ZYNGA INC
Form 10-Q
May 04, 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 March 31, 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 of or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
699 Eighth Street San Francisco, CA	94103
(Address of principal executive offices)	(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, 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	(Do not check if a smaller reporting company)	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 April 15, 2018, there were 770,606,437 shares of the Registrant's Class A common stock outstanding, 66,716,574 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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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)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$361,581	$372,870
Short-term investments	273,850	308,506
Accounts receivable, net of allowance of $0 at March 31, 2018 and December 31, 2017	92,769	103,677
Restricted cash	7	12,807
Prepaid expenses	26,012	24,253
Other current assets	10,073	8,837
Total current assets	764,292	830,950
Goodwill	751,830	730,464
Intangible assets, net	59,792	64,258
Property and equipment, net	264,580	266,589
Restricted cash	10,000	20,000
Prepaid expenses	23,022	23,821
Other non-current assets	45,495	43,251
Total assets	$1,919,011	$1,979,333
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$11,125	$18,938
Income tax payable	1,847	6,677
Deferred revenue	140,021	134,007
Other current liabilities	79,878	123,089
Total current liabilities	232,871	282,711
Deferred revenue	1,770	568
Deferred tax liabilities, net	6,438	5,902
Other non-current liabilities	34,067	48,912
Total liabilities	275,146	338,093
Stockholders' equity:		
Common stock, $0.00000625 par value, and additional paid in capital - authorized shares: 2,020,517; shares outstanding: 863,612 shares (Class A, 776,365, Class B, 66,730 Class C, 20,517) as of March 31, 2018 and 870,660 (Class A, 783,376,	3,443,929	3,426,505

Class B, 66,767, Class C, 20,517) as of December 31, 2017		
Accumulated other comprehensive income (loss)	(70,390)	(93,497)
Accumulated deficit	(1,729,674)	(1,691,768)
Total stockholders' equity	1,643,865	1,641,240
Total liabilities and stockholders' equity	$ 1,919,011	$ 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 March 31,	
	2018	2017
Revenue:		
Online game	$161,553	$153,481
Advertising and other	46,679	40,803
Total revenue	208,232	194,284
Costs and expenses:		
Cost of revenue	69,042	64,877
Research and development	60,825	69,202
Sales and marketing	50,855	46,620
General and administrative	23,253	22,565
Total costs and expenses	203,975	203,264
Income (loss) from operations	4,257	(8,980)
Interest income	1,810	937
Other income (expense), net	3,401	1,436
Income (loss) before income taxes	9,468	(6,607)
Provision for (benefit from) income taxes	3,859	2,867
Net income (loss)	$5,609	$(9,474)
Net income (loss) per share attributable to common stockholders:		
Basic	$0.01	$(0.01)
Diluted	$0.01	$(0.01)
Weighted average common shares used to compute net income (loss) per share attributable to common stockholders:		
Basic	869,627	875,712
Diluted	893,774	875,712

See accompanying notes to consolidated financial statements.

Zynga Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income (loss)	$5,609	$(9,474)
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	23,134	5,481
Net change in unrealized gains (losses) on available-for-sale marketable debt securities, net of tax	(27)	23
Other comprehensive income (loss), net of tax	23,107	5,504
Comprehensive income (loss):	$28,716	$(3,970)

See accompanying notes to consolidated financial statements.

Zynga Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2018	2017 (As Adjusted)[1]
Cash flows from operating activities:		
Net income (loss)	$ 5,609	$ (9,474)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,731	8,881
Stock-based compensation expense	14,113	17,526
(Gain) loss from foreign currency, sales of investments, assets and other, net	1,951	38
Accretion and amortization on marketable debt securities	(549)	—
Change in deferred income taxes and other	1,322	1,075
Changes in operating assets and liabilities:		
Accounts receivable, net	10,682	(8,964)
Other assets	(4,786)	(5,903)
Accounts payable	(9,574)	(8,802)
Deferred revenue	11,234	13,074
Income tax payable	(5,004)	1,252
Other liabilities	(36,676)	(13,424)
Net cash provided by (used in) operating activities	(3,947)	(4,721)
Cash flows from investing activities:		
Purchases of short-term investments	(124,822)	—
Sales and maturities of short-term investments	160,000	—
Acquisition of property and equipment	(1,424)	(2,285)
Business acquisitions, net of cash acquired	—	(27,581)
Proceeds from sale of property and equipment	25	15
Release of restricted cash escrow from business combinations	(22,800)	—
Other investing activities, net	—	(7,390)
Net cash provided by (used in) investing activities	10,979	(37,241)
Cash flows from financing activities:		
Taxes paid related to net share settlement of stockholders' equity awards	(6,364)	(415)
Repurchases of common stock	(39,544)	(86,164)
Proceeds from issuance of common stock	3,311	3,152
Acquisition-related contingent consideration payment	—	(5,115)
Net cash provided by (used in) financing activities	(42,597)	(88,542)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1,476	857

Net change in cash, cash equivalents and restricted cash	(34,089)	(129,647)
Cash, cash equivalents and restricted cash, beginning of period	405,677	861,716
Cash, cash equivalents and restricted cash, end of period	$371,588	$ 732,069
Supplemental cash flow information:		
Income taxes paid	$7,404	$ 215
Noncash financing activity:		
Unsettled repurchases of common stock	$1,631	$ —

(1) Prior period amounts retrospectively adjusted to reflect the adoption of ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash". Refer to in Note 1 – "Overview and Summary of Significant Accounting Policies" in the notes to the interim consolidated financial statements for further discussion on the adoption.

See accompanying notes to consolidated financial statements.

Zynga Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Overview and Summary of Significant Accounting Policies

Organization and Description of Business

Zynga Inc. (“Zynga,” “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 substantially all of our revenue through the sale of in-game virtual items and advertising services. 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 North America, Asia and Europe.

We completed our initial public offering in December 2011 and our Class A common stock is listed on the NASDAQ Global Select Market under the symbol “ZNGA.”

Basis of Presentation and Consolidation

The accompanying interim consolidated financial statements are presented in accordance with United States generally accepted accounting principles (“U.S. GAAP”). The consolidated financial statements include the operations of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidation.

The accompanying interim consolidated financial statements and these related notes should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheets as of March 31, 2018 and December 31, 2017, the interim consolidated statements of operations, statements of comprehensive income (loss), and statements of cash flows for the three months ended March 31, 2018 and 2017 and the notes to consolidated financial statements are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with U.S. GAAP. In management’s opinion, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of the Company’s statement of financial position and operating results for the periods presented. The results for the three months ended March 31, 2018 are not necessarily indicative of the results expected for the full fiscal year or any other future period.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the interim consolidated financial statements and notes thereto. Significant estimates and assumptions reflected in the financial statements include, but are not limited to, the estimated average playing period of payers of virtual items that we use for revenue recognition, useful lives of property and equipment and intangible assets, accrued liabilities, income taxes, accounting for business combinations, stock-based compensation expense, and evaluation of recoverability of goodwill, intangible assets, and long-lived assets. Actual results could differ materially from those estimates.

For the three months ended March 31, 2018, we recognized $0.4 million of online game revenue and income from operations from games that have been discontinued as there is no further service obligation. This change in estimate did not impact our earnings per share for the three months ended March 31, 2018. For the three months ended March 31, 2017, there were no discontinued games that required adjusting the recognition period of deferred revenue generated in prior periods. Further, for both the three months ended March 31, 2018 and 2017, there were no other changes in our estimated average playing period of payers of durable virtual items that required adjusting the recognition period of deferred revenue generated in prior periods.

Recent Accounting Pronouncements

Issued But Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842),” which requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. For lessors, accounting for leases will remain substantially the same as in prior periods. The standard is effective in the first quarter of 2019 and early adoption is permitted. While the Company expects adoption of this new standard to increase reported assets and liabilities, we are currently in the process assessing the full impact on our consolidated financial statements.

Issued And Adopted

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 ("ASC Topic 606") supersedes the existing revenue recognition guidance and is effective for interim and annual reporting periods beginning after December 15, 2017. We adopted ASC Topic 606 on January 1, 2018 using the modified retrospective transition approach. Refer to Note 2 – "Revenue from Contracts with Customers" for further details on the impact from adoption.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance on specific topics related to how certain cash receipts and cash payments are classified in the statement of cash flows. Later, in November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Our restricted cash primarily consists of funds held in escrow in accordance with the terms of our business acquisition agreements. The restrictions release based upon the satisfaction of required milestones or lapse of defined time periods. Both standards are effective for interim and annual reporting periods beginning after December 15, 2017. On January 1, 2018, we adopted both standards using the retrospective transition approach and there was no impact upon adoption of ASU 2016-15.

As a result of adopting ASU 2016-18, the primary impact to the consolidated statement of cash flows relates to cash flows provided by (used in) investing and financing activities. Specifically, our business acquisitions typically involve restricted cash held in escrow at the date of acquisition which is later released. These transactions are now reflected in investing activities. Further, certain acquisition related contingent consideration payments involve restricted cash, the payment of which is reflected in financing activities.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805) Clarifying the Definition of a Business," which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The standard is effective for interim and annual periods beginning after December 15, 2017. On January 1, 2018, we adopted the standard using the prospective transition approach, with no financial statement impact upon adoption. Moving forward, the impact of this ASU will be fact dependent, but we expect that some transactions that were previously accounted for as business combinations or disposal transactions will be accounted for as asset purchases or asset sales under the ASU.

Revenue Recognition

Note: Refer to Note 1 of our consolidated financial statements contained in our previously-filed Annual Report on Form 10-K for the year ended December 31, 2017 for our revenue recognition accounting policy as it relates to revenue transactions prior to January 1, 2018. The revenue recognition accounting policy described below relates to revenue transactions from January 1, 2018 and onward, which are accounted for in accordance with ASC Topic 606.

We primarily derive revenue from the sale of virtual items associated with our online games and the sale of advertising.

Online Game. We operate our games as live services that allow players to play for free. Within these games however, players can purchase virtual currency to obtain virtual goods or virtual goods directly (together, defined as "virtual items") to enhance their game-playing experience. Our identified performance obligation is to display the virtual items within the game over the estimated life of the paying player or until it is consumed in game play based upon the nature of the virtual item. Payment is required at time of purchase and the purchase price is a fixed amount.

Players can purchase our virtual items through various widely accepted payment methods offered in the games, including Apple iTunes accounts, Google Play accounts, Facebook local currency payments, PayPal and credit cards. Payments from players for virtual items are non-refundable and relate to non-cancellable contracts that specify our obligations. Such payments are initially recorded to deferred revenue, as the player has no right of return after purchase, consistent with our standard terms of service.

For revenue earned through mobile platforms, the transaction price is equal to the gross amount we request to be charged to our player because we are the principal in the transaction. We expense the related platform and payment processing fees as cost of revenue in the period incurred.

For revenue earned through Facebook, our players utilize Facebook's local currency-based payments program to purchase virtual items in our games. For all payment transactions on the Facebook platform, Facebook remits to us 70% of the price we request to be charged to the player for each transaction, which represents the transaction price. Despite being the principal in the transaction, we recognize revenue net of the amounts retained by Facebook for platform and payment processing fees because Facebook may choose to alter our requested price, for example by offering a discount or other incentives to players playing on their platform, and we do not receive information from Facebook indicating the amount of such discounts or incentives or the actual amount paid by our players. Accordingly, we are unable to determine the gross amount paid by our players on the Facebook platform.

The satisfaction of our performance obligation is dependent on the nature of the virtual item purchased and as a result, we categorize our virtual items as either consumable or durable.

- Consumable virtual items represent goods that can be consumed by a specific player action. Common characteristics of consumable virtual items may include items that are no longer displayed on the player's game board after a short period of time, do not provide the player any continuing benefit following consumption, or often times enable a player to perform an in-game action immediately. For the sale of consumable virtual items, we recognize revenue as the items are consumed (i.e., over time), which approximates one month.

- Durable virtual items represent items that are accessible to the player over an extended period of time. We recognize revenue from the sale of durable virtual items ratably over the estimated average playing period of payers for the applicable game (i.e., over time), which represents our best estimate of the average life of the durable virtual item.

- If we do not have the ability to differentiate between revenue attributable to consumable virtual items versus durable virtual items for a specific game, we recognize revenue ratably over the estimated average playing period of payers for the applicable game.

Historically, we have had sufficient data to separately account for consumable and durable virtual items for substantially all of our web games. However, for our standalone mobile games, we do not have the requisite data to separately account for consumable and durable virtual items and therefore recognize mobile revenue ratably over the estimated average playing period of payers.

We expect that in future periods, there will be changes in the mix of consumable and durable virtual items offered and sold, reduced virtual item sales in some existing games, changes in estimates of the average playing period of payers and/or changes in our ability to make such estimates. When such changes occur, and in particular if more of our revenue in any period is derived from durable virtual items or the estimated average playing period of payers increases on average, the amount of revenue that we recognize in a current or future period may be reduced, perhaps significantly. Conversely, if the estimated average playing period of payers decreases on average, the amount of revenue that we recognize in a current or future period may be accelerated, perhaps significantly.

On a quarterly basis, we determine the estimated average playing period of payers by game beginning at the time of a payer's first purchase in the respective game and ending on a date when that paying player is deemed to be no longer playing. To determine when paying players are no longer playing a given game, we analyze monthly cohorts of payers who made their first in-game payment between six and 18 months prior to the beginning of each quarter and determine whether each payer within the cohort is an active or inactive player as of the date of our analysis. To determine which payers are inactive, we analyze the dates that each payer last logged into that game. We determine a payer to be inactive once they have reached a period of inactivity for which it is probable that they will not return to a specific game. For the payers deemed inactive as of our analysis date, we analyze the dates they last logged into that game to determine the rate at which inactive payers stopped playing. Based on these dates, we then project a date at which all payers for each monthly cohort are expected to cease playing our games. We then average the time periods from first purchase date and the date the last payer is expected to cease playing the game for each of the monthly cohorts to determine the total playing period of payers for that game. To determine the estimated average playing period of payers, we then divide this total period by two. The use of this "average" approach is supported by our observations that payers typically become inactive at a relatively consistent rate for our games. If future data indicates payers do not become inactive at a relatively consistent rate, we will modify our calculations accordingly. When a new game is launched and only a limited period of payer data is available for our analysis, then we also consider other factors to determine the estimated average playing period of payers, such as the estimated average playing period of payers for other recently launched games with similar characteristics.

Advertising. We have contractual relationships with advertising networks, agencies, advertising brokers and directly with advertisers for advertisements in our games. For all advertising arrangements, we are the principal and our performance obligation is to provide the inventory for advertisements to be displayed in our games. For contracts made directly with advertisers, we are also obligated to serve the advertisements in our games. However, for those direct advertising arrangements, providing the advertising inventory and serving the advertisement is considered a single performance obligation, as the advertiser cannot benefit from the advertising space without its advertisements being displayed.

For advertising transactions not placed directly with the advertiser, the transaction price is equal to the amount collected, which is generally based on our revenue share stated in the contract for the advertising inventory.

The pricing and terms for all our advertising arrangements are governed by either a master contract or insertion order and generally stipulate payment terms as a specific number of days subsequent to the end of the month, generally ranging from 30 to 60 days. The transaction price in advertising arrangements is generally the product of the number of advertising units delivered (e.g., impressions, offers completed, videos viewed, etc.) and the contractually agreed upon price per advertising unit. The number of advertising units delivered is determined at the end of each month, which resolves any uncertainty in the transaction price during the reporting period.

For a limited number of advertising network arrangements, the transaction price is determined based on a volume-tiered pricing structure, whereby the price per advertising unit in a given month is determined by the number of impressions delivered in that month. However, the number of impressions delivered is resolved at the end of each month, therefore, eliminating any uncertainty with respect to the price per advertising unit for each reporting period.

For in-game display ads, in-game offers, engagement advertisements and other advertisements, our performance obligation is satisfied over the life of contract (i.e., over time), with revenue being recognized as advertising units are delivered.

For in-game sponsorships with branded virtual items, revenue is initially recorded to deferred revenue and then recognized ratably over the estimated life of the branded virtual item, similar to online game revenue, or over the term of the advertising arrangement, depending on the nature of the agreement.

Arrangements with Multiple Performance Obligations. For arrangements with multiple performance obligations, we allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which we expect to be entitled in exchange for satisfying each performance obligation, which is based on the standalone selling price. The standalone selling price represents the observable price which we would sell the advertising placement separately in a similar circumstance, to a similar customer.

Taxes Collected from Customers. We present taxes collected from customers and remitted to governmental authorities on a net basis within our consolidated statement of operations.

2. Revenue from Contracts with Customers

On January 1, 2018, we adopted ASC Topic 606 using the modified retrospective transition method applied to contracts that were not complete as of the adoption date. Consolidated financial results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts continue to be reported in accordance with ASC Topic 605, “Revenue Recognition”.

As of January 1, 2018, we recorded a net reduction of $4.0 million to our opening deferred revenue and accumulated deficit balances, net of tax, due to the cumulative impact of adopting ASC Topic 606. The impact was driven by the recognition of revenue for certain advertising arrangements for which revenue was not previously recognized until payment was certain, partially offset by the deferral of previously recognized revenue for a symbolic license arrangement, for which revenue is recognized over the term of the license under ASC Topic 606.

The impact of adopting ASC Topic 606 on our consolidated balance sheet as of March 31, 2018 was as follows (in thousands):

As of March 31, 2018

	Amounts as Reported	Amounts without Adoption of ASC Topic 606	Increase (Decrease) from ASC Topic 606 Adoption
Current liabilities:			
Deferred revenue	$ 140,021	$ 145,673	$ (5,652)
Total current liabilities	232,871	238,523	(5,652)
Deferred revenue	1,770	1,079	691
Total liabilities	275,146	280,108	(4,962)
Accumulated Deficit	(1,729,674)	(1,734,636)	4,962
Total stockholders' equity	1,643,865	1,638,903	4,962
Total liabilities and stockholders' equity	$ 1,919,011	$ 1,919,011	$ —

As a result of adopting ASC Topic 606, deferred revenue as of March 31, 2018 decreased from certain advertising arrangements for which revenue would otherwise not be recognized until payment was certain under ASC Topic 605, partially offset by an increase to deferred revenue associated with the deferral of previously recognized revenue from the aforementioned symbolic license arrangement. The increase to our accumulated deficit as of March 31, 2018 from adopting ASC Topic 606 is the result of the net income impact discussed below and the $4.0 million transition adjustment recognized upon adoption of ASC Topic 606 on January 1, 2018.

The impact of adopting ASC Topic 606 on our consolidated statement of operations for the three months ended March 31, 2018 was as follows (in thousands):

	Three months ended March 31, 2018		
	Amounts as Reported	Amounts without Adoption of ASC Topic 606	Increase (Decrease) from ASC Topic 606 Adoption
Revenue:			
Advertising and other	$46,679	$45,741	$ 938
Total revenue	208,232	207,294	938
Income (loss) from operations	4,257	3,319	938
Income (loss) before income taxes	9,468	8,530	938
Net income (loss)	5,609	4,671	938
Net income (loss) per share attributable to common stockholders:			
Basic	$0.01	$0.01	$ —
Diluted	$0.01	$0.01	$ —

As a result of adopting ASC Topic 606 during the three months ended March 31, 2018, advertising and other revenue increased primarily as a result of the aforementioned recognition of revenue for certain advertising arrangements for which revenue would otherwise not be recognized until payment was certain under ASC Topic 605 and the recognition of revenue over time from the symbolic license. There was no impact to net cash flows provided by (used in) operating, investing or financing activities for the three months ended March 31, 2018 as a result of adopting ASC Topic 606. However, within cash flows from operating activities, net income (loss) is $0.9 million higher and the change in deferred revenue is $0.9 million lower as a result of adopting ASC Topic 606 during the three months ended March 31, 2018.

Disaggregation of Revenue

The following table presents our revenue disaggregated by platform (in thousands):

	Three Months Ended March 31,	
	2018	2017[(1)]
Online game:		
Mobile	$ 139,830	$ 127,239
Web	21,723	26,242

Online game total	161,553	153,481
Advertising and other:		
Mobile	42,771	34,374
Web	2,054	5,680
Other	1,854	749
Advertising and other total	46,679	40,803
Total revenue	$ 208,232	$ 194,284

(1) Amounts have not been retrospectively adjusted to reflect the adoption of ASC Topic 606

The following table presents our revenue disaggregated based on the geographic location of our payers (in thousands):

	Three Months Ended March 31,	
	2018	2017(1)
United States	$135,996	$128,205
All other countries(2)	72,236	66,079
Total revenue	$208,232	$194,284

(1) Amounts have not been retrospectively adjusted to reflect the adoption of ASC Topic 606

(2) No foreign country exceeded 10% of our total revenue for any periods presented.

Consumable virtual items accounted for 46% of online game revenue in the three months ended March 31, 2018 and 48% of online game revenue in the same period of the prior year. Durable virtual items accounted for 54% of online game revenue in the three months ended March 31, 2018 and 52% of online game revenue in the same period of the prior year.

Contract Balances

We receive payments from our customers based on the payment terms established in our contracts. Payments for online game revenue are required at time of purchase, are non-refundable and relate to non-cancellable contracts that specify our performance obligations. Such payments are initially recorded to deferred revenue, as the player has no right of return after the purchase, consistent with our standard terms of service. Deferred revenue is recognized into revenue as we satisfy our performance obligations.

Payments for advertising arrangements are due based on the contractually stated payment terms. For advertising arrangements, the contract terms generally require payment within 30 to 60 days subsequent to the end of the month. Our right to payment from the customer is unconditional and therefore recorded as accounts receivable.

During the three months ended March 31, 2018, we recognized $83.7 million of revenue that was included in the current deferred revenue balance after the adoption of ASC Topic 606 on January 1, 2018.

The decrease in accounts receivable during the three months ended March 31, 2018 was primarily driven by cash collections of previously due amounts exceeding sales on account during the period. The increase in deferred revenue during the three months ended March 31, 2018 was primarily driven by revenue recognized from the sale of virtual items during the period exceeding revenue recognized from the satisfaction of performance obligations on previously sold virtual items.

Unsatisfied Performance Obligations

Substantially all of our unsatisfied performance obligations relate to contracts with an original expected length of one year or less.

3. Marketable Securities

The following tables summarize our amortized cost, gross unrealized gains and losses and fair value of our short-term investments as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
Corporate debt securities	$274,055	$ —	$ (205)	$273,850
Total	$274,055	$ —	$ (205)	$273,850

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
Corporate debt securities	$308,684	$ —	$ (178)	$308,506
Total	$308,684	$ —	$ (178)	$308,506

All of our short-term investments have contractual maturities of one year or less as of March 31, 2018.

Changes in market interest rates and bond yields cause our short-term investments to fall below their cost basis, resulting in unrealized losses. As of March 31, 2018, we had unrealized losses of $0.2 million related to short-term investments that had a fair value of $127.3 million. None of these securities were in a material continuous unrealized loss position for more than 12 months.

As of March 31, 2018, we did not consider any of our short-term investments to be other-than-temporarily impaired. We do not intend to sell, nor do we believe it is more likely than not that we will be required to sell, any of the securities in an unrealized loss position. When evaluating our investments for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer, our ability and intent to hold the security to maturity and whether it is more likely than not that we will be required to sell the investment before recovery of the amortized cost basis.

4. Fair Value Measurements

Our financial assets consist of cash equivalents, short-term investments and accounts receivable. Cash equivalents and short-term investments, which consist of money market funds and corporate debt securities, are reported at fair value. Accounts receivable, net is stated at its net realizable amount, which approximates fair value.

Our financial liabilities consist of accounts payable and accrued liabilities, which are stated at the invoiced or estimated payout amount, respectively, which approximates fair value, as well as contingent consideration obligations as a result of prior business acquisitions, which are reported at fair value.

As of March 31, 2018, our contingent consideration liability represents the estimated fair value of the additional consideration payable in connection with our acquisition of PuzzleSocial, Inc. (“PuzzleSocial”) in the third quarter of 2016. We initially estimated the acquisition date fair value of the contingent consideration liability using discounted cash flow models, and applied a discount rate that appropriately captured a market participant’s view of the risk associated with the respective obligations. The significant unobservable inputs used in the fair value measurement of the acquisition-related contingent consideration payable were forecasted future cash flows, the timing of those cash flows and the risk-adjusted discount rate. During the second quarter of 2017, it was determined the future performance of the acquired game would not meet the required performance targets. As of March 31, 2018, we continue to not expect the future performance to meet the required performance targets for the acquisition. Accordingly, the estimated contingent consideration liability remains at zero as of March 31, 2018.

We estimate fair value as the exit price, which represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable and willing market participants.

The valuation techniques used to measure the fair value of the Company’s financial instruments, all of which have counterparties with high credit ratings, were valued based on quoted market prices or model-driven valuations using significant inputs derived from or corroborated by observable market data. We use a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Includes inputs, other than Level 1 inputs, that are directly or indirectly observable in the marketplace.

Level 3 — Unobservable inputs that are supported by little or no market activity.

The composition of our financial assets as of March 31, 2018 and December 31, 2017 among the three levels of the fair value hierarchy are as follows (in thousands):

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$126,972	$—	$ —	$126,972
Corporate debt securities	—	71,827	—	71,827
Short-term investments:				
Corporate debt securities	—	273,850	—	273,850
Total financial assets	$126,972	$345,677	$ —	$472,649

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	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$177,577	$—	$ —	$177,577
Corporate debt securities	—	44,923	—	44,923
Short-term investments:				
Corporate debt securities	—	308,506	—	308,506
Total financial assets	$177,577	$353,429	$ —	$531,006

We had no transfers between valuation levels from December 31, 2017 to March 31, 2018.

5. Property and Equipment, net

Property and equipment, net consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Computer equipment	$19,206	$ 21,583
Software	32,576	32,509
Land	89,130	89,130
Building and building improvements	199,473	199,070
Furniture and fixtures	10,438	10,376
Leasehold improvements	6,599	7,965
Total property and equipment, gross	$357,422	$ 360,633
Less: Accumulated depreciation	(92,842)	(94,044)
Total property and equipment, net	$264,580	$ 266,589

The following represents our property and equipment, net by location (in thousands):

	March 31, 2018	December 31, 2017
United States	$261,124	$ 263,037
All other countries	3,456	3,552
Total property and equipment, net	$264,580	$ 266,589

6. Goodwill and Other Intangible Assets, net

The following table presents the changes to goodwill for the three months ended March 31, 2018 (in thousands):

Goodwill – December 31, 2017 (1)	$730,464
Additions	—
Foreign currency translation adjustments (2)	21,366
Goodwill – March 31, 2018 (1)	$751,830

(1) There are no accumulated impairments losses at the beginning or end of any period presented.
(2) The increase is primarily related to translation gains on goodwill associated with the acquisition of NaturalMotion which the functional currency is denominated in British Pounds.

The details of our acquisition-related intangible assets as of March 31, 2018 and December 31, 2017 are as follows (in thousands):

	March 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed technology	$201,488	$ (154,356)	$ 47,132
Trademarks, branding and domain names	18,273	(10,224)	8,049
Noncompetition agreements	8,390	(4,086)	4,304
Acquired lease intangibles	5,708	(5,401)	307
Total	$233,859	$ (174,067)	$ 59,792

	December 31, 2017		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed technology	$197,908	$ (147,427)	$ 50,481
Trademarks, branding and domain names	18,272	(10,152)	8,120
Noncompetition agreements	8,390	(3,079)	5,311
Acquired lease intangibles	5,708	(5,362)	346
Total	$230,278	$ (166,020)	$ 64,258

Our trademarks, branding and domain names intangible assets include $6.1 million of indefinite-lived intangible assets as of March 31, 2018 and December 31, 2017. The remaining assets were, and continue to be, amortized on a straight-line basis. Amortization expense related to other intangible assets was $4.5 million and $5.4 million for the three months ended March 31, 2018 and 2017, respectively.

As of March 31, 2018, the weighted-average remaining useful lives of our acquired intangible assets are 4.0 years for developed technology, 6.8 years for trademarks, branding, and domain names, 1.3 years for noncompetition agreements, 2.1 years for acquired lease intangibles and 3.9 years in total, for all acquired intangible assets.

As of March 31, 2018, future amortization expense related to the intangible assets is expected to be recognized as shown below (in thousands):

Year ending December 31:	
Remaining 2018	$13,324
2019	12,982
2020	11,712
2021	9,315
2022	5,768
Thereafter	571
Total	$53,672

7. Income Taxes

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (“2017 Tax Act”) was enacted into law. Beginning January 1, 2018, the 2017 Tax Act reduced the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, created new taxes on certain foreign sourced earnings, repealed the Alternative Minimum Tax (“AMT”), and expanded the number of individuals whose compensation is subject to a $1.0 million cap on deductibility, amongst other changes. In certain cases, we made a reasonable estimate of the effects of the 2017 Tax Act during the fourth quarter of 2017, while in other cases, we have made a reasonable estimate during the current period.

During the fourth quarter of 2017, we recognized a provisional tax benefit of $5.0 million as a result of the 2017 Tax Act’s enactment, which was included as a component of the provision for income tax, and primarily consisted of a $2.4 million income tax benefit in connection with re-measurement of certain deferred tax assets and liabilities and a $2.6 million income tax benefit in connection with the refundable AMT credit. Other provisional amounts recorded during the fourth quarter of 2017 related to the revised officer compensation rules and one-time transitional tax on foreign earnings and profits after 1986, which had no impact to the provision for income taxes because of an equal offset to the valuation allowance and overall accumulated earnings and profits deficit, respectively.

During the first quarter of 2018, there were no adjustments to the provisional amounts previously recorded. However, in the current period, we recognized a provisional amount related to the global intangible low-taxed income (“GILTI”) and Base Erosion and Anti-Abuse Tax provisions of the 2017 Tax Act, with no impact to the provision for income tax as the amounts are expected to be offset by the Company’s net operating losses. Accordingly, as it relates to the 2017 Tax Act, there was no income tax expense (benefit) recorded to the consolidated statement of operations for the three months ended March 31, 2018. We continue to gather additional information necessary and await interpretative guidance from the Internal Revenue Service and United States Treasury to complete our accounting for these items within the prescribed measurement period.

With respect to the GILTI provisions specific, the 2017 Tax Act allows companies to make an accounting policy election to either (i) account for GILTI as a component of tax expense in the period in which the entity is subject to the rules or (ii) account for GILTI in the entity’s measurement of deferred taxes. Our selection of an accounting policy will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, the impact that is expected. Whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on a number of aspects of our estimated future results of global operations, and as a result, we are not yet able to make our accounting policy election. Therefore, we have not recorded any deferred tax effects related to GILTI for the three months ended March 31, 2018.

On a consolidated basis, the provision for income taxes increased by $1.0 million in the three months ended March 31, 2018 as compared to the same period of the prior year. The increase was primarily attributable to an increase in foreign tax expense related to changes in our jurisdictional mix of earnings.

8. Other Current and Non-Current Liabilities

Other current liabilities consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Accrued accounts payable	$ 19,208	$ 38,046
Accrued compensation liability	17,647	33,815
Accrued restructuring liability	3,473	3,674
Accrued payable from acquisitions	—	12,800
Accrued lease incentive obligation	24,895	20,059
Value-added taxes payable	3,354	3,453
Other current liabilities	11,301	11,242
Total other current liabilities		