

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

(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, 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

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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		Nine Months Ended	
	September 30,		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	