

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 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 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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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,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
| <b>Assets</b>  |                       |                      |
| 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<br>\$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                |
| <b>Total current assets</b>  | <b>570,653</b>        | <b>830,950</b>       |
| 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               |
| <b>Total assets</b>  | <b>\$ 2,019,427</b>   | <b>\$ 1,979,333</b>  |
| <b>Liabilities and stockholders' equity</b>  |                       |                      |
| 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              |
| <b>Total current liabilities</b>   | <b>302,930</b>        | <b>282,711</b>       |
| Deferred revenue   | 2,135                 | 568                  |
| Deferred tax liabilities, net  | 18,468                | 5,902                |
| Other non-current liabilities  | 79,456                | 48,912               |
| <b>Total liabilities</b>   | <b>402,989</b>        | <b>338,093</b>       |
| Stockholders' equity:  |                       |                      |
| Common stock, \$0.00000625 par value, and additional paid in capital - authorized<br>shares: 2,020,517; shares outstanding: 861,857 shares (Class A) as of<br>September 30, 2018 and 870,660 (Class A, 783,376, Class B, 66,767, Class C,<br>20,517) as of December 31, 2017 | 3,485,667             | 3,426,505            |

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|   |              |              |
|---|--------------|--------------|
| 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<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2018                                | 2017       | 2018                               | 2017       |
| <b>Revenue:</b>   |                                     |            |                                    |            |
| 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    |
| <b>Costs and expenses:</b>                                |                                     |            |                                    |            |
| 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<br>Ended<br>September 30,<br>2018 |           | Nine Months<br>Ended<br>September 30,<br>2017 |           |
|------------------------------------|--|-----------|---|-----------|
| Net income (loss)                  | \$ 10,200                                      | \$ 18,091 | \$ 14,898                                     | \$ 13,710 |
| Other comprehensive income (loss): |  |           |   |           |