

ZYNGA INC
Form 10-Q
May 08, 2012
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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 March 31, 2012

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)

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Delaware (State of Incorporation)	42-1733483 (IRS Employer Identification No.)
699 Eighth Street San Francisco, CA (Address of Principal Executive Offices)	94103 (Zip Code)
(855) 449-9642 (Telephone No.)	

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No

As of April 15, 2012, there were 218,969,756 shares of the Registrant's Class A common stock outstanding, 496,552,654 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, 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, MUPs mean monthly unique payers for our games and ABPU means average daily bookings per average DAU. Unless otherwise indicated, these metrics are based on internally-derived measurements across all platforms on which our games are played. For further information about DAUs, MAUs, MUUs, MUPs and ABPU 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, estimate, continue, anticipate, intend, could, would, project, plan, expect, or the negative words or similar expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

our future relationship with Facebook;

our corporate strategy and initiatives;

launching new games and enhancements to games that are commercially successful;

user traffic to Zynga.com and publishing games from third-party developers on Zynga.com;

continued growth in demand for virtual goods and in the social games industry;

building and sustaining our franchise games;

the ability of our games to generate revenue and bookings for a significant period of time after launch;

capital expenditures and investment in our network infrastructure, including data centers;

our use of working capital in general;

retaining and adding players and increasing the monetization of our player base;

maintaining a technology infrastructure that can efficiently and reliably handle increased player usage, fast load times and the deployment of new features and products;

attracting and retaining qualified employees and key personnel;

designing games for mobile and other non-PC devices, and pursuing mobile initiatives generally;

our successful growth internationally and in advertising revenue;

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our evaluation of new business opportunities, including online gambling;

maintaining, protecting and enhancing our intellectual property;

protecting our players' information and adequately addressing privacy concerns; and

successfully acquiring and integrating companies and assets.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, Risk Factors in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, 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 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. Moreover, except as required by law, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly 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 (Unaudited)****Zynga Inc.****Consolidated Balance Sheets***(In thousands, except par value)**(Unaudited)*

	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 361,074	\$ 1,582,343
Marketable securities	701,662	225,165
Accounts receivable, net of allowance of \$163 at March 31, 2012 and December 31, 2011	146,746	135,633
Income tax receivable	6,430	18,583
Deferred tax assets	21,794	23,515
Restricted cash	260,021	3,846
Other current assets	47,674	34,824
Total current assets	1,545,401	2,023,909
Long-term marketable securities	458,731	110,098
Goodwill	195,796	91,765
Other intangible assets, net	143,426	32,112
Property and equipment, net	255,251	246,740
Restricted cash	60	4,082
Other long-term assets	7,281	7,940
Total assets	\$ 2,605,946	\$ 2,516,646
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 44,312	\$ 44,020
Other current liabilities	181,899	167,271
Deferred revenue	478,303	457,394
Total current liabilities	704,514	668,685
Deferred revenue	10,534	23,251
Deferred tax liabilities	53,020	13,950
Other non-current liabilities	62,508	61,221
Total liabilities	830,576	767,107
Stockholders' equity:		
Common stock, \$.00000625 par value, and additional paid in capital authorized: 2,020,517 shares; outstanding: 732,178 shares (Class A, 158,317, Class B, 553,344, Class C, 20,517) as of March 31, 2012 and 721,592 shares (Class A, 121,381, Class B, 579,694 Class C, 20,517) as of December 31, 2011	2,537,103	2,426,168
Treasury stock	(282,924)	(282,897)
Accumulated other comprehensive income	636	362
Accumulated deficit	(479,445)	(394,094)

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Total stockholders' equity	1,775,370	1,749,539
Total liabilities and stockholders' equity	\$ 2,605,946	\$ 2,516,646

See accompanying notes.

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

	Three Months Ended March 31,	
	2012	2011
Revenue	\$ 320,972	\$ 242,890
Costs and expenses:		
Cost of revenue	90,122	67,662
Research and development	186,876	71,760
Sales and marketing	56,837	40,156
General and administrative	72,715	27,110
Total costs and expenses	406,550	206,688
Income (loss) from operations	(85,578)	36,202
Interest income	1,291	518
Other (expense), net	(1,142)	(736)
Income (loss) before income taxes	(85,429)	35,984
(Provision for) / benefit from income taxes	78	(19,226)
Net income (loss)	\$ (85,351)	\$ 16,758
Net income attributable to participating securities		15,416
Net income (loss) attributable to common stockholders	\$ (85,351)	\$ 1,342
Net income (loss) per share attributable to common stockholders		
Basic	\$ (0.12)	\$ 0.01
Diluted	\$ (0.12)	\$ 0.00
Weighted average common shares used to compute net income (loss) per share attributable to common stockholders:		
Basic	707,693	258,168
Diluted	707,693	358,312

See accompanying notes.

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Zynga Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended	
	March 31,	
	2012	2011
Net income (loss)	\$ (85,351)	\$ 16,758
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	121	(3)
Net change on unrealized gains (losses) on available-for-sale investments, net of tax	153	(74)
Other comprehensive income (loss)	274	(77)
Comprehensive income (loss)	\$ (85,077)	\$ 16,681

See accompanying notes.

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

	Three Months Ended March 31,	
	2012	2011
Operating activities:		
Net income (loss)	\$ (85,351)	\$ 16,758
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	29,398	17,847
Stock-based expense	133,851	14,506
Accretion and amortization on marketable securities	2,836	868
Loss from sale of property and equipment	12	
Deferred income taxes	(1,286)	
Changes in operating assets and liabilities:		
Accounts receivable, net	(5,617)	(21,791)
Income tax receivable	14,242	14,661
Other assets	(4,818)	4,346
Accounts payable	(283)	5,074
Deferred revenue	8,192	43,708
Other liabilities	(12,359)	7,680
Net cash provided by operating activities	78,817	103,657
Investing activities:		
Purchases of marketable securities	\$ (964,741)	\$ (272,418)
Sales of marketable securities	16,747	1,501
Maturities of marketable securities	116,126	285,699
Acquisition of property and equipment	(34,994)	