASC Topic 605, partially offset by an increase to deferred revenue associated with the deferral of previously recognized revenue from the aforementioned symbolic license arrangement. The increase to stockholders' equity as of September 30, 2018 from adopting ASC Topic 606 is the result of the net income impact discussed below and the $4.0 million transition adjustment recognized upon adoption of ASC Topic 606 on January 1, 2018.

The impact of adopting ASC Topic 606 on our consolidated statement of operations three and nine months ended September 30, 2018 was as follows (in thousands):

	Three Months Ended September 30, 2018		
	Amounts as Reported	Amounts without Adoption of ASC Topic 606	Increase (Decrease) from ASC Topic 606 Adoption
Revenue:			
Advertising and other	$65,527	$63,117	$ 2,410

Total revenue	233,243	230,833	2,410
Income (loss) from operations	4,770	2,360	2,410
Income (loss) before taxes	10,205	7,795	2,410
Net income (loss)	$10,200	$7,790	$ 2,410
Net income (loss) per share attributable to common stockholders:			
Basic	$0.01	$0.01	$ 0.00
Diluted	$0.01	$0.01	$ 0.00

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	Nine Months Ended September, 2018		
	Amounts as Reported	Amounts without Adoption of ASC Topic 606	Increase (Decrease) from ASC Topic 606 Adoption
Revenue:			
Advertising and other	$164,571	$158,221	$ 6,350
Total revenue	658,520	652,170	6,350
Income (loss) from operations	6,041	(309)	6,350
Income (loss) before taxes	21,092	14,742	6,350
Net income (loss)	$14,898	$8,548	$ 6,350
Net income (loss) per share attributable to common stockholders:			
Basic	$0.02	$0.01	$ 0.01
Diluted	$0.02	$0.01	$ 0.01

As a result of adopting ASC Topic 606 during the three and nine months ended September 30, 2018, advertising and other revenue increased primarily as a result of the aforementioned recognition of revenue for certain advertising arrangements for which revenue would otherwise not be recognized until payment was certain under ASC Topic 605 and the recognition of revenue over time from the symbolic license. There was no impact to net cash flows provided by (used in) operating, investing or financing activities for the nine months ended September 30, 2018 as a result of adopting ASC Topic 606. However, within cash flows from operating activities, net income (loss) is $6.4 million higher and the change in deferred revenue is $6.4 million lower as a result of adopting ASC Topic 606 during the nine months ended September 30, 2018.

Disaggregation of Revenue

The following table presents our revenue disaggregated by platform (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017[(1)]	2018	2017[(1)]
Online game:				
Mobile	$ 149,095	$ 150,730	$ 431,952	$ 417,219
Web	18,621	24,523	61,997	75,260
Online game total	$ 167,716	$ 175,253	$ 493,949	$ 492,479
Advertising and other:				
Mobile	63,371	43,660	155,860	118,652

Web	2,075	2,692	6,657	12,184
Other	81	2,990	2,054	4,795
Advertising and other total	$ 65,527	$ 49,342	$ 164,571	$ 135,631
Total revenue	$ 233,243	$ 224,595	$ 658,520	$ 628,110

(1) Amounts have not been retrospectively adjusted to reflect the adoption of ASC Topic 606.

The following table presents our revenue disaggregated based on the geographic location of our payers (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017(1)	2018	2017(1)
United States	$153,752	$145,255	$432,289	$413,228
All other countries(2)	79,491	79,340	226,231	214,882
Total revenue	$233,243	$224,595	$658,520	$628,110

(1) Amounts have not been retrospectively adjusted to reflect the adoption of ASC Topic 606.
(2) No foreign country exceeded 10% of our total revenue for any periods presented.

Consumable virtual items accounted for 42% of online game revenue in the three months ended September 30, 2018 and 43% of online game revenue in the same period of the prior year. Durable virtual items accounted for 58% of online game revenue in the three months ended September 30, 2018 and 57% of online game revenue in the same period of the prior year. The estimated weighted average life of durable virtual items was 9 months in the three months ended September 30, 2018, compared to 8 months in the same period of the prior year.

Consumable virtual items accounted for 45% of online game revenue in the nine months ended September 30, 2018 and 2017. Durable virtual items accounted for 55% of online game revenue in the nine months ended September 30, 2018 and 2017. The estimated weighted average life of durable virtual items was 9 months in the nine months ended September 30, 2018, compared to 8 months in the same period of the prior year.

Contract Balances

We receive payments from our customers based on the payment terms established in our contracts. Payments for online game revenue are required at time of purchase, are non-refundable and relate to non-cancellable contracts that specify our performance obligations. Such payments are initially recorded to deferred revenue and are recognized into revenue as we satisfy our performance obligations.

Payments for advertising arrangements are due based on the contractually stated payment terms. For advertising arrangements, the contract terms generally require payment within 30 to 60 days subsequent to the end of the month. Our right to payment from the customer is unconditional and therefore recorded as accounts receivable.

During the three and nine months ended September 30, 2018, we recognized $9.9 million and $128.1 million, respectively, of revenue that was included in the current deferred revenue balance on January 1, 2018.