

ZYNGA INC
Form 10-Q
November 04, 2016

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, 2016

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
(State of or other jurisdiction of incorporation or organization)

42-1733483
(I.R.S. Employer Identification No.)

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

94103
(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 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 October 15, 2016, there were 775,224,508 shares of the Registrant's Class A common stock outstanding, 96,201,758 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

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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 “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.”

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,” “intend,” “should,” “would,” “project,” “plan,” “outlook,” “target,” “expect,” or similar expressions, or the negative or plural of these words or 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 game slate for 2016 and the success of this slate and future launches from this slate;
- the timely launch and success of our games
- our ability to change our mix of R&D and unlaunched game slate to live games;
- our ability to increase the predictability of our business and to continue to transition to mobile;
- our planned launch of mobile first games and new features for existing games;
- our ability to grow mobile bookings in 2016 and beyond;
- our cost structure and cost reduction plans and estimated savings and charges, including our reduction in workforce and reduction in centralized services costs and 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 turnaround strategy and deliver long-term value to our shareholders, employees and players and fulfill our mission to connect the world through games;
- our ability to accurately forecast our upcoming game launches and bookings and revenue related to upcoming game launches and our existing games;
- our ability to accurately forecast our bookings, revenue and performance of our existing games;
- our relationship 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 player engagement, optimize our games to increase long-term player retention and monetize our live games and games in geo-lock testing;
- our ability to renew our existing brand, technology and content licenses as they expire and secure new licenses for top brands;
- the success of our acquisitions;
- the process of integrating newly acquired businesses with ours, including but not limited to our expected ability to expand our creative pipeline, accelerate our growth on mobile and deliver hit games on schedule from such newly acquired businesses;
- 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 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 or changes in our agreement with Facebook;
- our relationship with Apple, Google and other Android platform providers, changes to the Android or iOS platforms or changes in our agreements with Apple, Google 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 change in our senior management team and management teams, new hires and other changes in our organization;

the strength of our balance sheet and our ability to effectively manage our cost structure and investments;

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;

our ability to manage new IP costs;

competition in our industry;

our ability to maintain 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, the advertising market, the market for social game categories in which we invest, and our ability to capitalize on and contribute to this market opportunity;

the success of our advertising offerings, and our ability to grow advertising bookings;

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 a significant period of time after launch and the timing for market acceptance of new games;

attrition or decline in existing games' audience and financial performance, 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;

our ability to build on our social legacy in both our web games and our new mobile games and build a player network across mobile games;

our ability to operate in an entrepreneurial manner, successfully invest in and innovate on game mechanics and successfully invest in and leverage data and analytics in our operations;

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; and

our share repurchase program, including our ability to execute on and repurchase shares under the program

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.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Zynga Inc.

Consolidated Balance Sheets

(In thousands, except par value)

(Unaudited)

September 30,