

ZYNGA INC
Form 10-K
February 19, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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)

Delaware
(State or Other Jurisdiction of

42-1733483
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

699 Eighth Street
San Francisco, CA

94103

(Address of principal executive offices)

(855) 449-9642

(Zip Code)

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(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Class A Common Stock, par value \$0.00000625 per share	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input 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 ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2015, based upon the closing price of \$2.86 of the registrant's Class A Common Stock as reported on the NASDAQ Global Select Market, was approximately \$2.230 billion, which excludes 144.5 million shares of the registrant's common stock held on June 30, 2015 by then current executive officers, directors, and stockholders that the registrant has concluded are affiliates of the registrant.

As of February 12, 2016, there were 728,915,069 shares of the registrant's Class A common stock outstanding, 113,522,135 shares of the registrant's Class B common stock outstanding and 20,517,472 shares of the registrant's Class C common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. The proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2015.

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Zynga Inc.

Form 10-K

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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 in 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 Annual Report on Form 10-K 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, could, should, would, project, plan, similar expressions, or the negative or plural of these words or expressions. These forward-looking statements include, but are not limited to, statements concerning or impacted by 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 2015 game slate and our game slate for 2016 and the success of these slates, including launches from our 2015 game slate (*Words on Tour*, *Empires & Allies*, *FarmVille: Harvest Swap*, *Mountain Goat Mountain*, *Black Diamond Casino* and *Princess Bride Slots*) and expected future launches from our 2016 game slate (including *Dawn of Titans*, *CSR2*, *CityVille Mobile*, a sequel to *FarmVille 2: Country Escape*, *Spin It Rich!*, *Willy Wonka Slots*, *True Vegas*, *Vegas Diamond Slots*, *Crazy Cake Swap* and a Wizard of Oz branded match-3 game);

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;

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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 (including our Slots games, *Words With Friends*, *Zynga Poker*, and *FarmVille* franchise games) and games in geo-lock testing, (including, *Dawn of Titans*, *CSR2*, *CityVille Mobile*, *Spin It Rich!*, *Vegas Diamond Slots* and *Crazy Cake Swap*);

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 acquisition of Rising Tide Games, Inc. (*Rising Tide Games*) and Zindagi Games, Inc. (*Zindagi*);

the process of integrating NaturalMotion Limited's (*NaturalMotion*) operations 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 NaturalMotion, Rising Tide Games and Zindagi;

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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 and /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;

the timely launch and success of our games, including the launch of our 2016 game slate (including *Dawn of Titans*, *CSR2*, *CityVille Mobile*, a sequel to *FarmVille 2: Country Escape*, *Spin It Rich!*, *Willy Wonka Slots*, *True Vegas*, *Vegas Diamond Slots*, *Crazy Cake Swap* and a Wizard of Oz branded match-3 game);

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;

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

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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; 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 I. Item 1A. Risk Factors of this Annual Report on Form 10-K. 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 Annual Report on Form 10-K 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.

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PART I

ITEM 1. BUSINESS

Overview

Zynga Inc. (Zynga or we or the Company) is a leading provider of social game services. We develop, market and operate social games as live services played on mobile platforms such as iOS and Android and social networking sites such as Facebook. Generally, all of our games are free to play, and we generate revenue through the in-game sale of virtual goods and advertising services.

We are a pioneer and innovator of social games and a leader in making play a core activity on mobile devices and social networking sites. We believe our leadership position in social games is the result of our significant investment in our people, content, brand, technology and infrastructure. Our leadership position in social games is defined by the following:

Engaged and Global Community of Players. According to our analytics, during the fourth quarter of 2015, we had 68 million monthly active users or MAUs, of which 81% were mobile MAUs, and 18 million daily active users or DAUs, of which 82% were mobile DAUs. Our players are also highly engaged with our games being played by 21 million DAUs worldwide for the full year ended 2015, of which 80% were mobile DAUs. According to comScore Mobile Metrix, as of December 2015, Zynga is ranked number 1 in mobile applications in the United States for monthly unique users in the games category.

Leading Portfolio of Social Games. We have developed a number of popular social games including games in our Slots, Words With Friends, Zynga Poker and FarmVille franchises.

Scalable Technology and Data. We leverage our technology to increase player engagement, cross-promote our portfolio of games, continually enhance existing games, launch new games and build the Zynga brand. We believe our scale results in network effects that deliver compelling value to our players, and we are committed to making significant investments to grow our community of players, their engagement and monetization over time. We believe that combining data analytics with creative game design enables us to create a superior player experience.

In 2015, we launched several new games on mobile and web including *Words on Tour*, *Empires & Allies*, *FarmVille: Harvest Swap*, *Mountain Goat Mountain*, *Black Diamond Casino* and *Princess Bride Slots*. In May 2015, we entered the mobile Action Strategy category with *Empires & Allies* and were listed among the 2015 Best New Games awarded by Google Play and 2015 Best Mobile Games awarded by Facebook. *Words with Friends* also earned Best Free Game of 2015 by Apple and was localized in six global languages. Inclusion in these rankings demonstrates our commitment to developing high quality mobile social games. In the third quarter of 2015, we also acquired Rising Tide Games to expand our footprint in the social casino games space.

Consistent with our free-to-play business model, a small portion of our players have historically been payers. During the three months ended December 31, 2015, we had approximately 0.8 million monthly unique payers or MUPs (excluding payers who use certain payment methods for which unique payer data is not available, NaturalMotion legacy games and games from recently acquired Rising Tide). Because the opportunity for social interactions increases as the number of players increases, we believe that maintaining and growing our overall number of players, including the number of players who may not purchase virtual goods, is important to the success of our business. As a result, we believe that the number of players who choose to purchase virtual goods will continue to constitute a small portion of our overall players.

Our top three games historically have contributed the majority of our revenue. Our top three games accounted for 53%, 60% and 54% of our online game revenue in 2015, 2014 and 2013, respectively.

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Our operations are headquartered in San Francisco, California, and we have several operating locations in the U.S. as well as various international office locations in India and Europe. We were originally organized in April 2007 and completed our initial public offering in December 2011. Our Class A common stock is listed on the NASDAQ Global Select Market under the symbol ZNGA.

Our Strategy and Core Commitments

Our mission is to connect the world through games. In pursuit of our mission, we encourage entrepreneurship and intelligent risk-taking to produce great games and breakthrough innovations. Our goal from a content perspective is to create top hits that engage mainstream global audiences.

We encourage innovation, the creation of compelling game experiences and moving with a sense of urgency to capitalize on our opportunities for our success and the benefit of our players. These factors are critical to extending our leadership position as we seek to continue building successful franchises.

Our Social Games

We design our social games to provide players with shared experiences that surprise and delight them. Our social games leverage the global connectivity and distribution on mobile platforms such as iOS and Android and social networking sites such as Facebook. Our games are free to play, span a number of categories and attract a community of players that is demographically and geographically diverse. We operate our games as live services and update them with fresh content and new features to make them more social, enhance player engagement and improve monetization. We analyze the data generated by our players' game play and social interactions to guide the creation of new content and features. We use this ongoing feedback loop to keep our games compelling and enhance the player experience.

Our Content

Make Games Free, Accessible and Fun. We operate our games as live services that are available anytime and anywhere. We design our social games to provide players with easy access to shared experiences that delight, amuse and entertain, and we will continue to update our games on an ongoing basis with fresh content and new features to make them more social and fun for our players.

Sustain and Grow Live Franchises. We will continue to enhance the games that make up our market-leading franchises including Slots, Words With Friends, Zynga Poker and FarmVille. We regularly update our games after launch to encourage social interactions, add new content and features and seek to improve monetization.

Create New Hits. We will continue to invest in building new games and expand the number of categories of games that we offer, as well as offer our games on multiple platforms so players can access our games on various devices. For example, in addition to multiple in-game features and events, this year we released *Words on Tour* and *FarmVille: Harvest Swap* in the Casual category, *Black Diamond Casino* and *Princess Bride Slots* in the Social Casino category and *Empires & Allies* in the Action Strategy category.

Growth on Mobile. We believe there is a large opportunity to extend our brand and games to mobile platforms including Apple iOS and Google Android. We shifted our business to focus on mobile first games in 2015. We also believe our acquisition of NaturalMotion in 2014 will accelerate our mobile growth and add mobile titles in strategic game categories.

Our Franchises

We have created evergreen franchises such as Slots, Words With Friends, Zynga Poker and FarmVille. In 2016, we expect to move into new game categories that align with the timeless entertainment categories that consumers care about, including the Action Strategy category.

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We currently invest in several game categories, including the following:

Social Casino. Includes Zynga Poker and our Slots games such as *Hit it Rich! Slots*, *Wizard of Oz Slots*, *Princess Bride Slots* and *Black Diamond Casino*.

Casual. Includes one of our most popular mobile-game titles *Words With Friends*, which launched a localized version in six new languages, including Spanish, French, German and Italian in the third quarter of 2015. Games in this category provide chances for friendly competition and allow our players to quickly connect with friends and family when they start a game and to build and enhance relationships throughout the game experience.

Action Strategy. Includes *Empires & Allies*, which launched in the second quarter of 2015. Games in this category emphasize skillful thinking and planning to achieve victory against other players. There is also a strong social focus as players can connect with friends to achieve a common goal, such as the Alliances feature in *Empires & Allies*.

Invest Express. Represented by our games such as *FarmVille*, *FarmVille 2* and *FarmVille 2: Country Escape*, these games allow our players to express their personalities by customizing the appearances of their farms.

We also may invest in other strategic categories in the future.

Our Network

Players progress faster in their games by connecting with friends and other players in our network to instantly get what they need to complete quests, obtain virtual items and enhance their experience. We aspire to leverage our existing and new games to bring the best social playing experiences to our audience. Our network enables users to discover new games, find and connect with new friends, challenge, cooperate and compete with friends; all of which drive higher user engagement for games on our network.

Our Revenues

We generate revenue from the following live services:

Virtual Goods and Paid Downloads

Our primary revenue source is the sale of virtual currency that players use to buy in-game virtual goods. Virtual currency can also be earned for free through game play or by accepting promotional offers from our advertising partners. We also generate revenue when players purchase mobile game downloads.

Advertising and Licensing

Our advertising services offer creative ways for marketers and advertisers to reach and engage with our players. The goal of our engagement-based advertising is to enhance the player experience while delivering real value to advertisers. Our advertising offerings include:

Branded Virtual Goods and Sponsorships that integrate relevant advertising and messaging within game play;

Engagement Ads and Offers in which players can answer certain questions, watch-to-earn engagements or sign up for third party services to receive virtual currency and in-game bonuses;

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Mobile Ads through ad-supported free versions of our mobile games;

Display Ads in our online web games that include banner advertisements; and

Licensing our brands.

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Marketing and Distribution

We acquire our players through unpaid channels by cross-promoting new games to our existing audience and through paid advertising channels. We have been able to build a large community of players through the viral and sharing features provided by social networks, the social innovations in our games and the network effects of our games.

We are committed to connecting with our players. We have fan pages, generally on Facebook, for each of our games to connect with our players; and we leverage various other forms of social media, including Twitter, to communicate with them. We periodically host live and online player events. We also advertise our games within other mobile applications and on social networks such as Facebook via various in-app advertising partners. In 2015 and 2014, we spent \$128.9 million and \$101.7 million, respectively, on these player acquisition costs.

Agreements with Facebook, Apple and Google

Our revenue depends on our continued ability to publish our games on Facebook and on mobile platforms, primarily the iOS and Android platforms. We operate under the standard terms of service for Facebook, Apple and Google and any of these operators could unilaterally alter their terms of service in a manner that could harm our business.

In 2015, we derived 29% of our bookings and 33% of our revenue from Facebook and 68% of our bookings and 64% of our revenue from mobile platforms, such as Apple's App Store for iOS devices and the Google Play App Store for Android devices. In 2015, an increasing number of our players were generated from mobile platforms.

Our use of the Facebook platform and data derived from Facebook is governed by Facebook's standard terms of service except for certain limited addenda. Our use of mobile platforms and data derived from mobile platforms is also governed by the standard terms of service of the mobile platforms, primarily Apple and Google.

Research and Development

We believe continued investment in enhancing existing games and developing new games, and in software development tools and code modification, is important to attaining our strategic objectives. Our research and development expenses were \$361.9 million, \$396.6 million and \$413.0 million in 2015, 2014 and 2013, respectively, which included stock-based expense of \$94.5 million, \$83.7 million and \$61.9 million, respectively.

Technology and Tools.

We have invested extensively in developing our proprietary technology stack, which has the ability to handle sudden bursts of activity for millions of players over a short period of time with high levels of performance and reliability. Our proprietary technology stack includes datacenter and cloud computing management, a shared code base, network and cross-promotional features and proprietary data analytics. Our technology stack also supports the growth of our 2D and 3D game engines across the mobile business in addition to supporting high-level security and anti-fraud infrastructure. We are also investing in machine learning. We believe that investing in technology and tools, including the simulation technologies we acquired with our purchase of NaturalMotion in 2014, can create competitive advantages as well as extend our technology leadership. We will continue to innovate and optimize across our technology and tools to deliver cost-effective, high performance and highly available social games.

Intellectual Property

Our business is significantly based on the creation, acquisition, use and protection of intellectual property. Some of this intellectual property is in the form of software code, patented technology and trade secrets that we

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use to develop our games and to enable them to run properly on multiple platforms. Other intellectual property we create includes product and feature names and audio-visual elements, including graphics, music, story lines and interface design.

While most of the intellectual property we use is created by us, we have also acquired rights to proprietary intellectual property. We have also obtained rights to use intellectual property through licenses and service agreements with third parties. These licenses typically limit our use of intellectual property to specific uses and for specific time periods.

We protect our intellectual property rights by relying on federal, state and common law protections, as well as contractual restrictions. We actively seek patent protection covering inventions originating from the company and acquire patents we believe may be useful or relevant to our business. We control access to our proprietary technology by entering into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with third parties. We also actively engage in monitoring and enforcement activities with respect to infringing uses of our trademarks, copyrights and domain names by third parties.

In addition to these contractual arrangements, we also rely on a combination of trade secret, copyright, trademark, trade dress, domain name and patents to protect our games and other intellectual property. We typically own the copyright to the software code to our content, as well as the trademark for the brand or title under which our games are marketed. We pursue the registration of our domain names, copyrights, trademarks, patents, and service marks in the United States and, for some, in locations outside the United States. Our registered trademarks in the United States include Zynga and the names of our games, among others.

Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in the United States or other countries in which our games are distributed. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time-consuming. Any unauthorized disclosure or use of our intellectual property could make it more expensive to do business, thereby harming our operating results.

Companies in the Internet, games, social media, technology and other industries may own large numbers of patents, copyrights and trademarks and may frequently request license agreements, threaten litigation or file suit against us based on allegations of infringement or other violations of intellectual property rights. From time to time, we have faced, and we expect to face in the future, allegations by third parties, including our competitors and non-practicing entities, that we have infringed their copyrights, trademarks, patents and other intellectual property rights. As we face increasing competition and as our business grows, including into new areas, we will likely face more claims of infringement.

Competition

We face significant competition in all aspects of our business. Specifically, we compete for the leisure time, attention and discretionary spending of our players with other social game developers on the basis of a number of factors, including quality of player experience, brand awareness and reputation and access to distribution channels.

We believe we compete favorably on these factors. However, our industry is evolving rapidly and is becoming increasingly competitive. Other developers of social games could develop more compelling content that competes with our social games and adversely affects our ability to attract and retain players and their entertainment time. These competitors, including companies of which we may not be currently aware, may take advantage of social networks, access to a large user base and their network effects to grow rapidly and virally.

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Our competitors include:

Developers for Mobile and Web Games: We face competition from a number of competitors who develop mobile and web games. These competitors, some of which have significant financial, technical and other resources, greater name recognition and longer operating histories, may create games that appeal to our players. The mobile game sector specifically is characterized by frequent product introductions, rapidly emerging mobile platforms, new technologies and new mobile application storefronts. Some of these competitors include DeNA Co. Ltd. (Japan), Electronic Arts Inc., Gameloft SA, GREE International, Inc., Glu Mobile Inc., King.com Inc., Rovio Mobile Ltd., Supercell Inc., GungHo Online Entertainment, Inc., Kabam and The Walt Disney Company. Because our games are free to play, we compete primarily on the basis of player experience rather than price. We also expect new competitors to enter the market and existing competitors to allocate more resources to develop and market competing games and applications.

Other Game Developers: Our players may also play other games on personal computers and consoles, some of which include social features that compete with our social games and have community functions where game developers can engage with their players. Some of these competitors include Activision Blizzard, Inc., Electronic Arts, Riot Games, Valve, Take-Two Interactive, SEGA of America, Inc. and The Walt Disney Company.

Other Forms of Media and Entertainment: We compete more broadly for the leisure time and attention of our players with providers of other forms of Internet and mobile entertainment, including social networking, online casual entertainment and music. To the extent existing or potential players choose to read, watch or listen to online content or streaming video or radio, play interactive video games at home or on their computer or mobile devices rather than play social games, these content services pose a competitive threat.

Government Regulation

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the Internet and mobile platforms, many of which are still evolving and could be interpreted in ways that could harm our business. In the United States and internationally, laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement, and other theories based on the nature and content of the materials searched, the ads posted, or the content provided by users. Any court ruling or other governmental action that imposes liability on providers of online services for the activities of their users and other third parties could harm our business. We are potentially subject to a number of foreign and domestic laws and regulations that affect the offering of certain types of content, such as that which depicts violence, many of which are ill defined, still evolving and could be interpreted in ways that could harm our business or expose us to liability.

In addition, rising concern about the use of social networking technologies for illegal conduct, such as the unauthorized dissemination of national security information, money laundering or supporting terrorist activities may in the future produce legislation or other governmental action that could require changes to our games or restrict or impose additional costs upon the conduct of our business.

Some of our games or features are based upon traditional casino games, such as slots and poker. We have structured and operate these games and features, including *Zynga Poker* and *Hit It Rich! Slots*, with the gambling laws in mind and believe that these games or features do not constitute gambling. There are ongoing academic, political and regulatory discussions in the United States and other jurisdictions regarding whether social casino applications should be subject to a higher level or different type of regulation than other social game applications and, if so, what this regulation should include.

We also offer our players various types of sweepstakes, giveaways and promotion opportunities. We are subject to laws in a number of jurisdictions concerning the operation and offering of such activities, many of

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which are still evolving and could be interpreted in ways that could harm our business. Any court ruling or other governmental action that imposes liability on providers of online services could result in criminal or civil liability and could harm our business.

In the area of information security and data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as the 2002 amendment to California's Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to implement. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities.

We are also subject to federal, state and foreign laws regarding privacy and protection of player data, including the collection of data from minors. We post our Privacy Policy and Terms of Service online, in which we describe our practices concerning the use, transmission and disclosure of player data. Any failure by us to comply with our posted privacy policy or privacy related laws and regulations could result in proceedings against us by governmental authorities or others, which could harm our business. In addition, the interpretation of many data protection laws, and their application to the Internet is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from state to state, country to country, or region to region, and in a manner that is not consistent with our current data protection practices. Complying with these varying international requirements could cause us to incur additional costs and change our business practices. Further, any failure by us to adequately protect our players' information and data could result in a loss of player confidence in our services and ultimately in a loss of players, which could adversely affect our business.

With the move of our services to mobile devices, we are also subject to additional regulations regarding communication via this channel, such as the Telephone Consumer Protection Act (TCPA). The interpretation of many of these laws, including the TCPA, and their application to current means of communication through mobile devices is unclear and in a state of flux. These laws may be interpreted and applied in a manner that is not consistent with current industry practices. The costs of compliance with these laws may increase in the future as a result of changes in interpretation and may greatly reduce our ability to contact our players through this channel. Furthermore, failure on our part to comply with these laws may subject us to significant liabilities.

In addition, some concern has been expressed in Europe and in certain countries that social gaming should be regulated to protect consumers, in particular minors and persons susceptible to addiction to social games. European regulators are also considering the efficacy of existing consumer protection laws as they relate to protection of consumers for the purchase of virtual items in applications, including game applications. These concerns could lead to the adoption of legislation or regulations that may impose additional burdens upon us, prohibit the offering of our games to certain users or territories, increase our costs or require changes to our games. These concerns have already led to certain changes in Apple and Google policy and could lead to additional changes.

Also, because our services are accessible worldwide, certain foreign jurisdictions have claimed and others may claim that we are required to comply with their laws, including in jurisdictions where we have no local entity, employees or infrastructure.

Separately, we had a partnership agreement with bwin.party to develop, test and operate certain real money online poker and casino games in the United Kingdom which ended in February 2015.

Seasonality

During fiscal year 2015, approximately 23% of our revenue was derived from advertising and other. Advertising budgets are generally highest during the fourth quarter and decline significantly in the first quarter of the following year, which affects the revenues we derive from advertisements and offers in our games. Additionally, we generally experience increases in game downloads and resulting online games revenues in the fourth quarter and first quarter corresponding to increases in smartphone and tablet purchases during the holiday shopping season.

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Employees

Our future success depends upon the continued service of our key technical and management personnel and upon our ability to continue to attract and retain qualified employees, particularly our senior management team and highly skilled game designers, product managers and engineers. We currently have favorable employee relations, but the competition for technical personnel is intense, and the loss of key employees or the inability to hire such employees when needed could have a material adverse impact on our business and financial condition. As of December 31, 2015, we had 1,669 full-time employees.

Available Information

Our website is located at www.zynga.com and our investor relations website is located at <http://investor.zynga.com>. The following filings are available through our investor relations website after we file them with the SEC: Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and our Proxy Statements for our annual meetings of stockholders. These filings are also available for download free of charge on our investor relations website. Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases as part of our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by signing up for email alerts and RSS feeds. Further corporate governance information, including our certificate of incorporation, bylaws, governance guidelines, board committee charters, and code of conduct, is also available on our investor relations website under the heading Corporate Governance. The contents of our websites are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are not material may also significantly impair our business operations. Our business could be harmed by any of these risks. The trading price of our Class A common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes.

We have marked with an asterisk () those risks described below that reflect changes from, or additions to, the risks described in our Quarterly Report on Form 10-Q for the quarter-ended September 30, 2015.*

Risks Related to Our Business and Industry

Our business will suffer if we are unable to continue to develop successful games for mobile platforms, successfully monetize mobile games, or successfully forecast mobile launches and/or monetization.*

Our business depends on developing and publishing mobile games that consumers will download and spend time and money playing. We have devoted and we expect to continue to devote substantial resources to the research, development, analytics and marketing of our mobile games, however we cannot guarantee that we will continue to develop games that appeal to players or advertisers. We are also in the process of executing plans to succeed as a mobile first company, which includes the optimization of our live games, development and launch

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of new games, stemming declines in our audience size and prudent cost control. However, these efforts may not be sufficient to enable us to improve our operating results. We recently launched *Words on Tour*, *Empires & Allies*, *FarmVille: Harvest Swap*, *Mountain Goat Mountain*, *Princess Bride Slots* and *Black Diamond Casino* in 2015. In order to generate profits, new games that we introduce need to generate sufficient bookings and revenues to offset the associated development and marketing costs. As our player base becomes more heavily concentrated on mobile platforms, our ability to drive traffic to our games through unpaid channels may become diminished, and the overall cost of marketing our games may increase. We may also encounter difficulty in integrating features on games developed for mobile platforms that a sufficient number of players will pay for or otherwise sufficiently monetizing mobile games. The success of our games depends, in part, on unpredictable and volatile factors beyond our control including consumer preferences, competing games, new mobile platforms and the availability of other entertainment experiences. If our games are not launched on time or do not meet consumer expectations, or they are not brought to market in a timely and effective manner, our ability to grow revenue and our financial performance will be negatively affected. For example, we recently experienced delays in the introduction o