

ZYNGA INC  
Form 10-Q  
August 07, 2015  
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**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, 2015**

**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)**

<b>Delaware</b> <b>(State of or other jurisdiction of</b>	<b>42-1733483</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification No.)</b>
<b>699 Eighth Street</b> <b>San Francisco, CA</b> <b>(Address of principal executive offices)</b>	<b>94103</b> <b>(Zip Code)</b>
<b>(855) 449-9642</b> <b>(Registrant's telephone number, including area code)</b>	

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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting 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

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, 2015, there were 789,734,170 shares of the Registrant's Class A common stock outstanding, 114,013,905 shares of the Registrant's Class B common stock outstanding and 20,517,472 shares of the Registrant's Class C common stock outstanding.

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## 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.

References in this report to "DAUs" mean daily active users of our games, "MAUs" mean monthly active users of our games, "MUUs" mean monthly unique users of our games, "ABPU" means average daily bookings per average DAU and references to "MUPs" mean monthly unique payers of our games. Unless otherwise indicated, these metrics are based on internally-derived measurements across all platforms on which our games are played. For further information about ABPU, DAUs, MAUs, MUPs, and MUUs as measured by us, see the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Key Metrics."

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements. In some cases you can identify these statements by forward-looking words such as believe, may, will, might, estimate, continue, anticipate, in should, would, project, plan, outlook, target, expect, or similar expressions, or the negative or plural of the expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

our future spend, including spend on R&D and marketing and our future margins;

our future operational plans, use of cash, strategies and prospects;

the breadth and depth of our games slate for 2015 and the success of this slate, including the success of the recently launched *Empires & Allies* and *FarmVille: Harvest Swap*;

our planned launch of mobile first games and new features for existing games, including our planned launch of 6 games in 2015;

our ability to grow mobile bookings in 2015;

our cost structure and cost reduction plans and estimated savings and charges, including our reduction in workforce, cost reduction measures and plan to lower discretionary spend;

our ability to accelerate execution, drive profitability and nurture creativity and innovation while reducing costs and lowering discretionary spend;

our ability to execute against our strategy and deliver long term value to our shareholders, employees and players;

our ability to accurately forecast our upcoming game launches and bookings and revenue related to upcoming game launches and the performance of our existing games;

our relationship and/or agreements with key licensing partners, additional platform providers or any other key partners;

our ability to launch and monetize successful new games and features for web and mobile in a timely manner and the success of these games and features;

our ability to sustain and expand key games to sustain and grow audiences, bookings and engagement, including our core franchises, which include FarmVille (*FarmVille*, *FarmVille 2*, *FarmVille 2: Country Escape*), Slots (*Wizard of Oz Slots* and *Hit It Rich! Slots*), Zynga Poker and With Friends (*Words With Friends*, *Words on Tour*, *Word Streak With Friends*, amongst others);

our ability to renew our existing brand, technology and content licenses as they expire and secure new licenses for top brands;

the process of integrating NaturalMotion Limited's (NaturalMotion's) operations into our operations, including but not limited to our expected ability to expand our creative pipeline, accelerate our growth on mobile and deliver hit NaturalMotion games in 2015;

the effectiveness of our marketing program and initiatives and our ability to obtain game featuring from partners;

our strategy of backing proven teams to develop or expand our game offerings in the four content categories where we are focused, the timely launch of our games in these categories and the success of these games;

our relationship with Facebook, changes in the Facebook platform and/or changes in our agreement with Facebook;

our relationship with Apple, Google and other Android platform providers, changes to the Android or iOS platforms and /or changes in our agreements with Apple, Google and/or other Android platform providers;

our ability to attract and retain key employees in light of business challenges, including employees key to franchise games and planned launches and senior management;

the impact of changes in management, new hires and other organizational changes and roles on our organization;

our ability to efficiently deploy employees and leverage our teams and talent, including shifting resources when necessary to prioritize more important projects;

our ability to use data analytics to improve our player experience, gameplay and monetization;

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our ability to manage new IP costs;

competition in our industry;

maintaining technology infrastructure and employees that can efficiently and reliably handle increased player usage, changes in mobile devices and game platforms, fast load times and the rapid deployment of new features and products;

our ability to anticipate and address technical challenges that may arise;

our ability to protect our players' information and adequately address privacy concerns;

our ability to maintain reliable security services and infrastructure to protect against security breaches, computer malware and hacking attacks;

market opportunity in the social gaming market, including the mobile market and advertising market and our ability to capitalize on and contribute to this market opportunity;

our ability to successfully monitor and adapt to changes in gaming platform and consumer demand as the industry continues to evolve;

our ability to develop, identify, market and launch hit games and new features and content for our existing games in a timely manner;

the ability of our games to generate revenue and bookings for significant period of time after launch and the timing for market acceptance of new games;

attrition or decline in existing games, including franchise games;

our ability to utilize, protect, defend and enforce our intellectual property;

our exposure to intellectual property disputes and other litigation;

our exposure to illegitimate credit card activity and other security risks, including sales or purchases of virtual goods used in our games through unauthorized or illegitimate third-party websites;

our ability to manage risks, costs and other challenges associated with international expansion;

the impact of laws and regulations on our business;

our evaluation of new business opportunities and acquisitions by us, including integration of newly acquired businesses;

changes in corporate strategy or management;

our ability to understand industry trends, such as seasonality, and position our business to take advantage of these trends; and

the effectiveness of our cost cutting activities and our ability to control and reduce expenses, including our estimated savings and charges associated with our restructuring efforts.

These forward-looking statements are subject to a number of 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. The achievement or success of the matters covered by such forward-looking statements involves significant risks, uncertainties and assumptions. 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.

You should not rely upon forward-looking statements as predictions of future events. 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. Factors that could cause or contribute to such differences include, but are not limited to, those described in the section titled Risk Factors. 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.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Zynga Inc.****Consolidated Balance Sheets***(In thousands, except par value and shares)**(Unaudited)*

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 475,428	\$ 131,303
Marketable securities	583,387	785,221
Accounts receivable, net of allowance of \$0 at June 30, 2015 and December 31, 2014	82,754	89,611
Income tax receivable	4,833	3,304
Deferred tax assets	948	2,765
Restricted cash	207	48,047
Other current assets	28,472	22,688
<b>Total current assets</b>	<b>1,176,029</b>	<b>1,082,939</b>
Long-term marketable securities	40,108	231,385
Goodwill	657,131	650,778
Other intangible assets, net	53,451	66,861
Property and equipment, net	283,946	297,919
Other long-term assets	17,976	18,911
<b>Total assets</b>	<b>\$ 2,228,641</b>	<b>\$ 2,348,793</b>
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 27,727	\$ 14,965
Other current liabilities	69,402	164,150
Deferred revenue	151,550	189,923
<b>Total current liabilities</b>	<b>248,679</b>	<b>369,038</b>
Deferred revenue	915	3,882
Deferred tax liabilities	7,297	5,323
Other non-current liabilities	70,581	74,858
<b>Total liabilities</b>	<b>327,472</b>	<b>453,101</b>



## Stockholders' equity:

Common stock, \$0.00000625 par value, and additional paid in capital -  
authorized shares:

2,020,517 shares outstanding: 924,106 shares (Class A, 789,556, Class B,  
114,033, Class C, 20,517) as of June 30, 2015 and 905,860 (Class A, 770,658,  
Class B, 114,685, Class C, 20,517) as of December 31, 2014

	3,173,560	3,096,982
Accumulated other comprehensive income (loss)	(24,685)	(29,175)
Accumulated deficit	(1,247,706)	(1,172,115)
 Total stockholders' equity	 1,901,169	 1,895,692
 Total liabilities and stockholders' equity	 \$ 2,228,641	 \$ 2,348,793

*See accompanying notes.*

**Table of Contents****Zynga Inc.****Consolidated Statements of Operations***(In thousands, except per share data)**(Unaudited)*

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenue:</b>				
Online game	\$ 162,161	\$ 130,966	\$ 310,124	\$ 263,236
Advertising and other	37,757	22,266	73,087	58,016
<b>Total revenue</b>	<b>199,918</b>	<b>153,232</b>	<b>383,211</b>	<b>321,252</b>
<b>Costs and expenses:</b>				
Cost of revenue	57,779	51,288	115,401	104,792
Research and development	90,896	93,722	198,416	191,306
Sales and marketing	41,119	41,608	72,958	71,461
General and administrative	37,805	32,831	78,186	90,167
<b>Total costs and expenses</b>	<b>227,599</b>	<b>219,449</b>	<b>464,961</b>	<b>457,726</b>
<b>Income (loss) from operations</b>	<b>(27,681)</b>	<b>(66,217)</b>	<b>(81,750)</b>	<b>(136,474)</b>
Interest income (expense), net	605	776	1,399	1,646
Other income (expense), net	1,199	896	9,558	2,021
<b>Income (loss) before income taxes</b>	<b>(25,877)</b>	<b>(64,545)</b>	<b>(70,793)</b>	<b>(132,807)</b>
Provision for (benefit from) income taxes	991	(2,012)	2,571	(9,091)
<b>Net income (loss)</b>	<b>\$ (26,868)</b>	<b>\$ (62,533)</b>	<b>\$ (73,364)</b>	<b>\$ (123,716)</b>
<b>Net income (loss) per share:</b>				
Basic	\$ (0.03)	\$ (0.07)	\$ (0.08)	\$ (0.14)
Diluted	\$ (0.03)	\$ (0.07)	\$ (0.08)	\$ (0.14)
<b>Weighted average common shares used to compute net income (loss) per share:</b>				
Basic	911,699	872,784	905,058	861,591
Diluted	911,699	872,784	905,058	861,591

*See accompanying notes.*



**Table of Contents****Zynga Inc.****Consolidated Statements of Comprehensive Income (Loss)***(In thousands)**(Unaudited)*

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income (loss)	\$ (26,868)	\$ (62,533)	\$ (73,364)	\$ (123,716)
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	26,725	13,060	4,112	18,313
Net change on unrealized gains (losses) on available-for-sale investments, net of tax	(60)	(10)	378	(137)
Other comprehensive income (loss)	26,665	13,050	4,490	18,176
Comprehensive income (loss)	\$ (203)	\$ (49,483)	\$ (68,874)	\$ (105,540)

*See accompanying notes.*

**Table of Contents****Zynga Inc.****Consolidated Statements of Cash Flows***(In thousands)**(Unaudited)*

	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating activities:</b>		
Net income (loss)	\$ (73,364)	\$ (123,716)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	31,062	45,270
Stock-based expense	69,367	57,173
(Gain) loss from sales of investments, assets and other, net	(5,650)	1,278
Accretion and amortization on marketable securities	3,884	5,398
Deferred income taxes	1,241	(9,075)
Changes in operating assets and liabilities:		
Accounts receivable, net	6,857	(10,883)
Income tax receivable	(1,529)	(1,278)
Other assets	(8,792)	(7,892)
Accounts payable	12,762	1,584
Deferred revenue	(41,340)	14,961
Other liabilities	(37,298)	20,740
Net cash provided by (used in) operating activities	(42,800)	(6,440)
<b>Investing activities:</b>		
Purchases of marketable securities	(101,091)	(470,174)
Sales and maturities of marketable securities	490,667	526,420
Acquisition of property and equipment	(5,239)	(4,649)
Business acquisition, net of cash acquired		(390,993)
Proceeds from sale of property and equipment		5,056
Proceeds from sale of equity method investment	10,507	
Other investing activities, net		700
Net cash provided by (used in) investing activities	394,844	(333,640)
<b>Financing activities:</b>		