ZYNGA INC
Form 10-Q
August 04, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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 July 15, 2017, there were 776,684,172 shares of the Registrant's Class A common stock outstanding, 68,259,136 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. All statements, other than statements of historical fact, made in this Quarterly Report on Form 10-Q are forward looking. Examples of forward-looking statements include 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 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 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

Zynga Inc.

Consolidated Balance Sheets

(In thousands, except par value)

(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$738,975	$852,467
Accounts receivable, net of allowance of $0 at June 30, 2017 and December 31, 2016	85,228	77,260
Income tax receivable	249	296
Restricted cash	11,182	6,199
Prepaid expenses and other current assets	28,078	29,254
Total current assets	863,712	965,476
Goodwill	642,681	613,335
Other intangible assets, net	43,896	25,430
Property and equipment, net	267,453	269,439
Restricted cash	250	3,050
Prepaid expenses and other long-term assets	39,401	29,119
Total assets	$1,857,393	$1,905,849
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$14,264	$23,999
Income tax payable	4,638	1,889
Other current liabilities	76,935	75,754
Deferred revenue	155,085	141,998
Total current liabilities	250,922	243,640
Deferred revenue	92	158
Deferred tax liabilities	6,259	5,791
Other non-current liabilities	23,213	75,596
Total liabilities	280,486	325,185
Stockholders' equity:		
Common stock, $0.00000625 par value, and additional paid in capital - authorized shares: 2,020,517; shares outstanding: 865,461 shares (Class A, 776,685, Class B, 68,259 Class C, 20,517) as of June 30, 2017 and 886,850 (Class A, 770,269, Class B, 96,064, Class C, 20,517) as of December 31, 2016	3,390,996	3,349,714
Accumulated other comprehensive income (loss)	(111,686)	(128,694)
Accumulated deficit	(1,702,403)	(1,640,356)

Total stockholders’ equity	1,576,907	1,580,664
Total liabilities and stockholders’ equity	$ 1,857,393	$ 1,905,849

See accompanying notes.

Zynga Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Online game	$163,745	$135,823	$317,226	$272,880
Advertising and other	45,486	45,912	86,289	95,576
Total revenue	209,231	181,735	403,515	368,456
Costs and expenses:				
Cost of revenue	64,172	56,103	129,049	113,242
Research and development	64,615	66,233	133,817	153,970
Sales and marketing	51,201	40,631	97,821	86,975
General and administrative	23,551	25,374	46,116	47,758
Total costs and expenses	203,539	188,341	406,803	401,945
Income (loss) from operations	5,692	(6,606)	(3,288)	(33,489)
Interest income	1,109	761	2,046	1,466
Other income (expense), net	1,614	1,905	3,050	4,005
Income (loss) before income taxes	8,415	(3,940)	1,808	(28,018)
Provision for (benefit from) income taxes	3,322	506	6,189	2,986
Net income (loss)	$5,093	$(4,446)	$(4,381)	$(31,004)
Net income (loss) per share attributable to common stockholders:				
Basic	$0.01	$(0.01)	$(0.01)	$(0.04)
Diluted	$0.01	$(0.01)	$(0.01)	$(0.04)
Weighted average common shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	863,125	873,393	869,025	872,243
Diluted	887,991	873,393	869,025	872,243

See accompanying notes.

Zynga Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$5,093	$(4,446)	$(4,381)	$(31,004)
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	11,508	(30,931)	16,989	(48,260)
Net change on unrealized gains (losses) on available-for-sale investments, net of tax	(4)	(6)	19	130
Other comprehensive income (loss), net of tax	11,504	(30,937)	17,008	(48,130)
Comprehensive income (loss):	$16,597	$(35,383)	$12,627	$(79,134)

See accompanying notes.

Zynga Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income (loss)	$(4,381)	$(31,004)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,279	21,647
Stock-based compensation expense	33,758	56,507
(Gain) loss from sales of investments, assets and other, net	(184)	242
Accretion and amortization on marketable securities	—	311
Change in deferred income taxes and other	2,268	1,570
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,968)	14,536
Income tax receivable	47	772
Other assets	(2,641)	(4,442)
Accounts payable	(8,341)	(14,316)
Deferred revenue	13,021	(12,178)
Income tax payable	2,749	—
Other liabilities	(11,496)	(22,404)
Net cash provided by (used in) operating activities	33,111	11,241
Cash flows from investing activities:		
Sales and maturities of marketable securities	—	204,802
Acquisition of property and equipment	(4,141)	(3,947)
Business acquisitions, net of cash acquired	(35,081)	(14,220)
Proceeds from sale of property and equipment	148	1,577
Other investing activities, net	(7,225)	—
Net cash provided by (used in) investing activities	(46,299)	188,212
Cash flows from financing activities:		
Taxes paid related to net share settlement of stockholders' equity awards	(9,423)	(1,665)
Repurchases of common stock	(96,924)	(112,392)
Proceeds from issuance of common stock	4,017	2,885
Net cash provided by (used in) financing activities	(102,330)	(111,172)
Effect of exchange rate changes on cash and cash equivalents	2,026	(2,110)
Net increase (decrease) in cash and cash equivalents	(113,492)	86,171
Cash and cash equivalents, beginning of period	852,467	742,217
Cash and cash equivalents, end of period	$738,975	$828,388

See accompanying notes.

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 revenue through the in-game sale of virtual goods 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, India 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 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 us and our 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, 2016.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of June 30, 2017, the interim consolidated statements of operations, the interim consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2017 and 2016, the interim consolidated statements of cash flows for the six months ended June 30, 2017 and 2016 and the related footnote disclosures are unaudited. These unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP. In management’s opinion, the unaudited consolidated interim 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 and six months ended June 30, 2017 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 consolidated financial statements and notes thereto. Significant estimates and assumptions reflected in the financial statements include, but are not limited to, the estimated lives of virtual goods 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 goodwill, intangible assets, and long-lived assets for impairment. Actual results could differ materially from those estimates.

There were no changes in our estimated average life of durable virtual goods or discontinued games that required adjusting the recognition period of deferred revenue generated in prior periods in the three and six months ended June 30, 2017. Changes in our estimated average life of durable goods resulted in an increase in revenue and income from operations of $1.9 million during the three months ended June 30, 2016 and $2.2 million during the six months ended June 30, 2016, which was the result of adjusting the remaining recognition period of deferred revenue generated in prior periods at the time of a change in estimate. We also recognized $2.3 million during the three months ended June 30, 2016 and $3.6 million during the six months ended June 30, 2016 of revenue and income from operations, due to changes in our estimated average life of durable virtual goods for games that have been discontinued as there is no further service obligation after the closure of these games. These changes in estimates did not impact our reported earnings per share for the three months ended June 30, 2016 and had a $0.01 per share impact on our reported earnings per share in the six months ended June 30, 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 supersedes the existing revenue recognition guidance and is effective for interim and annual reporting periods beginning after December 15, 2017. The standard permits the use of either a full retrospective or modified retrospective (cumulative effect) transition method. We will apply the modified retrospective approach when we adopt the standard in the first quarter of 2018.

Based on our initial assessment, a key change in the standard that impacts our revenue recognition relates to the explicit collectability threshold a contract must meet before revenue can be recognized. For certain advertising arrangements where we have assessed that collectability is not reasonably assured due to unfavorable payment terms or a history of slow collections, the current practice is to defer revenue recognition until payment is received. However, under the new standard, we will be required to make an assessment of collectability at the inception of the contract and if deemed probable for collection, recognize revenue as advertisements are delivered, which will result in an acceleration in revenue recognition compared to the current method. While we are still completing our assessment for the population of advertisers under consideration, we do not expect this change to have a material impact on our revenue.

We previously disclosed the standard would also have an impact on our software licensing related to NaturalMotion technology, which is currently recognized as revenue over time, rather than a point in time. However, as a result of a restructuring plan we implemented in the second quarter of 2017, we will no longer provide maintenance services for any new software licenses sold after June 30, 2017. Therefore, the requirement to estimate the standalone selling price of software licenses separate from any associated maintenance services and recognize revenue for the license when control is transferred will only apply to a small subset of our existing licensing contracts. While this change will result in an acceleration in revenue recognition compared to the current method, the impact is expected to be minimal.

We do not anticipate significant changes to our current business processes and systems to support the adoption of the standard in the first quarter of 2018. We are currently in the process of evaluating required disclosures, including the disaggregation of revenue, reconciliation of contract balances and significant judgments used to allow users of our financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with our customers. We are also continually evaluating other possible impacts on our consolidated financial statements.

In February 2016, the FASB issued 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 of evaluating the timing of adoption of ASU 2016-02 as well as the full impact on our consolidated financial statements.

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. 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. Both standards are effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption is permitted. We will adopt the standards in the first quarter of 2018. While we continue to assess the potential impact of the new standards, we expect the adoption of these standards will have a material impact on our consolidated financial statements.

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 and early adoption is permitted. We will adopt the standard in the first quarter of 2018 and are currently in the process of evaluating the impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” to simplify the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure impairment. Instead, any goodwill impairment will equal the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance is effective for annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019, with early adoption permitted for impairment tests performed after January 1, 2017. We are currently in the process of evaluating the impact on our consolidated financial statements.

2. Fair Value Measurements

Our financial instruments consist of cash equivalents and accounts receivable. Accounts receivable, net is stated at its carrying value, which approximates fair value.

Cash equivalents, consists of money market funds, U.S. government and government agency securities and corporate debt securities, are carried at fair value. 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.

As of December 31, 2016, our contingent consideration liability represented the estimated fair value of the additional consideration payable in connection with our acquisitions of Zindagi Games, Inc. ("Zindagi") in the first quarter of 2016 and PuzzleSocial, Inc. ("PuzzleSocial") in the third quarter of 2016. Under the terms of the acquisition agreements, the contingent consideration of up to $60.0 million for Zindagi and $42.0 million for PuzzleSocial could be payable based on the achievement of certain future performance targets during a period of time following the acquisition date (three years for Zindagi and two and a half years for PuzzleSocial). We initially estimated the acquisition date fair value of the contingent consideration liabilities using discounted cash flow models, and applied a discount rate that appropriately captured a market participant's view of the risk associated with the obligations. The significant unobservable inputs used in the fair value measurement of the acquisition-related contingent consideration payable were forecasted future cash flows and the timing of those cash flows, and the risk-adjusted discount rate. As of June 30, 2017, we do not expect the future performance of the acquired games to meet the required performance targets. Accordingly, we reduced the estimated contingent consideration liabilities for Zindagi and PuzzleSocial to zero, and recorded a net benefit of $0.8 million and $0.9 million during the three and six months ended June 30, 2017, respectively within research and development expense in our consolidated statement of operations.

Fair value is a market-based measurement that should be determined based on assumptions that knowledgeable and willing market participants would use in pricing an asset or liability. 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 and liabilities within the fair value hierarchy are as follows (in thousands):

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds [1]	$381,385	$—	$ —	$381,385
U.S. government and government agency debt securities [1]	—	69,913	—	69,913
Corporate debt securities [1]	—	129,867	—	129,867
Total	$381,385	$199,780	$ —	$581,165
Liabilities:				
Contingent consideration	$—	$—	$ —	$—

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds [1]	$439,330	$—	$—	$439,330
U.S. government and government agency debt securities [1]	—	19,987	—	19,987
Corporate debt securities [1]	—	269,768	—	269,768
Total	$439,330	$289,755	$—	$729,085
Liabilities:				
Contingent consideration	$—	$—	$901	$901

(1) Includes amounts classified as cash and cash equivalents.

We did not have any transfers between valuation levels during the six months ended June 30, 2017.

The following table presents the activity for the six months ended June 30, 2017 related to our Level 3 liabilities (in thousands):

Level 3 Liabilities:	Zindagi	PuzzleSocial	Total
Contingent consideration liability – December 31, 2016	$ 180	$ 721	$901
Fair value adjustments	(180)	(721)	(901)
Contingent consideration liability – June 30, 2017	$ —	$ —	$—

3. Property and Equipment

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

	June 30, 2017	December 31, 2016
Computer equipment	$29,406	$ 27,046
Software	31,968	31,102
Land	89,130	89,130
Building	198,721	197,689
Furniture and fixtures	10,612	10,494
Leasehold improvements	8,510	8,071
	$368,347	$ 363,532
Less accumulated depreciation	(100,894)	(94,093)
Total property and equipment, net	$267,453	$ 269,439

4. Acquisitions

Acquisition of Solitaire Mobile Gaming Applications

On February 14, 2017, we purchased Solitaire mobile game applications from Harpan LLC ("Harpan") and, in connection with the transaction, executed noncompetition agreements with the founders. We acquired these games to expand our card game portfolio. The total consideration paid to Harpan was approximately $42.5 million in cash, of which approximately $35.1 million was allocated to the business combination and the remaining $7.4 million was allocated to the noncompetition agreements with a useful life of 2 years. We refer to the Solitaire mobile games acquired from Harpan as our "Solitaire games".

The following table summarizes the purchase date fair value of acquired net intangible assets from Harpan (in thousands, unaudited):

	Total
Developed technology, useful life of 5 years	$20,471
Goodwill	14,610
Total	$35,081

Goodwill, which is deductible for tax purposes, represents the excess of the purchase price over the fair value of the net intangible assets acquired and is primarily attributable to the expected synergies at the time of the acquisition.

The results of operations for our Solitaire games have been included in our consolidated statement of operations since the date of acquisition. Pro forma results of operations related to our acquisition have not been presented as they are not material to our consolidated statement of operations.

5. Goodwill and Other Intangible Assets

The following table presents the goodwill activity for the six months ended June 30, 2017 (in thousands):

Goodwill – December 31, 2016	$613,335
Additions	14,610
Foreign currency translation and other adjustments (1)	14,736
Goodwill – June 30, 2017	$642,681

(1) The increase is primarily related to translation gains (losses) 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 June 30, 2017 are as follows (in thousands):

	June 30, 2017		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed technology	$181,149	$ (143,796)	$ 37,353
Trademarks, branding and domain names	16,290	(10,170)	6,120
Acquired lease intangibles	5,708	(5,285)	423
Total	$203,147	$ (159,251)	$ 43,896

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The details of our acquisition-related intangible assets as of December 31, 2016 are as follows (in thousands):

	December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed technology	$ 150,826	$ (132,123)	$ 18,703
Trademarks, branding and domain names	16,290	(10,063)	6,227
Acquired lease intangibles	5,708	(5,208)	500
Total	$ 172,824	$ (147,394)	$ 25,430

These assets include $6.1 million of indefinite-lived intangible assets. The remaining assets were, and continue to be, amortized on a straight-line basis.

As of June 30, 2017, future amortization expense related to the intangible assets is expected to be recognized as shown below (in thousands):

Year ending December 31:	
Remaining 2017	$ 6,729
2018	12,309
2019	7,533
2020	6,293
2021 and thereafter	4,912
Total	$ 37,776

6. Income Taxes

The expense from income taxes increased by $2.8 million and $3.2 million in the three and six months ended June 30, 2017, respectively, as compared to the same period of the prior year. The increase in the three and six months ended June 30, 2017 was primarily attributable to an increase in foreign tax expense related to changes in our jurisdictional mix of earnings.

Once the Company is profitable, we expect our global effective tax rate to be less than the U.S. statutory income tax rate.

7. Other Current Liabilities

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

	June 30, 2017	December 31, 2016
Accrued accounts payable	$21,922	$ 24,119
Accrued compensation liability	19,738	22,554
Accrued restructuring liability	3,670	4,987
Other current liabilities	31,605	24,094
Total other current liabilities	$76,935	$ 75,754

Accrued compensation liability represents employee bonus and other payroll withholding expenses. Accrued restructuring liability represents amounts payable related to our restructuring plans. Other current liabilities include various expenses that we accrue for transaction taxes, customer deposits, vendor expenses and amounts held in escrow related to acquisitions.

8. Restructuring

During the three months ended June 30, 2017, we recorded a net restructuring charge of $1.4 million, of which $1.3 million was included in research and development and $0.1 million was included in general and administrative within our consolidated statement of operations. During the six months ended June 30, 2017, we recorded a net restructuring charge of $0.6 million, of which $0.3 million was included as research and development and $0.3 million was included as general and administrative within our consolidated statement of operations.

Q2 2017 Restructuring Plan

During the second quarter of 2017, we implemented a restructuring plan, which included a reduction in work force to reduce the Company's long-term cost structure. As a result of ongoing initiatives associated with restructuring, we recorded $1.3 million of expense in the three and six months ended June 30, 2017, which is included in operating expenses in our consolidated statement of operations. The $1.3 million restructuring charge is comprised of $1.2 million of employee severance costs and $0.1 million of other costs. The remaining liability related to the Q2 2017 restructuring plan as of June 30, 2017 was $0.1 million and is expected to be paid out over the next year.

The following table presents the activity for the Q2 2017 restructuring plan (in thousands):

	Q2 2017 Restructuring Plan
Restructuring liability – December 31, 2016	$ —
Restructuring expense and adjustments	1,273
Cash payments	(1,148)
Restructuring liability – June 30, 2017	$ 125
Cumulative costs to date, as of June 30, 2017	$ 1,273
Total costs expected to be incurred, as of June 30, 2017	$ 1,429

Q2 2015 Restructuring Plan

During the second quarter of 2015, we implemented a restructuring plan, which included a reduction in work force to reduce the Company's long-term cost structure. As a result of ongoing initiatives associated with restructuring, we recorded additional expense of $0.1 million in the three months ended June 30, 2017 and a net benefit of $0.7 million in the six months ended June 30, 2017, which is included in operating expenses in our consolidated statement of operations. The remaining liability related to the Q2 2015 restructuring plan as of June 30, 2017 was $15.9 million and is expected to be paid out over the next 4.9 years.

The following table presents the activity for the Q2 2015 restructuring plan (in thousands):

	Q2 2015 Restructuring Plan
Restructuring liability – December 31, 2016	$ 19,388
Restructuring expense and adjustments	(676)
Cash payments	(2,772)
Restructuring liability – June 30, 2017	$ 15,940
Cumulative costs to date, as of June 30, 2017	$ 34,099
Total costs expected to be incurred, as of June 30, 2017	$ 34,099

9. Stockholders' Equity

We recorded stock-based compensation expense related to grants of employee and consultant stock options, restricted stock and restricted stock units ("ZSUs") in our consolidated statements of operations as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue	$371	$1,127	$990	$1,776
Research and development	10,483	20,213	22,196	44,416
Sales and marketing	1,751	2,206	3,538	4,197
General and administrative	3,627	3,353	7,034	6,118
Total stock-based compensation expense	$16,232	$26,899	$33,758	$56,507

The following table shows stock option activity for the six months ended June 30, 2017 (in thousands, except weighted-average exercise price and weighted-average contractual term):

	Outstanding Options			
	Stock Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value of Stock Options Outstanding	Weighted-Average Contractual Term (in years)
Balance as of December 31, 2016	36,858	$ 2.08	$ 26,411	6.81
Granted	848	3.62		
Forfeited and cancelled	(2,514)	3.58		
Exercised	(1,633)	0.91		
Balance as of June 30, 2017	33,559	$ 2.06	$ 54,062	6.67

The following table shows a summary of ZSU activity for the six months ended June 30, 2017 (in thousands, except weighted-average grant date fair value):

	Outstanding ZSUs		
	Shares	Weighted-Average Grant Date Fair Value (per share)	Aggregate Intrinsic Value of Unvested ZSUs
Unvested as of December 31, 2016	59,452	$ 2.66	$ 152,792
Granted	15,177	3.34	
Vested	(12,430)	2.85	
Forfeited and cancelled	(10,919)	2.51	
Unvested as of June 30, 2017	51,280	$ 2.85	$ 186,659

The following table shows a summary of changes in accumulated other comprehensive income by component for the six months ended June 30, 2017 (in thousands):

	Foreign Currency Translation	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Balance as of December 31, 2016	$ (128,671)	$ (23)	$(128,694)
Other comprehensive income (loss) before reclassifications	16,989	19	17,008
Amounts reclassified from accumulated other	—	—	—

comprehensive income (loss)			
Net current-period other comprehensive income (loss)	16,989	19	17,008
Balance as of June 30, 2017	$ (111,682)	$ (4)	$(111,686)

In November 2016, we announced that our Board of Directors authorized a share repurchase program allowing us to repurchase up to $200 million of our outstanding shares of Class A common stock (“2016 Share Repurchase Program”). In the first quarter of 2017, we repurchased 31.2 million shares for our Class A common stock under the repurchase program at a weighted average price of $2.70 per share for a total of $84.5 million. In the second quarter of 2017, we repurchased 3.0 million shares for our Class A common stock under the repurchase program at a weighted average price of $2.79 per share for a total of $8.4 million. All shares repurchased during the six months ended were retired.

All of our stock repurchases under the 2016 Share Repurchase Program were made through open market purchases under 10b5-1 plans.

10. Net Income (Loss) Per Share of Common Stock

Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. In computing diluted net income (loss) attributable to common stockholders, net income (loss) is re-allocated to reflect the potential impact of dilutive securities, including stock options, warrants, unvested restricted stock and unvested ZSUs. Diluted net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding, including potential dilutive securities. For periods in which we have generated a net loss or there is no income attributable to common stockholders, we do not include stock options, warrants, unvested restricted stock and unvested ZSUs in our computation of diluted net income (loss) per share, as the impact of these awards is anti-dilutive. The net per share amounts are the same for Class A, Class B and Class C common stock because the holders of each class are legally entitled to equal per share distributions whether through dividend or distribution. Further, as we assume the conversion of Class B and Class C common shares into Class A common shares (on a one-to-one basis) for the Class A diluted net income (loss) per share computation, the net income (loss) is equal to total net income (loss) for that computation.

The following table sets forth the computation of basic and diluted net income (loss) per share of common stock (in thousands, except per share data):

	Three Months Ended June 30,					
	2017			2016		
	Class A	Class B	Class C	Class A	Class B	Class C
	(unaudited)					
BASIC:						
Net income (loss) attributable to common stockholders	$4,565	$407	$121	$(3,805)	$(537)	$(104)
Weighted-average common shares outstanding	773,704	68,904	20,517	747,482	105,394	20,517
Basic net income (loss) per share	$0.01	$0.01	$0.01	$(0.01)	$(0.01)	$(0.01)
DILUTED:						
Net income (loss) attributable to common stockholders	$4,565	$407	$121	$(3,805)	$(537)	$(104)
Reallocation of net income (loss) as a result of conversion of Class C shares to Class A shares	121	—	—	(104)	—	—
Reallocation of net income (loss) as a result of conversion of Class B shares to Class A shares	407	—	—	(537)	—	—
Net income (loss) attributable to common stockholders-diluted	$5,093	$407	$121	$(4,446)	$(537)	$(104)
Weighted-average common shares outstanding-basic	773,704	68,904	20,517	747,482	105,394	20,517
Conversion of Class C to Class A common shares outstanding	20,517	—	—	20,517	—	—
Conversion of Class B to Class A common shares outstanding	68,904	—	—	105,394	—	—
Weighted-average effect of dilutive securities:						
Stock options and employee stock purchase plan	9,811	917	—	—	—	—
ZSUs	14,710	—	—	—	—	—
Performance-based ZSUs	345	—	—	—	—	—
Weighted-average common shares outstanding-diluted	887,991	69,821	20,517	873,393	105,394	20,517
Diluted net income (loss) per share	$0.01	$0.01	$0.01	$(0.01)	$(0.01)	$(0.01)

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	Six Months Ended June 30,					
	2017			2016		
	Class A	Class B	Class C	Class A	Class B	Class C
	(unaudited)					
BASIC:						
Net income (loss) attributable to common stockholders	$(3,896)	$(382)	$(103)	$(26,384)	$(3,891)	$(729)
Weighted-average common shares outstanding	772,679	75,829	20,517	742,271	109,455	20,517
Basic net income (loss) per share	$(0.01)	$(0.01)	$(0.01)	$(0.04)	$(0.04)	$(0.04)
DILUTED:						
Net income (loss) attributable to common stockholders	$(3,896)	$(382)	$(103)	$(26,384)	$(3,891)	$(729)
Reallocation of net income (loss) as a result of conversion of Class C shares to Class A shares	(103)	—	—	(729)	—	—
Reallocation of net income (loss) as a result of conversion of Class B shares to Class A shares	(382)	—	—	(3,891)	—	—
Net income (loss) attributable to common stockholders-diluted	$(4,381)	$(382)	$(103)	$(31,004)	$(3,891)	$(729)
Weighted-average common shares outstanding-basic	772,679	75,829	20,517	742,271	109,455	20,517
Conversion of Class C to Class A common shares outstanding	20,517	—	—	20,517	—	—
Conversion of Class B to Class A common shares outstanding	75,829	—	—	109,455	—	—
Weighted-average common shares outstanding-diluted	869,025	75,829	20,517	872,243	109,455	20,517
Diluted net income (loss) per share	$(0.01)	$(0.01)	$(0.01)	$(0.04)	$(0.04)	$(0.04)

The following weighted-average equity awards were excluded from the computation of diluted net income (loss) per share because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016

Stock options and employee stock purchase plan	16,827	24,939	35,138	24,059
Restricted shares	—	3,692	1,062	4,580
ZSUs	2,770	63,239	49,263	62,983
Total	19,597	91,870	85,463	91,622

11. Commitments and Contingencies

Lease Commitments

We have entered into operating leases for facilities. As of June 30, 2017, future minimum lease payments related to these leases are as follows (in thousands):

Year ending December 31:	
Remaining 2017	$2,406
2018	3,925
2019	3,067
2020	1,006
2021	657
2022 and thereafter	33
Total	$11,094

Licensor and Marketing Commitments

We have entered into several contracts with licensors that contain minimum guarantee payments and marketing commitments that may not be dependent on any deliverables. As of June 30, 2017, future minimum guarantee royalty payments due to licensors and marketing commitments for the licensed products are as follows (in thousands):

Year ending December 31:	
Remaining 2017	$13,275
2018	8,141
2019	7,750
2020	2,250
2021 and thereafter	6,399
Total	$37,815

The amounts represented in the table above for marketing commitments reflect our minimum cash obligations for the respective calendar years based on contractual terms, but do not necessarily represent the periods in which they will be expensed in the Company's consolidated statement of operations.

Other Purchase Commitments

We have entered into several contracts for hosting of data systems and other services. As of June 30, 2017, future minimum purchase commitments that have initial or remaining non-cancelable terms are as follows (in thousands):

Year ending December 31:	
Remaining 2017	$5,889
2018	3,432
2019	1,278
2020 and thereafter	285
Total	$10,884

Legal Matters

We are involved in legal and regulatory proceedings on an ongoing basis. Some of these proceedings are in early stages and may seek an indeterminate amount of damages. If we believe that a loss arising from such matters is probable and can be reasonably estimated, we accrue the estimated liability in our financial statements. If only a range of estimated losses can be determined, we accrue an amount within the range that, in our judgment, reflects the most likely outcome; if none of the estimates within that range is a better estimate than any other amount, we accrue the low end of the range. For proceedings in which an unfavorable outcome is reasonably possible but not probable and an estimate of the loss or range of losses arising from the proceeding can be made, we have disclosed such an estimate, if material. If such a loss or range of losses is not reasonably estimable, we have disclosed that fact. In assessing the materiality of a proceeding, we evaluate, among other factors, the amount of monetary damages claimed, as well as the potential impact of non-monetary remedies sought by plaintiffs that may require us to change our business practices in a manner that could have a material adverse impact on our business. There are no amounts accrued for legal and regulatory proceedings for which we believe a loss is probable as of June 30, 2017. We recognize legal expenses as incurred.

Derivative Litigation

Since August 3, 2012, eight stockholder derivative lawsuits have been filed in State or Federal courts in California and Delaware purportedly on behalf of the Company against certain current and former directors and executive officers of the Company. The derivative plaintiffs allege that the defendants breached their fiduciary duties and violated California Corporations Code section 25402 in connection with our initial public offering in December 2011 and our secondary offering in April 2012 by allegedly making false or misleading statements regarding the Company's business and financial projections.

Beginning on August 3, 2012, three of the actions were filed in San Francisco County Superior Court. On October 2, 2012, the court consolidated those three actions as In re Zynga Shareholder Derivative Litigation, Lead Case CGC-12-522934. On March 14, 2013, the plaintiffs filed a First Amended Complaint in that consolidated California state action. On March 21, 2013, the court endorsed a stipulation among the parties staying the action pending the ruling on the motion to dismiss in a related federal securities class action. On March 24, 2014, the court endorsed a stipulation among the parties staying the action pending a ruling on a motion to dismiss the First Amended Complaint in the federal securities class action. On April 24, 2015, the court endorsed a stipulation among the parties staying the action until the Delaware Chancery Court ruled on the defendants' motion to stay or dismiss in the action described below. On May 2, 2016, the court endorsed a stipulation among the parties staying the action until final resolution of plaintiff's appeal in the Delaware derivative action that is discussed in further detail below. At a status conference on March 8, 2017, the Court stayed the action until August 2, 2017, in light of the

Company's formation of a special litigation committee discussed below. At a status conference on August 2, 2017, the Court extended the stay in the action until September 29, 2017.

Beginning on August 16, 2012, four stockholder derivative actions were filed in the U.S. District Court for the Northern District of California. On December 3, 2012, the court consolidated these four actions as In re Zynga Inc. Derivative Litigation, Lead Case No. 12-CV-4327-JSW. On March 11, 2013, the court endorsed a stipulation among the parties staying the action pending the ruling on the motion to dismiss in a related federal securities class action. On March 21, 2014, the court issued an order continuing the stay pending a ruling on a motion to dismiss the First Amended Complaint in the federal securities class action. On April 27, 2015, the court endorsed a stipulation among the parties staying the action until the Delaware Chancery Court ruled on the defendants' motion to stay or dismiss in the action described below. On April 27, 2016, the court endorsed a stipulation among the parties staying the action until final resolution of plaintiff's appeal in the Delaware derivative action discussed below. On January 26, 2017, the court endorsed a stipulation among the parties providing for a further stay of this action until July 14, 2017. The parties are scheduled to provide a status report to the court on or before August 14, 2017.

On April 4, 2014, a derivative action was filed in the Court of Chancery of the State of Delaware captioned Sandys v. Pincus, et al. Case No. 9512-CB. On December 9, 2014, the defendants filed a motion to stay or dismiss the action. The court held a hearing on defendants' motion on November 17, 2015, and on February 29, 2016, the court granted the Company's motion to dismiss. On March 29, 2016, plaintiff filed a notice of appeal of the court's order dismissing the action. On December 5, 2016, the Delaware Supreme Court reversed the Court of Chancery's dismissal and remanded the case for further proceedings. On June 7, 2017, the court endorsed a stipulation among the parties staying the action through July 31, 2017, in light of the Company's formation of a special litigation committee. On July 18, 2017, the court endorsed a stipulation among the parties continuing the stay in the action through September 7, 2017.

The derivative actions include claims for, among other things, unspecified damages in favor of the Company, certain corporate actions to purportedly improve the Company's corporate governance, and an award of costs and expenses to the derivative plaintiffs, including attorneys' fees. Because the derivative actions are in the early stages of the litigation process, we are not in a position to assess whether any loss or adverse effect on our financial condition is probable or remote, or to estimate the range of potential loss, if any.

As discussed above, on February 3, 2017, our Board of Directors established a special litigation committee (the "Special Litigation Committee") currently consisting of Janice Roberts and Carol Mills to investigate the claims asserted against certain former and current officers and directors of the Company in the shareholder derivative suits described above (collectively, the "Derivative Litigation"). The Board determined that each member of the Special Litigation Committee is disinterested and independent with respect to the Derivative Litigation. The Special Litigation Committee will determine what actions are appropriate and in the best interests of the Company, and decide whether it is in the best interests of the Company to pursue, dismiss or consensually resolve the claims asserted in the Derivative Litigation. The Special Litigation Committee's findings and determinations shall be final and not subject to review by our Board of Directors and in all respects shall be binding upon the Company.

Mayer et al. v. Zynga

On March 31, 2017, Umrao Mayer, George Simmons, Zindagi Games, Inc., and Cam Tech Building, LLC initiated an arbitration against the Company. In their Statement of Claims, the claimants assert five claims for relief, including Breach of Contracts, Breach of the Implied Covenant of Good Faith and Fair Dealing, Estoppel, Conversion, and Declaratory Relief with Respect to Unlawful Non-Competition and Non-Solicitation Agreements. The primary allegations made by the claimants are that the Company breached an Asset Purchase Agreement dated December 30, 2015 (the "Zindagi Acquisition Agreement") by failing to provide the claimants an opportunity to achieve an earnout payment, is unlawfully withholding an escrow payment due under the Zindagi Acquisition Agreement, improperly terminated Messrs. Mayer and Simmons on November 29, 2016, breached a lease agreement, and required Messrs. Mayer and Simmons to enter into unlawful employment agreements. The claimants assert that they are entitled to compensatory damages in excess of $60 million, the release of $875,000 plus interest being held in escrow, exemplary damages, damages for the remaining lease payments, declaratory relief, and attorneys' fees and costs. On May 1, 2017, the Company filed its response, including a general denial of the allegations and a counterclaim for $2.5 million due to the termination of Messrs. Mayer and Simmons for "Cause" under the Zindagi Acquisition Agreement. The Company is also seeking its attorneys' fees and costs. The arbitration hearing date has been set for January 29, 2018. While there can be no assurance of favorable outcomes, the Company believes it has a meritorious counterclaim and defenses and will vigorously defend this action, and, accordingly, believes a loss, while possible, is not probable for this action. Further, because this action is in its early stages, the Company does not believe a reasonable estimate of potential loss or range of potential loss, if any, is determinable at this time.

Other

The Company is, at various times, also party to various other legal proceedings and claims not previously discussed which arise in the ordinary course of business. In addition, we may receive notifications alleging infringement of patent or other intellectual property rights. Adverse results in any such litigation, legal proceedings or claims may include awards of substantial monetary damages, expensive legal fees, costly royalty or licensing agreements, or orders preventing us from offering certain games, features, or services, and may also result in changes in our business practices, which could result in additional costs or a loss of revenue for us and could otherwise harm our business. Although the results of such litigation cannot be predicted with certainty, we believe that the amount or range of reasonably possible losses related to such pending or threatened litigation will not have a material adverse effect on our business, operating results, cash flows, or financial condition should such litigation be resolved unfavorably.

12. Geographical Information

The following represents our revenue based on the geographic location of our players (in thousands):

Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
United States	$139,768	$123,547	$267,973	$249,183
All other countries [1]	69,463	58,188	135,542	119,273
Total revenue	$209,231	$181,735	$403,515	$368,456

[1] No country exceeded 10% of our total revenue for any periods presented.

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

Property and equipment, net

	June 30, 2017	December 31, 2016
United States	$264,743	$ 267,324
All other countries	2,710	2,115
Total property and equipment, net	$267,453	$ 269,439

13. Business Developments

During the second quarter of 2017, the Company entered into an industrial gross lease agreement to provide approximately 287,016 square feet of its office space in San Francisco, California to a tenant beginning in March 2018 until February 2027. The agreement provides for total rental payments to be received by the Company of $167.7 million over the term of the lease, with the Company providing tenant improvement allowances of $55.2 million. In connection with executing the lease agreement, the Company accrued deferred lease origination costs of $6.5 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in "Special Note Regarding Forward-Looking Statements" and "Risk Factors." The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date hereof.

Overview

We are a leading provider of social game services with approximately 80 million average monthly active users of our games ("MAUs") in the second quarter of 2017. 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. Our objective is to become the worldwide leader in play by connecting the world through games.

Consistent with our free-to-play business model, a small portion of our players have historically been payers. 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 revenue-generating games historically have contributed a significant portion of our revenue, though the games that represent our top three revenue-generating games vary over time. Our top three revenue-generating games accounted for 44%, 53% and 60% of our online game revenue in 2016, 2015 and 2014, respectively. In the three months ended June 30, 2017, Zynga Poker, CSR Racing 2, Wizard of Oz Slots and Hit It Rich! Slots were our top revenue-generating games.

How We Generate Revenue

We operate our social games as live services that allow players to play for free. We generate revenue primarily from the in-game sale of virtual goods and advertising services. Revenue growth will continue to depend largely on our ability to attract and retain players and more effectively monetize our player base through the in-game sale of virtual goods (referred to as "online game revenue") and advertising (referred to as "advertising revenue"). We intend to do this through the launch of new games, enhancements to current games and expansion into new markets and distribution platforms.

Online game. We provide our players with the opportunity to purchase virtual goods that enhance their game-playing experience. We believe players choose to pay for virtual goods for the same reasons they are willing to pay for other forms of entertainment – they enjoy the additional playing time or added convenience, the ability to personalize their own game boards, the satisfaction of leveling up and the opportunity for sharing creative expressions. We believe players are more likely to purchase virtual goods when they are connected to and playing with their friends, whether those friends play for free or also purchase virtual goods. Players may also elect to pay a one-time download fee to obtain certain mobile games free of third-party advertisements.

In 2017, our business continued generating a higher percentage of revenue and bookings through mobile platforms than through the Facebook platform. In the three months ended June 30, 2017, we estimate that 51%, 33% and 12% of our revenue and 51%, 34% and 11% of our bookings were generated from Apple, Google and Facebook, respectively, while in the same period of the prior year, we estimate that 45%, 28% and 21% of revenue and 46%, 30% and 19% of our bookings were generated from Apple, Google and Facebook, respectively. These percentages are estimated because certain payment methods we accept and certain advertising networks do not allow us to determine the platform used.

For all payment transactions in our games under Facebook's local currency-based payments model, Facebook remits to us an amount equal to 70% of the price we requested to be charged to our players. On platforms other than Facebook, players purchase our virtual goods through various widely accepted payment methods offered in the games, including PayPal, Apple iTunes accounts, Google Wallet and credit cards.

Advertising and other. Advertising revenue primarily includes engagement ads and offers, mobile and display ads, branded virtual goods and sponsorships and other. We generally report our advertising revenue net of amounts due to advertising agencies and brokers. Other revenue includes software licensing and maintenance related to technology acquired in our acquisition of NaturalMotion as well as licensing of our brands.

Key Measures and Metrics

We regularly review a number of measures and metrics, including the following key financial measures and operating metrics, to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions.

Key Non-GAAP Financial Measures

Bookings. Bookings is a non-GAAP financial measure that is equal to revenue recognized during the period plus the change in deferred revenue during the period. We record the sale of virtual goods as deferred revenue and then recognize that revenue over the estimated average life of the purchased virtual goods or as the virtual goods are consumed. Advertising sales which consist of certain branded virtual goods and sponsorships are also deferred and recognized over the estimated average life of the branded virtual good, similar to online game revenue. Bookings is a fundamental top-line measure we use to manage our business, as we believe it is a useful indicator of the sales activity in a given period. Over the long-term, the factors impacting our bookings and revenue are the same. However, in the short term, there are factors that may cause revenue to exceed or be less than bookings in any period.

We use bookings to evaluate the results of our operations, generate future operating plans and assess the performance of our company. While we believe that this non-GAAP financial measure is useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute for revenue recognized in accordance with U.S. GAAP. In addition, other companies, including companies in our industry, may calculate bookings differently or not at all, which reduces its usefulness as a comparative measure.

The following table presents a reconciliation of revenue to bookings for each of the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Reconciliation of Revenue to Bookings:				
Revenue	$ 209,231	$ 181,735	$ 403,515	$ 368,456
Change in deferred revenue	(53)	(7,082)	13,021	(12,178)
Bookings	$ 209,178	$ 174,653	$ 416,536	$ 356,278

Limitations of Bookings

Key limitations of bookings are:

- bookings do not reflect that we defer and recognize online game revenue and revenue from certain advertising transactions over the estimated average life of durable virtual goods or as virtual goods are consumed; and
- other companies, including companies in our industry, may calculate bookings differently or not at all, which reduces their usefulness as a comparative measure.

Because of these limitations, you should consider bookings along with other financial performance measures, including revenue, net income (loss) and our other financial results presented in accordance with U.S. GAAP.

Key Operating Metrics

We manage our business by tracking several operating metrics: “DAUs,” which measure daily active users of our games, “MAUs,” which measure monthly active users of our games, “MUUs,” which measure monthly unique users of our games, “MUPs,” which measure monthly unique payers in our games, and “ABPU,” which measures our average daily bookings per average DAU, each of which is recorded by our internal analytics systems. The numbers for these operating metrics are calculated using internal company data based on tracking of user account activity. We also use information provided by third parties, including third party network logins provided by platform providers, to help us track whether a player logged in under two or more different user accounts is the same individual. We believe that the numbers are reasonable estimates of our user base for the applicable period of measurement; however, factors relating to user activity and systems may impact these numbers.

DAUs. We define DAUs as the number of individuals who played one of our games during a particular day. Under this metric, an individual who plays two different games on the same day is counted as two DAUs. We use information provided by third parties to help us identify individuals who play the same game to reduce this duplication. However, because we do not always have the third party network login data to link an individual who has played under multiple user accounts, a player may be counted as multiple DAUs. Average DAUs for a particular period is the average of the DAUs for each day during that period. We use DAUs as a measure of audience engagement.

MAUs. We define MAUs as the number of individuals who played one of our games in the 30-day period ending with the measurement date. Under this metric, an individual who plays two different games in the same 30-day period is counted as two MAUs. We use information provided by third parties to help us identify individuals who play the same game to reduce this duplication. However, because we do not always have the third party network login data to link an individual who has played under multiple user accounts, a player may be counted as multiple MAUs. Average MAUs for a particular period is the average of the MAUs at each month-end during that period. We use MAUs as a measure of total game audience size.

MUUs. We define MUUs as the number of individuals who played one or more of our games, which we were able to verify were played by the same individual in the 30-day period ending with the measurement date. An individual who plays more than one of our games in a given 30-day period would be counted as a single MUU to the extent we can verify that the games were played by the same individual. However, because we do not always have the third party network login data necessary to link an individual who has paid under multiple user accounts in a given 30-day period, an individual may be counted as multiple MUUs. Because many of our players play more than one game in a given 30-day period, MUUs are always equal to or lower than MAUs in any given time period. Average MUUs for a particular period is the average of the MUUs at each month end during that period. We use MUUs as a measure of total audience reach across our network of games.

MUPs. We define MUPs as the number of individuals who made a payment at least once during the applicable 30-day period through a payment method for which we can quantify the number of individuals, including payers from certain mobile games. MUPs does not include individuals who use certain payment methods for which we cannot quantify the number of unique payers. However, because we do not always have the third party network login data necessary to link an individual who has paid under multiple user accounts in a 30-day period, a player who has paid using multiple user accounts may be counted as multiple MUPs. MUPs are presented as an average of the three months in the applicable quarter. We use MUPs as a measure of the number of individuals who made payments across our network of games during a 30-day period.

ABPU. We define ABPU as our total bookings in a given period, divided by the number of days in that period, divided by, the average DAUs during the period. We believe that ABPU provides useful information to investors and others in understanding and evaluating our results in the same manner as our management and Board of Directors. We use ABPU as a measure of overall monetization across all of our players through the sale of virtual goods and advertising.

Our business model for social games is designed so that, as there are more players that play our games, social interactions increase and the more valuable the games and our business become. All engaged players of our games help drive our bookings and, consequently, both online game revenue and advertising revenue. Virtual goods are purchased by players who are socializing with, competing against or collaborating with other players, most of whom do not buy virtual goods. Accordingly, we primarily focus on bookings, DAUs, MAUs, MUUs, MUPs and ABPU, which together we believe best reflect key audience metrics.

The table below shows average DAUs, MAUs, MUUs, MUPs and ABPU for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(users and payers in millions)			
Average DAUs (1)	21	18	21	19
Average MAUs (1)	80	61	76	65
Average MUUs (2)	52	50	54	53
Average MUPs (2)	1.2	0.9	1.3	0.9
ABPU	$0.109	$0.107	$ 0.108	$ 0.105

(1) Daily Celebrity Crossword, our Solitaire games and our Facebook Messenger games are included incrementally in DAU and MAU because we do not have the third party network login data to link an individual who has played under multiple user accounts. As such, actual DAU and MAU may be lower than reported due to the potential duplication of these individuals.
(2) For the three months ended and six months ended June 30, 2017, MUUs and MUPs exclude Daily Celebrity Crossword, our Solitaire games and our Facebook Messenger games. For the three and six months ended June 30, 2016, MUUs and MUPs exclude Black Diamond Casino, Vegas Diamond Slots, Yummy Gummy and Crazy Kitchen. These games are excluded to avoid potential double counting of MUUs and MUPs as our systems are unable to distinguish whether a player of these games is also a player of the Company's other games during the applicable time periods.

Average DAUs, MAUs, MUUs and MUPs increased in the second quarter of 2017 as compared to the same period of the prior year primarily due to the contribution from new games, primarily CSR Racing 2 (launched in June 2016), in addition to strong performance from Zynga Poker. Average DAUs and MAUs also increased due to the contribution from our Solitaire games, which were acquired from Harpan in the first quarter of 2017, and games on mobile messenger platforms (i.e. iMessage and Facebook Messenger). ABPU increased in the second quarter of 2017 as compared to the second quarter of 2016 due to bookings increasing faster than average DAUs.

Other Metrics

Although our management primarily focuses on the operating metrics above, we also monitor periodic trends in our paying players of our games. The table below shows average monthly unique payer bookings, average MUPs and unique payer bookings per unique payer for the last five quarters:

	For the Three Months Ended:				
	June 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Average monthly unique payer bookings (in thousands) (1)	$54,475	$54,460	$49,711	$48,303	$39,531
Average MUPs (in millions) (2)	1.2	1.3	1.2	1.3	0.9
Monthly unique payer bookings per MUP (3)	$45	$42	$41	$37	$43

(1) Average monthly unique payer bookings represent the monthly average amount of bookings for the applicable quarter that we received through payment methods for which we can quantify the number of unique payers and excludes bookings from certain payment methods for which we cannot quantify the number of unique payers. Also excluded are bookings from advertising. For the first and second quarters of 2017, bookings from Daily Celebrity Crossword and our Solitaire games are excluded. For the third and fourth quarters of 2016, bookings from Vegas Diamond Slots and Daily Celebrity Crossword are excluded. For the second quarter of 2016, bookings from Black Diamond Casino, Vegas Diamond Slots, Yummy Gummy and Crazy Kitchen are excluded.
(2) For the first and second quarters of 2017, MUUs and MUPs exclude Daily Celebrity Crossword, our Solitaire games and our Facebook Messenger games. For the third and fourth quarters of 2016, MUPs exclude Daily Celebrity Crossword and Vegas Diamond Slots. For the second quarter of 2016, MUPs exclude Black Diamond Casino, Vegas Diamond Slots, Yummy Gummy and Crazy Kitchen.
(3) Monthly unique payer bookings per MUP is calculated by dividing average monthly unique payer bookings by average MUPs.

When comparing the second quarter of 2017 to the first quarter of 2017, average monthly unique payer bookings were flat while average monthly unique payer bookings per MUP increased due to a sequential decline in average MUPs. When comparing the second quarter of 2017 to the same period of the prior year, average monthly unique payer bookings increased primarily due to the bookings contribution from new games launched in 2016 such as Wizard of Oz: Magic Match (launched in May 2016), CSR Racing 2 (launched in June 2016) and Dawn of Titans (launched in December 2016), in addition to bookings growth from existing games such as Zynga Poker. Monthly unique payer bookings per MUP increased in the second quarter of 2017 compared to the same period of the prior year due to monthly unique payer bookings increasing faster than average MUPs.

Q2 2017 Highlights

- Game Launch. In the second quarter of 2017, we launched Crosswords With Friends for mobile platforms.
- Share Repurchase Program. In November 2016, the 2016 Share Repurchase Program was authorized for up to $200 million of our outstanding Class A common stock. In the second quarter of 2017, we repurchased 3.0 million shares of our Class A common stock at a weighted average price of $2.79 per share for a total of $8.4 million.
- Q2 2017 Restructuring. During the second quarter of 2017, we implemented the Q2 2017 restructuring plan, which included a reduction in work force to reduce the Company's long-term cost structure. We recorded a $1.3 million restructuring charge in the second quarter of 2017 related to this plan.
- Lease Agreement. During the second quarter of 2017, the Company entered into an industrial gross lease agreement to provide approximately 287,016 square feet of its office space in San Francisco, California to a tenant beginning in March 2018 until February 2027. The agreement provides for total rental payments to be received by the Company of $167.7 million over the term of the lease, with the Company providing tenant improvement allowances of $55.2 million. In connection with executing the lease agreement, the Company accrued deferred lease origination costs of $6.5 million.

Factors Affecting Our Performance

Platform agreements. Our games are primarily distributed, marketed and promoted through third parties, primarily Apple's App Store, Google Play App Store and Facebook. Virtual goods for our games are purchased through the payment processing systems of these platform providers. To date, we have generated a significant portion of our bookings, revenue and players through the Apple , Google and Facebook platforms and expect to continue to do so for the foreseeable future. We are generating an increasing portion of our bookings, revenue and players through the Apple App Store and Google Play App Store and expect that this trend will continue as we launch more games for mobile devices. Apple, Google and Facebook generally have the discretion to change their platforms’ terms of service and other policies with respect to us or other developers in their sole discretion, and those changes may be unfavorable to us.

Launch of new games and release of enhancements. Our bookings and revenue results have been driven by the launch of new mobile and web games and the release of fresh content and new features in existing games. Our future success depends on our ability to innovate and provide fresh content to keep our existing players engaged as well as launch and monetize new titles on various platforms. Although the amount of revenue and bookings we generate from an enhancement to an existing game or launch of a new game or can vary significantly, we expect our revenue and bookings to be correlated to our success in releasing engaging content and features for our existing games and the success and timely launch of our new games. In addition, revenue and bookings from many of our games tend to decline over time after reaching a peak of popularity and player usage. We often refer to the speed of this decline as the decay rate of a game. As a result of this decline in the revenue and bookings of our games, our business depends on our ability to consistently release fresh content for our existing games and launch new games that achieve significant popularity and have the potential to become franchise games.

Game monetization. We generate most of our bookings and revenue from the sale of virtual goods in our games. The degree to which our players choose to pay for virtual goods in our games is driven by our ability to create content and virtual goods that enhance the game-play experience. Our bookings, revenue and overall financial performance are affected by the number of players and the effectiveness of our monetization of players through the sale of virtual goods and advertising. The percentage of paying mobile and international players may increase or decrease based on a number of factors, including growth in mobile games as a percentage of total game audience and our overall international players, localization of content and the availability of payment options. In addition, mobile and international players have historically monetized at a lower level than web and U.S. players, respectively.

Investment in game development. In order to develop new games and enhance the content and features in our existing games, we must continue to invest in a significant amount of engineering and creative resources. These expenditures generally occur in advance of the launch of a new game or the release of new content, and the resulting revenue may not equal or exceed our development costs, or the game or feature may be abandoned in its entirety.

Player acquisition costs. We utilize advertising and other forms of player acquisition and retention to grow and retain our player audience. These expenditures generally relate to the promotion of new game launches and ongoing performance-based programs to drive new player acquisition and lapsed player reactivation. Over time, these acquisition and retention-related programs may become either less effective or costlier, negatively impacting our operating results. Additionally, 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.

New market development. We are investing in new distribution channels, mobile platforms and international markets to expand our reach and grow our business. For example, we have continued to hire additional employees and acquire companies with experience developing mobile applications. Our ability to be successful will depend on our ability to develop a successful mobile network, obtain new players and retain existing players on new and existing social networks and attract advertisers.

As we expand into new markets and distribution channels, we expect to incur headcount, marketing and other operating costs in advance of the associated bookings and revenue. Our financial performance will be impacted by our investment in these initiatives and their success.

Hiring and retaining key personnel. Our ability to compete depends in large part on our ability to hire and retain key talent and match that key talent to our current business needs. We are continually reviewing our hiring and retention programs against best practices and for optimal efficiencies. In addition to employee attrition, we have also implemented, and continue to implement, certain cost reduction initiatives to better align our operating expenses with our revenue, including reducing or redeploying our headcount, hiring in lower cost geographies, and consolidating certain facilities.

Results of Operations

Revenue

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)			(dollars in thousands)		
Revenue by type:						
Online game	$ 163,745	$ 135,823	21 %	$ 317,226	$ 272,880	16 %
Advertising and other	45,486	45,912	(1)%	86,289	95,576	(10)%
Total revenue	$ 209,231	$ 181,735	15 %	$ 403,515	$ 368,456	10 %

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Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Total revenue increased $27.5 million in the three months ended June 30, 2017 compared to the same period of the prior year, while bookings increased $34.5 million in the three months ended June 30, 2017 compared to the same period of the prior year. Average DAUs increased from 18 million in the three months ended June 30, 2016 to 21 million in the three months ended June 30, 2017, ABPU increased from $0.107 in the three months ended June 30, 2016 to $0.109 in the three months ended June 30, 2017 and average MUPs increased from 0.9 million in the three months ended June 30, 2016 to 1.2 million in the three months ended June 30, 2017.

Online game revenue increased $27.9 million in the three months ended June 30, 2017 compared to the same period of the prior year. This increase is primarily attributable to increases in revenue from CSR Racing 2, Zynga Poker and Wizard of Oz: Magic Match in the amounts of $22.4 million, $8.9 million and $8.7 million, respectively. Online game revenue increased for Zynga Poker due to growth in bookings and audience metrics in this game, while online game revenue increased for Wizard of Oz: Magic Match and CSR Racing 2 as these games were launched in May 2016 and June 2016, respectively. The overall increase in online game revenue was offset by decreases in online game revenue from Empires and Allies 2, FarmVille 2 and Wizard of Oz Slots in the amounts of $10.2 million, $5.1 million and $4.5 million, respectively, due to the overall decay rate in bookings and audience metrics in these games. All other games accounted for the net increase of $7.7 million.

International revenue as a percentage of total revenue was 33% in the three months ended June 30, 2017 and 32% in the same period of the prior year.

In the three months ended June 30, 2017, Zynga Poker, CSR Racing 2, Wizard of Oz Slots and Hit it Rich! Slots were our top revenue-generating games and comprised 21%, 14%, 10% and 10%, respectively, of our online game revenue for the period. In the three months ended June 30, 2016, Zynga Poker, Wizard of Oz Slots, FarmVille 2, Hit It Rich! Slots and Empires and Allies 2 were our top revenue-generating games and comprised 19%, 15%, 12%, 11% and 10%, respectively, of our online game revenue for the period. No other game generated more than 10% of online game revenue during either of these periods.

Consumable virtual goods accounted for 43% of online game revenue in the three months ended June 30, 2017 and 47% of online game revenue in the same period of the prior year. Durable virtual goods accounted for 57% of online game revenue in the three months ended June 30, 2017 and 53% of online game revenue in the same period of the prior year. The estimated weighted average life of durable virtual goods was eight months in the three months ended June 30, 2017, compared to nine months in the same period of the prior year.

Advertising and other revenue decrease $0.4 million in the three months ended June 30, 2017 as compared to the same period in the prior year due to a $0.2 million decrease in in-game display ads. The decrease in in-game display ads was attributed to a lower return on our advertisements as our effective cost per thousand impressions (“eCPM”) declined from the prior year due to a shift in our advertising product mixture. The decrease in advertising and other revenue was also attributed to a $0.7 million decrease in in-game offers, engagement ads and other advertising revenue, offset by a $0.5 million increase in licensing revenue.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Total revenue increased $35.1 million in the six months ended June 30, 2017 compared to the same period of the prior year, while bookings increased $60.3 million in the six months ended June 30, 2017 compared to the same period of the prior year. Average DAUs increased from 19 million in the six months ended June 30, 2016 to 21 million in the six months ended June 30, 2017, ABPU increased from $0.105 in the six months ended June 30, 2016 to $0.108 in the six months ended June 30, 2017 and average MUPs increased from 0.9 million in the six months ended June 30, 2016 to 1.3 million in the six months ended June 30, 2017.

Online game revenue increased $44.4 million in the six months ended June 30, 2017 compared to the same period of the prior year. This increase is primarily attributable to increases in revenue from CSR Racing 2, Zynga Poker and Wizard of Oz: Magic Match in the amounts of $41.9 million, $18.1 million and $15.3 million, respectively. Online game revenue increased for Zynga Poker due to growth in bookings and audience metrics in this game, while online game revenue increased for Wizard of Oz: Magic Match and CSR Racing 2 as these games were launched in May 2016 and June 2016, respectively. The overall increase in online game revenue was offset by decreases in online game revenue from Empires and Allies 2, FarmVille 2 and Wizard of Oz Slots in the amounts of $19.1 million, $11.3 million and $11.2 million, respectively, due to the overall decay rate in bookings and audience metrics in these games. All other games accounted for the net increase of $10.7 million.

International revenue as a percentage of total revenue was 34% in the six months ended June 30, 2017 and 32% in the same period of the prior year.

In the six months ended June 30, 2017, Zynga Poker, CSR Racing 2, Hit It Rich! Slots and Wizard of Oz Slots were our top revenue-generating games and comprised 22%, 13%, 10% and 10%, respectively, of our online game revenue for the period. In the six months ended June 30, 2016, Zynga Poker, Wizard of Oz Slots, FarmVille 2, Hit It Rich! Slots and Empires and Allies 2 were our top revenue-generating games and comprised 19%, 15%, 13%, 13% and 10%, respectively, of our online game revenue for the period. No other game generated more than 10% of online game revenue during either of these periods.

Consumable virtual goods accounted for 45% of online game revenue in the six months ended June 30, 2017 and 48% of online game revenue in the same period of the prior year. Durable virtual goods accounted for 55% of online game revenue in the six months ended June 30, 2017 and 52% of online game revenue in the same period of the prior year. The estimated weighted average life of durable virtual goods was 9 months for the six months ended June 30, 2017, which was the same in the prior year.

Advertising and other revenue decreased $9.3 million in the six months ended June 30, 2017 as compared to the same period in the prior year primarily due to an $8.9 million decrease in in-game display ads. The decrease in in-game display ads was attributed to a lower return on our advertisements as our effective cost per thousand impressions (“eCPM”) declined from the prior year due to a shift in our advertising product mixture. The decrease in advertising and other revenue was also attributed to a $1.2 million decrease in in-game offers, engagement ads and other advertising revenue, which was offset by a $0.8 million increase in licensing revenue.

Cost of revenue

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)			(dollars in thousands)		
Cost of revenue	$ 64,172	$ 56,103	14 %	$ 129,049	$ 113,242	14 %

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Cost of revenue increased $8.1 million in the three months ended June 30, 2017 compared to the same period of the prior year. The increase was primarily attributable to a $13.3 million increase in payment processing fees from bookings generated from mobile payment processors, offset by a $4.2 million decrease from lower amortization expense due to an impairment of intangible assets recorded in the third quarter of 2016.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Cost of revenue increased $15.8 million in the six months ended June 30, 2017 compared to the same period of the prior year. The increase was primarily attributable to a $25.2 million increase in payment processing fees from bookings generated from mobile payment processors, offset by a $7.1 million decrease from lower amortization expense due to an impairment of intangible assets recorded in the third quarter of 2016 and a $3.6 million decrease in hosting costs due to data center migration.

Research and development

Three Months Ended June 30,			Six Months Ended June 30,		
2017	2016	% Change	2017	2016	% Change

	(dollars in thousands)			(dollars in thousands)		
Research and development	$ 64,615	$ 66,233	(2)%	$ 133,817	$ 153,970	(13)%

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Research and development expenses decreased $1.6 million in the three months ended June 30, 2017 compared to the same period of the prior year. The decrease was primarily attributable to decreases of $9.7 million in stock-based compensation expense, $3.3 million in consulting, and $3.3 million in headcount-related expenses. The three months ended June 30, 2017 also included a benefit of $0.8 million to adjust the fair value of the contingent consideration liabilities for Zindagi and PuzzleSocial. However, this benefit was offset by a $14.4 million benefit that was recognized during the three months ended June 30, 2016 to adjust the fair value of the contingent consideration liabilities related to the Rising Tide and Zindagi acquisitions that did not repeat in the three months ended June 30, 2017, resulting in an net increase of $13.6 million for the three months ended June 30, 2017 due to contingent consideration fair value adjustments.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Research and development expenses decreased $20.2 million in the six months ended June 30, 2017 compared to the same period of the prior year. The decrease was primarily attributable to decreases of $22.2 million decrease in stock-based compensation expense, $6.6 million in consulting, and $3.1 million decrease in headcount-related expenses. The six months ended June 30, 2017 also included a benefit of $0.9 million to adjust the fair value of the contingent consideration liabilities for Zindagi and PuzzleSocial. However, this benefit was offset by a $12.4 million benefit that was recognized during the six months ended June 30, 2016 to adjust the fair value of the contingent consideration liabilities related to the Rising Tide and Zidagi acquisitions that did not repeat in the six months ended June 30, 2017, resulting in an net increase of $11.5 million for the six months ended June 30, 2017 due to contingent consideration fair value adjustments.

Sales and marketing

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)			(dollars in thousands)		
Sales and marketing	$ 51,201	$ 40,631	26 %	$ 97,821	$ 86,975	12 %

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Sales and marketing expenses increased $10.6 million in the three months ended June 30, 2017 compared to the same period of the prior year. The increase was primarily attributable to a $9.4 million increase in marketing expense due to higher mobile player acquisition costs, primarily for CSR Racing 2, Wizard of Oz: Magic Match and our Solitaire games.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Sales and marketing expenses increased $10.8 million in the six months ended June 30, 2017 compared to the same period of the prior year. The increase was primarily attributable to a $7.7 million increase in marketing expense due to higher mobile player acquisition costs, primarily for CSR Racing 2 and Wizard of Oz: Magic Match. The increase was also attributed to a $2.0 million increase in headcount-related expense.

General and administrative

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)			(dollars in thousands)		
General and administrative	$ 23,551	$ 25,374	(7)%	$ 46,116	$ 47,758	(3)%

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

General and administrative expenses decreased $1.8 million in the three months ended June 30, 2017 compared to the same period of the prior year. The decrease was primarily attributable to a $0.8 million decrease in headcount-related expenses.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

General and administrative expenses decreased $1.6 million in the six months ended June 30, 2017 compared to the same period of the prior year. The decrease was primarily attributable to a $1.8 million decrease in restructuring and $1.6 million decrease in headcount-related expenses, offset by a $2.4 million increase in consulting expenses.

Other income (expense), net

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)			(dollars in thousands)		
Other income (expense), net	$ 1,614	$ 1,905	(15)%	$ 3,050	$ 4,005	(24)%

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Other income (expense), net decreased by $0.3 million in the three months ended June 30, 2017 compared to the same period of the prior year. The decrease was primarily attributable to exchange rate changes on foreign currency transactions.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Other income (expense), net decreased by $1.0 million in the six months ended June 30, 2017 compared to the same period of the prior year. The decrease was primarily attributable to exchange rate changes on foreign currency transactions.

Provision for (benefit from) income taxes

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)			(dollars in thousands)		
Provision for (benefit from) income taxes	$ 3,322	$ 506	NM	$ 6,189	$ 2,986	NM

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

The expense from income taxes increased by $2.8 million in the three months ended June 30, 2017 compared to the same period of the prior year. The increase was primarily attributable to an increase in foreign tax expense of $2.8 million related to changes in our jurisdictional mix of earnings.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

The expense from income taxes increased by $3.2 million in the six months ended June 30, 2017 as compared to the same period of the prior year. The increase was primarily attributable to an increase in foreign tax expense of $3.2 million related to changes in our jurisdictional mix of earnings.

Liquidity and Capital Resources

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Consolidated Statements of Cash Flows Data:		
Acquisition of property and equipment	$ (4,141)	$ (3,947)
Depreciation and amortization	16,279	21,647
Cash flows provided by (used in) operating activities	33,111	11,241
Cash flows provided by (used in) investing activities	(46,299)	188,212
Cash flows provided by (used in) financing activities	(102,330)	(111,172)

Our principal liquidity requirements are our lease, licensing, and marketing commitments, capital expenditure needs, including strategic purchases and acquisitions, and any share repurchase activity we choose to effect, such as the 2016 Share Repurchase Program. We expect to finance our operations through cash provided by operating activities and cash on hand. However, we cannot be sure that these sources will be sufficient to finance our operations and our share repurchase activity, and we may seek additional financing in the future. As of June 30, 2017, we had cash and cash equivalents of approximately $739 million, which consisted of cash, money market funds, U.S. government and government agency securities, and corporate debt securities.

In November 2016, the 2016 Share Repurchase Program was authorized for up to $200 million of our outstanding Class A common stock. In the first quarter of 2017, we repurchased 31.2 million shares of our Class A common stock at a weighted average price of $2.70 per share for a total of $84.5 million. In the second quarter of 2017, we repurchased 3.0 million shares for our Class A common stock under the repurchase program at a weighted average price of $2.79 per share for a total of $8.4 million.

Operating Activities

After our net loss of $4.4 million is adjusted to exclude non-cash items, operating activities provided $33.1 million of cash during the six months ended June 30, 2017. Significant non-cash items included stock-based compensation expense of $33.8 million and depreciation and amortization of $16.3 million. Changes in our operating assets and liabilities declined $14.6 million in the six months ended June 30, 2017, primarily due to changes in other liabilities, accounts payable and accounts receivable of $11.5 million, $8.3 million and $8.0 million, respectively, offset by a change in deferred revenue of $13.0 million.

Investing Activities

Investing activities used $46.3 million during the six months ended June 30, 2017. The primary outflow of cash associated with investing activities was the acquisition of Solitaire mobile game applications from Harpan in the first quarter of 2017 for approximately $42.5 million, of which approximately $7.4 million was allocated to the noncompetition agreements and $35.1 million was allocated to developed technology and goodwill.

Financing Activities

Financing activities used $102.3 million during the six months ended June 30, 2017. The primary outflow of cash associated with financing activities was $96.9 million of repurchases of Class A common stock.

Off-Balance Sheet Arrangements

We did not have any material off-balance sheet arrangements in the second quarter of 2017 or in any prior periods as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations

	Total	2017	2018-2019	2020-2021	2022 and thereafter
Lease commitments	$11,094	$2,406	$ 6,992	$ 1,663	$ 33
Licensor commitments	30,275	13,275	15,000	2,000	—
Marketing commitments (1)	7,540	—	891	250	6,399
Other purchase commitments	10,884	5,889	4,710	285	—
Total contractual obligations	$59,793	$21,570	$ 27,593	$ 4,198	$ 6,432

(1) The amounts represented in the table above reflect our minimum cash obligations for the respective calendar years based on contractual terms, but do not necessarily represent the periods in which they will be expensed in the Company's consolidated statement of operations.

We do not have any material capital lease obligations, and all of our property, equipment and software has been purchased with cash.

Lease Commitments

Our lease commitments consist of operating leases for our facilities.

Licensor Commitments

Licensor commitments include minimum guarantee royalty payments due to licensors for use of their brands, properties and other licensed content in our games.

Marketing Commitments

Marketing commitments consist of specified spend amounts related to marketing our products.

Other Purchase Commitments

We have entered into several contracts for hosting of data systems and services and licensed intellectual property.

Critical Accounting Policies and 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 our consolidated financial statements and related notes. Our significant accounting policies are described in Note 1 to our consolidated financial statements included in our previously-filed Annual Report on Form 10-K for the year ended December 31, 2016. We have identified below our critical accounting policies and estimates that we believe require the greatest amount of judgment. These estimates and judgments have a significant impact on our consolidated financial statements. Actual results could differ materially from those estimates. The accounting policies that reflect our more significant estimates and judgments and that we believe are the most critical to fully understand and evaluate our reported financial results include the following:

- Revenue recognition
- Income taxes
- Business combinations
- Goodwill and indefinite-lived intangible assets
- Impairment of long-lived assets
- Licenses and royalties

Please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2016 for a more complete discussion of our critical accounting policies and estimates.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 1 – "Overview and Summary of Significant Accounting Policies" in the notes to the consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

During the six months ended June 30, 2017, there were no significant changes to our quantitative and qualitative disclosures about market risk. Please refer to Part II, Item 7A. "Quantitative and Qualitative Disclosure About Market Risk" included in our Annual Report on Form 10-K for our fiscal year ended December 31, 2016 for a more complete discussion on the market risks we encounter.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission (the "SEC") rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2017, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended June 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our material legal proceedings, see the section titled "Legal Matters" included in Note 11 —"Commitments and Contingencies" in the notes to the consolidated financial statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q which is incorporated by reference herein.

ITEM 1A. RISK FACTORS

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, results of operations or reputation. The risks described below are not the only risks we face, but additional risks not presently known to us or that we currently believe are not material may also significantly affect our business, financial condition, results of operations or reputation. 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 Quarterly Report on Form 10-Q, 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 Annual Report on Form 10-K for the year-ended December 31, 2016.

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 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. 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 experienced delays in the introduction of Dawn of Titans and CSR Racing 2, which had a negative impact on our financial results.

We focus our efforts on four categories: Social Casino, Casual, Action Strategy and Invest Express. In addition to the market factors noted above, our ability to successfully develop games for mobile platforms and their ability to achieve commercial success will depend on our ability to:

- effectively market mobile games to our existing web-based players, mobile players and new players without excess cost;
- achieve viral organic growth;

- achieve benefit from player acquisition costs that may materialize in the future;
- adapt to changing player preferences;
- adapt games quickly to make sure they are compatible with, and take advantage of feature sets for new releases of mobile phones and other devices;
- expand and enhance games after their initial release;
- anticipate and effectively respond to the growing number of players switching from web-based to mobile games, the changing mobile landscape and the interests of players on mobile platforms;
- attract, retain and motivate talented game designers, product managers and engineers who have experience developing games for mobile platforms;
- partner with mobile platforms and obtain featuring opportunities;
  - adapt game feature sets for limited bandwidth, processing power and screen size of typical mobile devices;

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- minimize launch delays and cost overruns on the development of new games;
- effectively monetize our games;
- maintain a quality social game experience;
- provide a compelling and optimal user experience through existing and developing third party technologies, including third party software and middleware utilized by our players;
- release games compatible with an increasingly diverse set of mobile devices;
- compete successfully against a large and growing number of existing market participants;
- minimize and quickly resolve bugs or outages; and
- acquire and successfully integrate high quality mobile game assets, personnel or companies.

These and other uncertainties make it difficult to know whether we will succeed in continuing to develop successful mobile games and launch these games in accordance with our financial plan. If we do not succeed in doing so, our business, financial condition, results of operations or reputation will suffer.

Moreover, our mobile games generally monetize at a lower rate than our web-based games and we may not be successful in our efforts to increase our monetization from mobile games. If we are unable to offset the decline in our web-based games with bookings from our mobile games, our revenue and our financial performance will suffer.

We have a relatively short history in developing and launching mobile games. As a result, we may have difficulty predicting the development schedule of a new game and forecasting bookings for a game. If new content launches are delayed and we are unable to monetize mobile games in the manner that we forecast, our ability to grow revenue and our financial performance will be negatively impacted.

We must continue to launch, innovate and enhance games that players like and attract and retain a significant number of players in order to grow our revenue and sustain our competitive position.

There is inherent risk that we may not launch games or features that we expect to launch in a given period according to schedule. Moreover, the games or features we do launch may not attract and retain a significant number of players or monetize well. If we do not launch games or features on schedule or our games do not monetize well, our business, revenue, bookings and profits will be negatively impacted. For example, in 2015 we announced that we would launch six to ten new mobile games in 2015. This estimate subsequently underwent several downward revisions and we ultimately launched six new mobile games in 2015, which negatively impacted our revenue, bookings and profits relative to our original expectations.

If our top games do not maintain their popularity, our results of operations could be harmed.

In addition to creating new games that are attractive to a significant number of players, we must extend the life of our existing games, in particular our most successful games. Historically, we have depended on a small number of games for a majority of our revenue and we expect that this dependency will continue for the foreseeable future. Our existing games compete with our new offerings and the offerings of our competitors. Traditionally, bookings from existing games decline over time. For a game to remain popular, we must constantly enhance, expand or upgrade the game with new features that players find attractive. Increased competition can result in increasing player acquisition and retention costs. Constant game enhancement requires the investment of significant resources, particularly with older games, and such costs on average have increased. We may not be able to successfully enhance, expand or upgrade our current games. Any reduction in the number of players of our most popular games, any decrease in the popularity of our games or social games in general, any breach of game-related security or prolonged server interruption impacting player’s ease of use of our games, any loss of rights to any intellectual property underlying such games disabling player use, or any other similar adverse developments relating to our most popular games, could harm our business, financial condition, results of operations or reputation.

Our industry is intensely competitive. If consumers prefer our competitors’ products or services over our own, our operating results could suffer.*

Competition in the gaming industry, especially the mobile gaming segment, is intense. Many new games are introduced in each major industry segment (mobile, web, and PC free-to-download), but only a relatively small number of titles account for a significant portion of total revenue in each segment. Our competitors that develop mobile and web games vary in size and include companies such as Electronic Arts (EA Mobile), Activision Blizzard (the parent company of King Digital), Vivendi (the parent company of Gameloft), Glu Mobile, Netmarble (the parent company of Kabam), Jam City, Machine Zone, Pocket Gems, Rovio, Supercell, Playtika, DoubleU (the parent company of DoubleDown) and SG Interactive. In addition, online game developers and distributors who are primarily focused on specific international markets, such as Tencent and Giant Interactive in Asia, and high-profile companies with significant online presences that to date have not actively focused on social games, such as Facebook, Apple, Google, Amazon and Microsoft, may decide to develop social games.

Some of these current and potential competitors have significant resources for developing or acquiring additional games, may be able to incorporate their own strong brands and assets into their games, have a more diversified set of revenue sources than we do and may be less severely affected by changes in consumer preferences, regulations or other developments that may impact our industry. In addition, we have limited experience in developing games for mobile and other platforms and our ability to succeed on those platforms is uncertain. We expect new game competitors to enter the market and existing competitors to allocate more resources to develop and market competing games and applications.

As there are relatively low barriers to entry to develop a mobile or online casual game, we expect new game competitors to enter the market and existing competitors to allocate more resources to develop and market competing games and applications. We also compete or will compete with a vast number of small companies and individuals who are able to create and launch games and other content for devices and platforms using relatively limited resources and with relatively limited start-up time or expertise. The proliferation of titles in these open developer channels makes it difficult for us to differentiate ourselves from other developers and to compete for players without substantially increasing our marketing expenses and development costs. Increasing competition could result in loss of players, loss of talent or loss of our ability to acquire new players in a cost-effective manner, all of which could harm our business, financial condition or results of operations.

Our operating results are volatile and difficult to predict, and our stock price may decline if we fail to meet the expectations of securities analysts or investors.

Our bookings, revenue, player traffic and operating results have fluctuated in the past and could vary significantly from quarter-to-quarter and year-to-year and may fail to match our past performance or the expectations of securities analysts or investors because of a variety of factors, some of which are outside of our control. Factors that may contribute to the variability of our operating results include the risk factors listed in these “Risk Factors” and the factors discussed in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Performance.”

In particular, it is difficult to predict when bookings from one of our games will begin to decline, the decay rate for any particular game (i.e., the speed at which the popularity and player usage for a game declines) and the commercial success of our new games. The success of our business depends on our ability to consistently and timely launch new games or versions of games that achieve significant popularity and have the potential to become franchise games as bookings from our older games decline. It is difficult for us to predict with certainty when we will launch a new game as games may require longer development schedules or soft launch periods than we expect to meet our quality standards. For example, our experience with our launches in 2014 and 2015 caused us to extend soft launch periods for certain of our games before worldwide launch, including a move in the launch of Dawn of Titans and CSR Racing 2 from 2015 to 2016, which resulted in a delay in significant bookings for the games. If decay rates are higher than expected in a particular quarterly period and/or we experience delays in the launch of new games that we expect to offset decay rates of other games and/or new games do not monetize well, we may not meet our expectations or the expectations of securities analysts or investors for a given quarter.

In addition, we recognize revenue from the sale of our virtual goods in accordance with U.S. GAAP, which is complex and based on our assumptions and historical data with respect to the sale and use of various types of virtual goods. In the event that such assumptions are revised based on new data or there are changes in the historical mix of virtual goods sold due to new game introductions, reduced virtual good sales in existing games or other factors or there are changes in our estimates of average playing periods and player life, the amount of revenue that we recognize in any particular period may fluctuate significantly. In addition, changes in the policies of Facebook, Apple, Google or other third party platforms or accounting policies promulgated by the SEC and national accounting standards bodies affecting software and virtual goods revenue recognition could further significantly affect the way we report revenue related to our products. Such changes could have an adverse effect on our reported revenue, net income and earnings per share under U.S. GAAP. For further information regarding our revenue recognition policy, see the section titled

"Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Revenue Recognition".

Given the rapidly evolving social game industry in which we operate, our historical operating results may not be useful in predicting our future operating results. In addition, metrics we have developed or those available from third parties regarding our industry and the performance of our games, including DAUs, MAUs, MUUs, MUPs and ABPU may not be indicative of our future financial performance.

A small number of games have generated a majority of our revenue, and we must continue to launch, innovate and enhance games that players like and attract and retain a significant number of players in order to grow our revenue and sustain our competitive position.

Historically, we have depended on a small number of games for a majority of our revenue and we expect that this dependency will continue for the foreseeable future. Bookings and revenue from many of our games tend to decline over time after reaching a peak of popularity and player usage. As a result of this natural decline in the life cycle of our games, our business depends on our ability to consistently and timely launch new games across multiple platforms and devices that achieve significant popularity and have the potential to become franchise games.

Each of our games requires significant engineering, marketing and other resources to develop, launch and sustain via regular upgrades and expansions, and such costs on average have increased over the last several years. Our ability to successfully launch, sustain and expand games and attract and retain players largely will depend on our ability to:

- anticipate and effectively respond to changing game player interests and preferences;
- achieve benefit from player acquisition costs that may materialize in the future;
- anticipate or respond to changes in the competitive and technological landscape (including, but not limited to changes in mobile devices and gaming platforms);
- attract, retain and motivate talented game designers, product managers and engineers;
- develop, sustain and expand games that our players find fun, interesting and compelling to play;
- develop games that can build upon or become franchise games;
- effectively market and advertise new games and enhancements to our existing players and new players;
- acquire players in a cost-effective manner;
- minimize the launch delays and cost overruns on new games and game expansions;
- minimize downtime and other technical difficulties; and
- acquire and integrate high quality assets, personnel and companies.

It is difficult to consistently anticipate player demand on a large scale, particularly as we develop games in new categories or new markets, including international markets and mobile platforms. If we do not successfully launch games that attract and retain a significant number of players and extend the life of our existing games, our market share, brand and financial results will be harmed. For example, in September 2014, we launched a new version of Zynga Poker which replaced our existing mobile poker offering. The launch resulted in a sharp decline in DAUs and revenue, and feedback that some existing players preferred the prior version of the game. As a result, we now have two mobile poker offerings, Zynga Poker and the original game offering, which was subsequently reintroduced as Zynga Poker Classic.

We rely on a small portion of our total players for nearly all of our revenue and if we fail to grow our player base, or if player engagement continues to decline, bookings, revenue and operating results will be harmed.*

Compared to all players who play our games in any period, only a small portion are paying players. During the second quarter of 2017, we had approximately 1.2 million average MUPs (excluding payers of Daily Celebrity Crossword, our Solitaire games and our Facebook Messenger games), who represent approximately 2% of our total players during the same period. In order to sustain and grow our revenue levels, we must attract, retain and increase the number of paying players or more effectively monetize our players. To retain players, we must devote significant resources so that the games they play retain their interest and attract them to our other games. We might not succeed in our efforts to increase the monetization rates of our users, particularly if we are unable to retain our paying players. If we fail to grow or sustain the number of our paying players, if the rates at which we attract and retain paying players declines or if the average amount our players pay declines, our business may not grow and our financial results will suffer.

Our business depends on our players and our player’s level of engagement is critical to our success. We lose players in the ordinary course of business. Our financial performance will continue to be significantly impacted if we continue to lose users. If we fail to sustain the number of our paying players, if the rates at which we attract and retain players declines or if the average amount our players pay declines, our business will continue to decline and our financial results will suffer.

We rely on third-party platforms such as the Apple App Store, the Google Play Store and Facebook to distribute our games and collect revenue. If we are unable to maintain a good relationship with such platform providers, if their terms and conditions or pricing changed to our detriment, if we violate, or if a platform provider believes that we have violated, the terms and conditions of its platform, or if any of these platforms loses market share or falls out of favor or is unavailable for a prolonged period of time, our business will suffer.*

We derive a significant portion of our bookings from distribution of our games on the Apple App Store, the Google Play Store, and Facebook and the virtual items we sell in our games are purchased using the payment processing systems of these platform providers. Additionally, we have historically acquired a significant number of our players through Facebook.

We are subject to the standard policies and terms of service of third party platforms, which govern the promotion, distribution and operation generally of games on the platform. Each platform provider has broad discretion to change and interpret its terms of service and other policies with respect to us and other developers, and those changes may be unfavorable to us. A platform provider may also change its fee structure, add fees associated with access to and use of its platform, alter how we are able to advertise on the platform, change how the personal information of its users is made available to application developers on the platform or restrict how players can share information with friends on its platform or across platforms.

Such changes may decrease the visibility or availability of our games, limit our distribution capabilities, prevent access to our existing games, reduce the amount of bookings and revenue we may recognize from in-game purchases, increase our costs to operate on these platforms or result in the exclusion or limitation of our games on such platforms. Any such changes could adversely affect our business, financial condition or results of operations.

For example, Apple previously changed its policy and required apps available through the Apple App Store to provide 64-bit support and be built with the iOS 8 software development kit, with certain exceptions. This policy change required us to adapt our games to support 64-bit and be built with the iOS 8 software development kit, which involved significant development, time, and expense. In addition, due to the significant expense involved in supporting 64-bit development, we might decide not to continue updating certain of our existing games that we otherwise would have continued to update, which would cause the revenues we generate from those games to decline more quickly than they otherwise would have. Furthermore, building our games to support 64-bit development will increase the file size of our games, which could cause players to delete our games once the file size grows beyond the capacity of their devices' storage limitations or could reduce the number of downloads of these games, particularly if we are unable to keep the size of the games below 100 megabytes, which is the maximum file size that can currently be downloaded over any carrier's wireless network.

As another example, Facebook introduced a new version of its developer platform that required us to migrate our games to that platform. We have made the decision not to migrate multiple games to the new platform, which impacted our players ability to access those games through Facebook and web based bookings and revenue in 2015 and 2016. If we are unable to develop new games or features that work with this platform our players may not be able to access those games or features or otherwise may encounter a negative gaming experience, resulting in reduced bookings and revenue. In addition, the new platform and any future changes to it may change the way our developers can interact with users or how Facebook users can share information with friends. Any such changes in the future could significantly alter how players experience or interact within our games, which may harm our business, financial condition or results of operations.

If we violate, or a platform provider believes we have violated its terms of service (or if there is any change or deterioration in our relationship with these platform providers), that platform provider could limit or discontinue our access to the platform. A platform provider could also limit or discontinue our access to the platform if it establishes more favorable relationships with one or more of our competitors or it determines that we are a competitor. Any limit of, or discontinuation to, our access to any platform could adversely affect our business, financial condition or results of operations.

We also rely on the continued functionality of third-party platforms. In the past, some of these platform providers have been unavailable for short periods of time or experienced issues with their in-app purchasing functionality. If either of these events recurs on a prolonged, or even short-term, basis or other similar issues arise that impact players' ability to access our games, access social features or purchase virtual items, our business, financial condition, results of operations or reputation may be harmed.

Our prospects may suffer if our network is unsuccessful.

We aspire to expand our network to leverage our existing and new games to bring the best social playing experiences to our audience and further broaden to other games to ultimately create the best experience for play that includes mobile and web players. If our network fails to engage players or attract advertisers, we may fail to generate sufficient revenue or bookings to justify our investment in the development and operation of our network. We may also encounter technical and operational challenges operating a network.

We are subject to the terms of service of third party social networks and platforms such as Facebook, Apple and Google, where our games are distributed, which may limit our ability to operate or promote our network. For example, under the current terms of service with Facebook, we are limited in our ability to use a Facebook users' friends list and

Facebook's communication channels to promote our network. This may limit our ability to reach Facebook users from our network and may limit the number of players that use our network.

Any restructuring actions and cost reduction initiatives that we undertake may not deliver the expected results and these actions may adversely affect our business.

We have implemented a number of restructurings during the last several years in which we implemented certain restructuring actions and cost reduction initiatives to streamline operations and improve cost efficiencies to better align our operating expenses with our revenue, including reducing our headcount, rationalizing our product pipeline, reducing marketing and technology expenditures and consolidating and closing certain facilities. We plan to continue to manage costs to better and more efficiently manage our business. Our restructuring plans and other such efforts could result in disruptions to our operations and adversely affect our business, financial condition or results of operations.

We expect to continue to actively monitor our costs, however, if we do not fully realize or maintain the anticipated benefits of any restructuring actions and cost reduction initiatives, our business, financial condition or results of operations could be adversely affected. In addition, we cannot be sure that the cost reduction initiatives will be as successful in reducing our overall expenses as expected or that additional costs will not offset any such reductions. If our operating costs are higher than we expect or if we do not maintain adequate control of our costs and expenses, our operating results will suffer.

In addition, our cost-cutting measures could negatively impact our business, financial condition or results of operations including but not limited to, delaying the introduction of new games, features or events, interrupting live services, impairing our control environment, delaying introduction of new technology, impacting our ability to react nimbly to game or technology issues, or impacting employee retention and morale.

If we fail to maintain and enhance our capabilities for porting games to a broad array of mobile devices, particularly those running the Android operating system, our revenues and financial results could suffer.

We derive a significant portion of our revenues from the sale of virtual goods within our games for smartphones and tablets that run iOS or Android. Unlike the Apple ecosystem in which Apple controls both the device (e.g., iPhone and iPad) and the storefront (Apple's App Store), the Android ecosystem is highly fragmented since a large number of original equipment manufacturers (OEMs) manufacture and sell Android-based devices that run a variety of versions of the Android operating system, and there are many Android-based storefronts in addition to the Google Play Store, such as Amazon App Store for Android. For us to sell our games to the widest possible audience of Android users, we must port our games to a significant portion of the more than 1,000 Android-based devices that are commercially available, many of which have different technical requirements. Since the number of Android-based smartphones and tablets shipped worldwide is growing significantly, it is important that we maintain and enhance our porting capabilities, which could require us to invest considerable resources in this area. These additional costs could adversely affect our business, financial condition or results of operations. In addition, we must continue to increase the efficiency of our porting processes or it may take us longer to port games to an equivalent number of devices, which would negatively impact our margins. If we fail to maintain or enhance our porting capabilities, our revenues and financial results could suffer.

We operate in a rapidly changing industry.

The game industry, through which we derive substantially all of our revenue, is a rapidly evolving industry. The growth of the game industry and the level of demand and market acceptance of our games are subject to a high degree of uncertainty. Our future operating results will depend on numerous factors affecting the social game industry, many of which are beyond our control, including:

- our ability to extend our brand and games to mobile platforms and the timing and success of such mobile game launches;
- continued worldwide growth in the adoption and use of Facebook and other social networks on which our platform relies;
- our ability to maintain the popularity of our games on Facebook, iOS, Android and other platforms;
- our ability to maintain technological solutions and employee expertise to rapidly respond to continuous changes in mobile platforms and mobile devices;
- our ability to maintain technological solutions and employee expertise to rapidly respond to changes in consumer demand for games on new gaming platforms;
- changes in consumer demographics and public tastes and preferences;
- the availability and popularity of other forms of entertainment;
- the worldwide growth of mobile devices, broadband Internet and personal computer users, and the rate of any such growth; and
- general economic conditions, particularly economic conditions adversely affecting discretionary consumer spending.

Our ability to plan for game development, distribution and promotional activities will be significantly affected by our ability to anticipate and adapt to relatively rapid changes in the tastes and preferences of our current and potential players and relatively rapid changes in technology. New and different types of entertainment may increase in popularity at the expense of social games. A decline in the popularity of social games in general, or our games in particular, could adversely affect our business, financial condition, results of operations or reputation.

We must continue to spend significant resources to effectively manage our business and operations.

To effectively manage our business and operations, we will need to continue to focus on spending significant resources to improve our technology infrastructure, our operational, financial and management controls, and our reporting systems and procedures by, among other things:

- monitoring and updating our technology infrastructure to maintain high performance and minimize down time;
- enhancing information and communication systems to ensure that our employees and offices around the world are well-coordinated and can effectively communicate with each other; and
- monitoring our internal controls to ensure timely and accurate reporting of all of our operations.

These enhancements and improvements will require capital expenditures and allocation of valuable management and employee resources.

Our business will suffer if we are unable to successfully acquire or integrate acquired companies into our business or otherwise manage the growth associated with multiple acquisitions.*

We have acquired businesses, personnel and technologies in the past and we intend to continue to evaluate and pursue acquisitions and strategic investments. These acquisitions and strategic investments could be material to our financial condition or results of operations.

Challenges and risks from such investments and acquisitions include:

- negative effects on products and product pipeline from the changes and potential disruption that may follow the acquisition;
- diversion of our management's attention away from our business;
- declining employee morale and retention issues resulting from changes in compensation, or changes in management, reporting relationships, or future prospects;
- significant competition from other game companies as the social game industry consolidates;
- the need to integrate the operations, systems, technologies, products and personnel of each acquired company, the inefficiencies and lack of control that may result if such integration is delayed or not implemented, and unforeseen difficulties and expenditures that may arise in connection with integration;
- the difficulty in determining the appropriate purchase price of acquired companies may lead to the overpayment from certain acquisitions and the potential impairment of intangible assets and goodwill acquired in the acquisitions;
- the difficulty in successfully evaluating and utilizing the acquired products, technology or personnel;
- the potential incurrence of debt, contingent liabilities, amortization expenses or restructuring charges in connection with any acquisition;
- the need to implement controls, procedures and policies appropriate for a larger public company at companies that prior to acquisition had lacked such controls, procedures and policies;
- the difficulty in accurately forecasting and accounting for the financial impact of an acquisition transaction, including accounting charges and integrating and reporting results for acquired companies that do not historically follow U.S. GAAP;
- the fact that we may be required to pay contingent consideration in excess of the initial fair value, and contingent consideration may become payable at a time when we do not have sufficient cash available to pay such consideration;
- under purchase accounting, we may be required to write off deferred revenue which may impair our ability to recognize revenue that would have otherwise been recognizable which may impact our financial performance or that of the acquired company;
- risks associated with our expansion into new international markets and doing business internationally, including those described under the risk factor caption "Our international operations are subject to increased challenges and risks";
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;
- in some cases, the need to transition operations and players onto our existing or new platforms and the potential loss of, or harm to, our relationships with employees, players and other suppliers as a result of integration of new businesses;
- in certain instances, the ability to exert control of acquired businesses that include earn out provisions in the agreements relating to such acquisitions or the potential obligation to fund an earn out for, or other obligations related to, a product that has not met expectations;
- our dependence on the accuracy and completeness of statements and disclosures made or actions taken by the companies we acquire or their representatives, when conducting due diligence and evaluating the results of such due diligence; and

- liability for activities of the acquired company before the acquisition, including intellectual property and other litigation claims or disputes, information security vulnerabilities, violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities.

The benefits of an acquisition or investment may also take considerable time to develop, and we cannot be certain that any particular acquisition or investment will produce the intended benefits, which could adversely affect our business, financial condition or results of operations. Our ability to grow through future acquisitions will depend on the availability of suitable acquisition and investment candidates at an acceptable cost, our ability to compete effectively to attract these candidates and the availability of financing to complete larger acquisitions. Acquisitions could result in potential dilutive issuances of equity securities, use of significant cash balances or incurrence of debt (and increased interest expense), contingent liabilities or amortization expenses related to intangible assets or write-offs of goodwill and/or intangible assets, which could adversely affect our results of operations and dilute the economic and voting rights of our stockholders. For more information, see Note 5 – "Goodwill and Other Intangible Assets" in the notes to the consolidated financial statements included herein.

Some of our players may make sales or purchases of virtual goods used in our games through unauthorized or fraudulent third-party websites, which may reduce our revenue.

Virtual goods in our games have no monetary value outside of our games. Nonetheless, some of our players may make sales and/or purchases of our virtual goods, such as virtual coins for our Slots franchise games and Zynga Poker virtual poker chips, through unauthorized third-party sellers in exchange for real currency. These unauthorized or fraudulent transactions are usually arranged on third-party websites and the virtual goods offered may have been obtained through unauthorized means such as exploiting vulnerabilities in our games, from scamming our players with fake offers or virtual goods or other game benefits, or from credit card fraud. We do not generate any revenue from these transactions. These unauthorized purchases and sales from third-party sellers could impede our revenue and profit growth by, among other things:

- decreasing revenue from authorized transactions;
- creating downward pressure on the prices we charge players for our virtual currency and virtual goods;
- increasing chargebacks from unauthorized credit card transactions;
- causing us to lose revenue from paying players as our partners increase their credit card fraud prevention efforts;
- causing us to lose revenue from paying players who stop playing a particular game;
- increasing costs we incur to develop technological measures to curtail unauthorized transactions;
- generating legal claims relating to the diminution of value of our virtual goods;
- resulting in negative publicity or harm our reputation with players and partners; and
- increasing customer support costs to respond to dissatisfied players.

To discourage unauthorized purchases and sales of our virtual goods, we state in our terms of service that the buying or selling of virtual currency and virtual goods from unauthorized third party sellers may result in bans from our games or legal action. We have banned players as a result of such activities. We have also filed lawsuits against third parties attempting to "sell" virtual goods from our games, particularly poker chips from Zynga Poker, outside of our games. We have also employed technological measures to help detect unauthorized transactions and continue to develop additional methods and processes by which we can identify unauthorized transactions and block such transactions. However, there can be no assurance that our efforts to prevent or minimize these unauthorized or fraudulent transactions will be successful.

The value of our virtual goods is highly dependent on how we manage the economies in our games. If we fail to manage our game economies properly, our business may suffer.

Paying players purchase virtual goods in our games because of the perceived value of these goods, which is dependent on the relative ease of securing an equivalent good via non-paid means within the game. The perceived value of these virtual goods can be impacted if one of our platform providers offers discounted local currency or other incentives to our players, or by various actions that we take in the games including offering discounts for virtual goods, giving away virtual goods in promotions or providing easier non-paid means to secure these goods. If we fail to manage our virtual economies properly, players may be less likely to purchase virtual goods and our business, financial condition or results of operations may suffer.

If we are able to develop new games that achieve success, it is possible that these games could divert players of our other games without growing our overall user base, which could harm operating results.

Although it is important to our future success that we develop new games that become popular with players, it is possible that these games could cause players to reduce their playing time and purchase of virtual items in our existing games. We plan to cross-promote our new games in our other games, which could encourage players of existing games to divert some of their playing time and spend on existing games. If new games do not grow our player base or generate sufficient new bookings to offset any declines from our other games, our bookings and revenue could be adversely affected.

We derive a significant portion of our revenues from advertisements and offers that are incorporated into our free-to-play games through relationships with third parties. If we lose the ability to provide these advertisements and offers, or if any events occur that negatively impact the revenues we receive from these sources, it would negatively impact our operating results.*

We derive revenues from our free-to-play games though in-app purchases, advertisements and offers. We incorporate advertisements and offers into our games by implementing third parties' software development kits and we have direct relationships with third parties regarding advertising. We rely on these third parties to continue our advertising relationships and/or to provide us with a sufficient inventory of advertisements and offers to fill our advertising space. If direct advertising relationships change or competitors' advertising efforts change these third parties' fill rates of available advertising inventory, it will negatively impact our revenues. If our relationship with any of these third parties terminates for any reason, or if the commercial terms of our relationships do not continue to be renewed on favorable terms, we would need to locate and implement other third-party solutions, which could negatively impact our revenues, at least in the short term. Furthermore, internet-connected devices and operating systems controlled by third parties increasingly contain features that allow device users to disable functionality that allows for the delivery of advertising on their devices. Device and browser manufacturers may include or expand these features as part of their standard device specifications. For example, when Apple announced that UDID, a standard device identifier used in some applications, was being superseded and would no longer be supported, application developers were required to update their apps to utilize alternative device identifiers such as universally unique identifier, or, more recently, identifier-for-Advertising, which simplify the process for Apple users to opt out of behavioral targeting. If users elect to utilize the opt-out mechanisms in greater numbers, our ability to deliver effective advertising campaigns on behalf of our advertisers would suffer, which could cause our business, financial condition, or results of operations to suffer. Finally, the revenues that we derive from advertisements and offers is subject to seasonality, as companies' advertising budgets are generally highest during the fourth quarter and decline significantly in the first quarter of the following year, which negatively impacts our revenues in the first quarter.

We have a history of net losses and our revenue, bookings and operating margins may decline. We also may incur substantial net losses in the future and may not achieve profitability.*

The industry in which we operate is highly competitive and rapidly changing, and relies heavily on successful new product launches and compelling content, products and services. As such, if we fail to deliver such content, products and services, do not execute our strategy successfully or if our new content launches are delayed, our revenue, bookings and audience numbers may decline, and our operating results will suffer. We have incurred significant losses since inception, including a net loss of $226 million in 2014, a net loss of $122 million in 2015 and a net loss of $108 million in 2016. As of June 30, 2017, we had an accumulated deficit of $1.7 billion.

In addition, our operating margin may experience downward pressure as a result of increasing competition. We expect to continue to expend substantial financial and other resources on game development, including mobile games, our technology stack, game engines, game technology and tools, the expansion of our network, international expansion and marketing. Our operating costs will increase and our operating margins may decline if we do not effectively manage costs, launch new products on schedule that monetize successfully and enhance our franchise games so that these games continue to monetize successfully. In addition, weak economic conditions or other factors could cause our business to further contract, requiring us to implement significant additional cost cutting measures, including a decrease in research and development, which could harm our long-term prospects.

If our revenues do not increase to offset these additional expenses, if we experience unexpected increases in operating expenses or if we are required to take additional charges related to impairments or restructurings, we will continue to incur losses and will not become profitable on a sustained basis. If we are unable to significantly increase our revenues or reduce our expenses, it will continue to negatively affect our operating results and our ability to achieve and sustain profitability.

We rely on assumptions and estimates to calculate certain of our key metrics, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.*

The numbers of our DAUs, MAUs, MUUs, MUPs, and ABPU are calculated using metrics tracked by our internal analytics systems based on tracking activity of user accounts. The analytics systems and the resulting data have not been independently verified. While these numbers are based on what we believe to be reasonable calculations for the applicable period of measurement, there are inherent challenges in measuring usage and user engagement across our user base and factors relating to user activity and systems may impact these numbers. The calculation of these metrics and examples of how user activity and our systems may impact the calculation of the metrics is described in detail under the heading titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Measures and Metrics.”

As we are now mostly mobile focused, there is more likelihood of difficulty calculating these metrics. As described under the heading titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Measures and Metrics,” we updated our calculation of these metrics to take into account our business’s transition to mobile in 2016 and we rely on the veracity of data provided by individuals and reported by third parties to calculate our metrics and eliminate duplication of data. The recent update to our calculation methodology resulted in a reduction in our as reported DAUs, MAUs, MUUs, MUPs and ABPU for 2014 and 2015.

For purposes of calculating MUUs and MUPs, for certain periods, we are unable to distinguish whether players of certain games are also players of the Company's other games for those periods. As a result of this, we exclude players of these games from our calculation of MUUs and MUPs for those periods to avoid potential double counting.

Our advertisers and investors rely on our key metrics as a representation of our performance. We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. If we determine that we can no longer calculate any of our key metrics with a sufficient degree of accuracy, and we cannot find an adequate replacement for the metric, our business, financial condition or results of operations may be harmed. In addition, if advertisers, platform partners or investors do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and advertisers and platform partners may be less willing to allocate their budgets or resources to our products and services, which could negatively affect our business, financial condition or results of operations.

If we fail to effectively manage our human resources, our business, financial condition, results of operations or reputation may suffer.*

Our ability to compete and grow depends in large part on the efforts and talents of our employees and executives. Our success depends in a large part upon the continued service of our senior management team. We saw significant turnover in our management team in 2016, including the appointment of Frank Gibeau as our Chief Executive Officer, the appointment of Mark Pincus as our Executive Chairman and the addition of a new Chief Financial Officer, new Chief Operating Officer, and new President of Publishing. Mr. Pincus and Mr. Gibeau are both critical to our vision, strategic direction, culture, products and technology and the continued retention of the remaining senior management team is important to our continued development. We do not have employment agreements, other than offer letters, with our senior management team, and we do not maintain key-man insurance for member of our senior management team. The loss of any member of our senior management team could harm our business, financial condition, results of operations or reputation.

In addition, our ability to execute our strategy depends on our continued ability to identify, hire, develop, motivate and retain highly skilled employees, particularly game designers, product managers and engineers. These employees are in high demand, and we devote significant resources to identifying, recruiting, hiring, training, successfully integrating and retaining them. We have experienced significant turnover in our headcount over the last year, which has placed and will continue to place significant demands on our management and our operational, financial and technological infrastructure. As of June 30, 2017, approximately 28% of our employees had been with us for less than one year and approximately 48% for less than two years.

We believe that two critical components of our success and our ability to retain our best people are our culture and our competitive compensation practices. As we operate as a public company, we may find it difficult to maintain our entrepreneurial, execution-focused culture. In addition, our recent operating results and the current trading price of our Class A common stock may cause our employee base to be more vulnerable to be targeted for recruitment by competitors. Some of our employees may have been motivated to work for us by an expectation that our Class A common stock would be trading at a higher value and may be less motivated by the equity compensation they receive as a result. Competitors may leverage any resulting disappointment as a tool to recruit talented employees. Competition for highly skilled employees is intense, particularly in the San Francisco Bay Area, where our headquarters is located. If we are unable to retain our senior management team and our key employees, are unable to continue to hire highly skilled employees our business, financial condition or results of operations could be harmed. Moreover, if our team fails to work together effectively to execute our plans and strategies on a timely basis, our business, financial condition or results of operations could be harmed.

We have historically hired a number of key personnel through acquisitions, and as competition with other game companies for attractive target companies with a skilled employee base persists and increases, we may incur significant expenses in continuing this practice. In addition, our recent operating results and the current trading price of our Class A common stock may negatively impact our perceived reputation and make it more difficult and more expensive to recruit new employees. The loss of talented employees or the inability to hire skilled employees as replacements could result in significant disruptions to our business, and the integration of replacement personnel could be time-consuming and expensive and cause additional disruptions to our business. If we do not succeed in recruiting, retaining, and motivating our key employees to achieve a high level of success, or if we do not attract new key personnel, we may be unable to continue to launch new games and enhance existing games, including in each case on mobile, expand our network, or execute our business strategy, and as a result, our business, financial condition or results of operations may suffer.

Our core values of focusing on our players first and acting for the long-term may conflict with the short-term interests of our business.

One of our core values is to focus on surprising and delighting our players, which we believe is essential to our success and serves the best, long-term interests of Zynga and our stockholders. Therefore, we have made in the past and we may make in the future, significant investments or changes in strategy that we think will benefit us in the long-term, even if our decision negatively impacts our operating results in the short term. For example, we delayed the launches of Dawn of Titans and CSR Racing 2 from 2015 to 2016. Although launching Dawn of Titans or CSR Racing 2 in 2015 may have offered short-term bookings, we determined that both games needed more time in soft launch to achieve their full potential. We also exited the Sports category in 2015 in order to focus on fewer game categories that we believe have the highest potential of driving long-term enterprise value. Although games in the discontinued Sports category may have offered short-term bookings, we determined that they did not contribute meaningfully to the brand and our strategy in the long-term. In the future, we could make decisions to balance the number of advertisements we show in games based on consumer reaction to advertising. This type of decision may increase consumer satisfaction and decrease bookings in the short-term. Our decisions may not result in the long-term benefits that we expect, in which case the success of our games, business, financial condition or results of operations could be harmed.

If the use of mobile devices as game platforms and the proliferation of mobile devices generally do not increase, our business could be adversely affected.

We have shifted our business to become a "mobile first" game company. The market for mobile games, however, may not grow in the way we anticipate. Our future success is substantially dependent upon the continued growth of the market for mobile games. The mobile market may not continue to grow at historic rates and consumers may not continue to use mobile-Internet enabled devices as a platform for games. In addition, we do not currently offer our games on all mobile devices. If the mobile devices on which our games are available decline in popularity, we could experience a decline in bookings and revenue. In addition, new and emerging technologies could make the mobile devices on which our games are currently released obsolete, requiring us to transition our business model to develop games for other next-generation platforms. Any decline in the growth of the mobile market or in the use of mobile devices for games could harm our business, financial condition or results of operations.

If we do not successfully invest in, establish and maintain awareness of our brand and games, if we incur excessive expenses promoting and maintaining our brand or our games or if our games contain defects or objectionable content, our business, financial condition, results of operations or reputation could be harmed.

We believe that establishing and maintaining our brand is critical to establishing a direct relationship with players who purchase our products from direct-to-consumer channels and to maintaining our existing relationships with distributors and content licensors, as well as potentially developing new such relationships. Increasing awareness of our brand and recognition of our games is particularly important in connection with our strategic focus of developing games based on our own intellectual property. Our ability to promote the Zynga brand and increase recognition of our games depends on our ability to develop high quality, engaging games. If consumers, digital storefront owners and branded content owners do not perceive our existing games as high-quality or if we introduce new games that are not favorably received by them, then we may not succeed in building brand recognition and brand loyalty in the marketplace. In addition, globalizing and extending our brand and recognition of our games requires significant and involves extensive management time to execute successfully. Although we make significant sales and marketing expenditures in connection with the launch of our games, these efforts may not succeed in increasing awareness of our brand or the new games. If we fail to increase and maintain brand awareness and consumer recognition of our games, our potential revenues could be limited, our costs could increase and our business, financial condition, results of operations or reputation could suffer.

In addition, if a game contains objectionable content, we could experience damage to our reputation and brand. Despite reasonable precautions, some consumers may be offended by certain of our game content. If consumers believe that a game we published contains objectionable content, it could harm our brand and consumers could refuse to play it and could pressure the digital storefront operators to no longer allow us to publish the game on their platforms. Similarly, if any of our games are introduced with defects or have playability issues, we may receive negative user reviews and our brand may be damaged. These issues could be exacerbated if our customer service department does not timely and adequately address issues that our players have encountered with our games.

Our existing and potential players may be attracted to competing forms of entertainment such as offline and traditional online games, television, movies and sports, as well as other entertainment options on the Internet.

Our players face a vast array of entertainment choices. Other forms of entertainment, such as offline, traditional online, personal computer and console games, television, movies, sports, real money gaming and the Internet, are much larger and more well-established markets and may be perceived by our players to offer greater variety, affordability, interactivity and enjoyment. These other forms of entertainment compete for the discretionary time and income of our players. If we are unable to sustain sufficient interest in our games in comparison to other forms of entertainment, including new forms of entertainment, our business model may no longer be viable.

Failure in pursuing or executing new business initiatives could have a material adverse impact on our business and future strategy.

Our strategy includes evaluating, considering and effectively executing new business initiatives, which can be difficult. Management may not properly ascertain or assess the risks of new initiatives, and subsequent events may alter the risks that were evaluated at the time we decided to execute any new initiative. Entering into any new initiatives can also divert our management's attention from other business issues and opportunities. Failure to effectively identify, pursue and execute new business initiatives may adversely affect our business, financial condition, results of operations or reputation.

If we fail to anticipate or successfully develop new games for new technologies, platforms and devices, the quality, timeliness and competitiveness of our games could suffer.

The games industry is characterized by rapid technological changes that can be difficult to anticipate. New technologies, including distribution platforms and gaming devices, such as consoles, connected TVs, virtual or augmented reality devices, or a combination of existing and new devices, may force us to adapt our current game development processes or adopt new processes. If consumers shift their time to platforms other than the mobile and social platforms where our games are currently distributed, the size of our audience could decline and our performance could be impacted. It may take significant time and resources to shift our focus to such technologies, platforms and devices, putting us at a competitive disadvantage. Alternatively, we may increase the resources employed in research and development to adapt to these new technologies, distribution platforms and devices, either to preserve our games or a game launch schedule or to keep up with our competition, which would increase our development expenses. We could also devote significant resources to developing games to work with such technologies, platforms or devices, and these new technologies, platforms or devices may not experience sustained, widespread consumer acceptance. The occurrence of any of these events could adversely affect the quality, timelines and competitiveness of our games, or cause us to incur significantly increased costs, which could harm our operation results.

Our revenue may be harmed by the proliferation of “cheating” programs and scam offers that seek to exploit our games and players, which may affect the game-playing experience and may lead players to stop playing our games.

Unrelated third parties have developed, and may continue to develop, “cheating” programs that enable players to exploit vulnerabilities in our games, play them in an automated way or obtain unfair advantages over other players who do play fairly. These programs harm the experience of players who play fairly, may disrupt the virtual economies of our games and may reduce the demand for virtual items. In addition, unrelated third parties attempt to scam our players with fake offers for virtual goods or other game benefits. We devote significant resources to discover and disable these programs and activities, and if we are unable to do so quickly our operations may be disrupted, our reputation damaged and players may stop playing our games. This may lead to lost revenue from paying players, increased cost of developing technological measures to combat these programs and activities, legal claims relating to the diminution in value of our virtual currency and goods, and increased customer service costs needed to respond to dissatisfied players.

Security breaches, computer viruses and computer hacking attacks could harm our business, financial condition, results of operations or reputation.*

Security breaches, computer malware and computer hacking attacks have become more prevalent in our industry, have occurred on our systems in the past and may occur on our systems in the future. Any security breach caused by hacking, which involves efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, or the inadvertent transmission of computer viruses could adversely affect our business, financial condition, results of operations or reputation. We have experienced and will continue to experience hacking attacks of varying degrees from time to time, including denial-of-service attacks. Because of our prominence in the social game industry, we believe we are a particularly attractive target for hackers.

In addition, we store sensitive information, including personal information about our employees, and our games involve the storage and transmission of players’ personal information on equipment, networks and corporate systems run by us or managed by third-parties including Facebook, Apple, Microsoft, Amazon, and Google. Many states have passed laws requiring notification to players 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 practically implement. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Security breaches of our systems or the systems of third-parties on whom we rely could compel us to comply with various breach notification laws and otherwise expose us to litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation and potential liability. Our corporate systems, third-party systems and security measures may be breached due to the actions of outside parties, employee error, malfeasance, a combination of these, or otherwise, and, as a result, an unauthorized party may obtain access to our data, our employees’ data, our players’ data or our advertisers’ data.

As a result of the frequent introduction of new devices and technologies that enable players to share data and communicate in new ways, as well as the increasing focus by our players and regulators on controlling and protecting user data, we must examine, and, from time to time modify, our security controls and business practices to address these changes.

Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently or may be designed to remain dormant until a predetermined event and often are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. Though it is difficult to determine what harm may directly result from any specific interruption or breach, any failure or perceived failure to maintain performance, reliability, security and availability of our systems to the satisfaction of our players may harm our reputation and our ability to retain existing players and attract new players.

If an actual or perceived security breach occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose players and advertisers, and we could suffer significant legal and financial harm due to such events or in connection with remediation efforts, investigation costs, penalties, changed security and system protection measures. Any of these actions could have a material and adverse effect on our business, financial condition, results of operations or reputation.

Any failure or significant interruption in our infrastructure could impact our operations and harm our business.

Our technology infrastructure is critical to the performance of our games and to player satisfaction, as well our corporate functions. Our games and company systems run on a complex distributed system, or what is commonly known as cloud computing. We own, operate and maintain elements of this system, but many elements of this system are operated by third-parties that we do not control and which would require significant time and potential expense to replace. We have experienced, and may in the future experience, service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors and capacity constraints. If a particular game is unavailable when players attempt to access it or navigation through a game is slower than they expect, players may stop playing the game and may be less likely to return to the game as often, if at all. A failure or significant interruption in our game service could harm our business, financial condition, results of operations or reputation. We have suffered interruptions in service when releasing new software versions or bug fixes for specific games in the past and if any such interruption were significant it could adversely affect our business, financial condition, results of operations or reputation. We expect to continue to maintain our technology infrastructure to maintain and improve our player experience and game performance and maintain our corporate system functionality. To the extent we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate increasing traffic, our business, financial condition or results of operations could be adversely affected. We do not maintain insurance policies covering losses relating to our systems and we do not have business interruption insurance. Furthermore, our disaster recovery systems and those of third-parties with which we do business may not function as intended or may fail to adequately protect our critical business information in the event of a significant business interruption, which may cause interruption in service of our games, security breaches or the loss of data or functionality, leading to a negative effect on our business, financial condition or results of operations.

We rely on third-party hosting and cloud computing providers, like Amazon Web Services (“AWS”), to operate certain aspects of our business. A significant portion of our game traffic is hosted by a single vendor, and any failure, disruption or significant interruption in our network or hosting and cloud services could adversely impact our operations and harm our business.

Our technology infrastructure is critical to the performance of our games and to player satisfaction. Our games run on a complex distributed system, or what is commonly known as cloud computing. We own, operate and maintain elements of this system, but significant elements of this system are operated by third-parties that we do not control and which would require significant time to replace. We expect this dependence on third-parties to continue. In particular, a significant portion, if not almost all, of our game traffic, data storage, data processing and other computing services and systems is hosted by AWS. AWS provides us with computing and storage capacity pursuant to an agreement that continues until terminated by either party. AWS may terminate the agreement without cause by providing 180 days prior written notice, and may terminate the agreement with 30 days prior written notice for cause, including any material default or breach of the agreement by us that we do not cure within the 30 day period. The agreement requires AWS to provide us their standard computing and storage capacity and related support in exchange for timely payment by us. We have experienced, and may in the future experience, disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors and capacity constraints. If a particular game is unavailable when players attempt to access it or navigation through a game is slower than they expect, players may stop playing the game and may be less likely to return to the game as often, if at all. Any failure, disruption or interference with our use of hosted cloud computing services and systems provided by third-parties, like AWS, could adversely impact our business, financial condition or results of operations.

Our web-based games rely on Adobe Flash and our business and operating results could be harmed if web browsers cease to support Adobe Flash and we cannot find substitute software for our web-based games.*

Our web-based games currently rely on Adobe Flash, a multimedia and software platform used to show items such as videos, graphics, games and animations on websites. On July 25, 2017, Adobe announced that it will stop updating and distributing the Adobe Flash technology at the end of 2020. Many providers of web-browsers have also communicated roadmaps for phasing out and removing Adobe Flash from their respective web-browsers by 2020. While Zynga has a workable solution to allow our current games to continue to run on Adobe Flash in non-supported web-browsers, there may be a rapid shift to a new or different technology platform where we do not have development experience or resources. If such a shift happens, the development period for our web-based games may be lengthened, increasing our costs, and the resulting web-based games may be of lower quality, and may be published later than anticipated. Additionally, if we are unable to develop a solution that allows our current games to work with this new or different technology platform (or if our current solution to allow our current games to continue to run on Adobe Flash in non-supported web-browsers ceases to work or is ineffective) our players may not be able to access those games, may not choose to access our web-based games through another supported browser or platform or otherwise may encounter a negative gaming experience, which may harm our business, financial condition or results of operations.

Programming errors or flaws in our games could harm our reputation or decrease market acceptance of our games, which could harm our business.

Our games may contain errors, bugs, flaws or corrupted data, and these defects may only become apparent after their launch, particularly as we launch new games and rapidly release new features to existing games under tight time constraints. We believe that if our players have a negative experience with our games, they may be less inclined to continue or resume playing our games or recommend our games to other potential players. Undetected programming errors, game vulnerabilities that may be exploited by cheating programs and other forms of misappropriation, game defects and data corruption can disrupt our operations, adversely affect the game experience of our players by allowing players to gain unfair advantage or misappropriate virtual goods, harm our reputation, cause our players to stop playing our games, divert our resources and delay market acceptance of our games, any of which could result in legal liability to us or harm our business, financial condition or results of operations.

Failure to protect or enforce our intellectual property rights or the costs involved in such enforcement could harm our business, financial condition or results of operations.

We regard the protection of our trade secrets, copyrights, trademarks, service marks, trade dress, domain names, patents, and other product rights as critical to our success. We strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We enter into confidentiality and invention assignment agreements with our employees and contractors and confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. However, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary information or deter independent development of similar technologies by others.

We pursue the registration of our copyrights, trademarks, service marks, domain names, and patents in the U.S. and in certain locations outside the U.S. This process can be expensive and time-consuming, may not always be successful depending on local laws or other circumstances, and we also may choose not to pursue registrations in every location depending on the nature of the project to which the intellectual property rights pertain. We may, over time, increase our investments in protecting our creative works through increased copyright filings and our brands through increased trademark and other filings. Likewise, we may, over time, increase our investment in protecting our innovations through increased patent filings that are expensive and time-consuming and may not result in issued patents that can be effectively enforced or licensed. The Leahy-Smith America Invents Act (the “Leahy-Smith Act”) was adopted in September 2011. The Leahy-Smith Act includes a number of significant changes to U.S. patent law, including provisions that affect the way patent applications will be prosecuted, which could be detrimental to investors, and may also affect patent litigation. The Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could harm our business, financial condition or results of operations.

Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights claimed by others. For example, we historically have brought several actions to protect our “Zynga Poker,” “Ville,” and “With Friends” franchises against third-party uses of those intellectual property assets and brands. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs, adverse publicity, or diversion of management and technical resources, any of which could adversely affect our business, financial condition or results of operations. If we fail to maintain, protect and enhance our intellectual property rights, our business, financial condition or results of operations may be harmed.

Our ability to acquire and maintain licenses to intellectual property may affect our revenue and profitability. Competition for these licenses may make them more expensive and increase our costs.

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. We use licensed intellectual property as a creative asset in certain games, such as Looney Tunes Dash!, Willy Wonka and the Chocolate Factory Slots, Hit It Rich! Slots, Spin it Rich! Slots, Wizard of Oz: Magic Match, Wizard of Oz Slots and Black Diamond Casino and have built many of our games on proprietary source code of third parties, such as Unity.

Proprietary licenses typically limit our use of intellectual property to specific uses and for specific time periods. Competition for licenses for creative assets is intense. If we are unable to maintain these licenses or obtain additional licenses on reasonable economic terms or with significant commercial value, our revenue and profitability may be adversely impacted. Competition for these licenses may also increase the advances, guarantees and royalties that we must pay to the licensor, which could significantly increase our costs and adversely affect our profitability.

Many of our games are built on propriety source code of third parties, such as Unity. If we are unable to renew licenses to proprietary source code underlying our games, or the terms and conditions of these licenses change at the time of renewal our business, financial condition or results of operations could be negatively impacted. We rely on third parties, including Unity, to maintain versions of their proprietary engines that allow us to ship our games on multiple platforms. If a third party from whom we license source code discontinues support for one or more of these platforms, our business, financial condition or results of operations could be negatively impacted.

We are, and may in the future be, subject to intellectual property disputes, which are costly to defend and could require us to pay significant damages and could limit our ability to use certain technologies in the future.

From time to time, we have faced, and we expect to face in the future, allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including from our competitors, non-practicing entities and former employers of our personnel. Intellectual property litigation may be protracted and expensive, and the results are difficult to predict. As the result of any court judgment or settlement, we may be obligated to cancel the launch of a new game, stop offering a game or certain features of a game in a particular geographic region or worldwide, pay royalties or significant settlement costs, purchase licenses or modify our games and features, or develop substitutes.

In addition, we use open source software in our games and expect to continue to use open source software in the future. From time to time, we may face claims from companies that incorporate open source software into their products, claiming ownership of, or demanding release of, the source code, the open source software and/or derivative works that were developed using such software, or otherwise seeking to enforce the terms of the applicable open source license. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our games, any of which would have a negative effect on our business, financial condition or results of operations.

We are involved in legal proceedings that may result in adverse outcomes.*

We may be involved in claims, suits, government investigations, and proceedings arising in the ordinary course of our business, including actions with respect to intellectual property claims, privacy, data protection or law enforcement matters, tax matters, labor and employment claims, commercial and acquisition-related claims, as well as stockholder derivative actions, class action lawsuits, and other matters. Such claims, suits, government investigations, and proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of their outcomes, such legal proceedings can have an adverse impact on us because of legal costs, diversion of management and other personnel, and other factors. In addition, it is possible that a resolution of one or more such proceedings could result in liability, penalties, or sanctions, as well as judgments, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, or requiring a change in our business practices, products or technologies, which could in the future materially and adversely affect our business, financial condition or results of operations. See the section titled “Legal Matters” included in Note 11 – “Commitments and Contingencies” in the notes to the consolidated financial statements included herein.

We are subject to laws and regulations concerning privacy, information security, data protection, consumer protection and protection of minors and these laws and regulations are continually evolving. Our actual or perceived failure to comply with these laws and regulations could harm our business.*

We receive, store and process personal information and other player data, and we enable our players to share their personal information with each other and with third parties, including on the Internet and mobile platforms. There are numerous federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other player data on the Internet and mobile platforms, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules.

Various government and consumer agencies have called for new regulation and changes in industry practices and are continuing to review the need for greater regulation for the collection of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. For example, the European Union’s General Data Protection Regulation, which will become effective in May 2018, creates new individual privacy rights and imposes worldwide obligations on companies handling personal data, which will result in a greater compliance burden for us and other companies with European users. There is also increased attention being given to the collection of data from minors. For instance, the Children’s Online Privacy Protection Act requires companies to obtain parental consent before collecting personal information from children under the age of 13 and in January 2014, the Federal Trade Commission announced a settlement with Apple related to in-app purchases made by minors.

All of our games are subject to our privacy policy and our terms of service located on our corporate website. We generally comply with industry standards and are subject to the terms of our privacy-related obligations to players and third parties. We strive to comply with all applicable laws, policies, legal obligations and certain industry codes of conduct relating to privacy and data protection, to the extent reasonably attainable. However, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. For example, foreign laws and regulations are often more restrictive than those in the U.S. In particular, the European Union and its member states traditionally have taken broader views regarding what data types are subject to data protection, and have imposed legal obligations on companies in this regard. It is also possible that new laws, policies, legal obligations or industry codes of conduct may be passed, or existing laws, policies, legal obligations or industry codes of conduct may be interpreted in such a way that could prevent us from being able to offer services to citizens of a certain jurisdiction or may make it costlier or difficult for us to do so. Any failure or perceived failure by us to comply with our privacy policy and terms of service, our privacy-related obligations to players or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other player data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our players to lose trust in us, which could have an adverse effect on our business, financial condition or results of operations. Additionally, if third parties we work with, such as players, vendors or developers, violate applicable laws or our policies, such violations may also put our players' information at risk and could in turn have an adverse effect on our business, financial condition or results of operations.

Our business is subject to a variety of U.S. and foreign laws, many of which are unsettled and still developing and which could subject us to claims or otherwise harm our business.*

We are subject to a variety of laws in the U.S. and abroad that affect our business, including state and Federal laws regarding consumer protection, electronic marketing, protection of minors, data protection, competition, taxation, intellectual property, export and national security, that are continuously evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting, particularly laws outside the U.S. There is a risk that these laws may be interpreted in a manner that is not consistent with our current practices, and could have an adverse effect on our business. It is also likely that as our business grows and evolves and our games are played in a greater number of countries, we will become subject to laws and regulations in additional jurisdictions or other jurisdictions may claim that we are required to comply with their laws and regulations.

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 ambiguous, still evolving and could be interpreted in ways that could harm our business or expose us to liability. In addition, there are ongoing academic, political and regulatory discussions in the U.S., Europe, Australia 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 to protect consumers, in particular minors and persons susceptible to addiction to social games, and, if so, what this regulation should include. If new social casino regulations are imposed, certain of (or all of) our casino-themed games may become subject to the rules and regulations and expose us to civil and criminal penalties if we do not comply. Heightened regulation could increase the cost of running our social casino games, make our games more difficult to access, decrease our user base or otherwise harm our business, financial condition or results of operations.

It is difficult to predict how existing laws will be applied to our business or the new laws to which we may become subject. If we are not able to comply with these laws or regulations or if we become liable under these laws or regulations, we could be directly harmed, and we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to modify our games, which would harm our business, financial condition and results of operations. In addition, the increased attention focused upon liability issues as a result of lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this potential liability could harm our business, financial condition or results of operations.

It is possible that a number of laws and regulations may be adopted or construed to apply to us in the U.S. and elsewhere that could restrict the online and mobile industries, including player privacy, advertising, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of electronic commerce and virtual goods may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours conducting business through the Internet and mobile devices. We anticipate that scrutiny and regulation of our industry will increase and we will be required to devote legal and other resources to addressing such regulation. For example, existing laws or new laws regarding the marketing of in-app purchases, labeling of free-to-play games, regulation of currency and banking institutions unclaimed property and money transmission may be interpreted to cover our games and the virtual currency, goods or payments that we receive. If that were to occur we may be required to seek licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements and we may be subject to additional regulation and oversight, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the U.S. or elsewhere regarding these activities may lessen the growth of social game services and impair our business, financial condition or results of operations.

Our international operations are subject to increased challenges and risks.*

Continuing to expand our business to attract players in countries other than the U.S. is a critical element of our business strategy. An important part of targeting international markets is developing offerings that are localized and customized for the players in those markets. We have a limited operating history as a company outside of the U.S. We expect to continue to expand our international operations in the future by expanding our offerings in new languages. Our ability to expand our business and to attract talented employees and players in an increasing number of international markets will require considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute systems, regulatory systems and commercial infrastructures. We have experienced difficulties in the past and have not been successful in all the countries we have entered. Expanding our international focus may subject us to risks that we have not faced before or increase risks that we currently face, including risks associated with:

- inability to offer certain games in certain foreign countries;
- recruiting and retaining talented and capable management and employees in foreign countries;
- challenges caused by distance, language and cultural differences;
- developing and customizing games and other offerings that appeal to the tastes and preferences of players in international markets;
- competition from local game makers with intellectual property rights and significant market share in those markets and with a better understanding of player preferences;
- utilizing, protecting, defending and enforcing our intellectual property rights;

- negotiating agreements with local distribution platforms that are sufficiently economically beneficial to us and protective of our rights;
- the inability to extend proprietary rights in our brand, content or technology into new jurisdictions;
- implementing alternative payment methods for virtual goods in a manner that complies with local laws and practices and protects us from fraud;
- compliance with applicable foreign laws and regulations, including privacy laws and laws relating to content and consumer protection (for example, the United Kingdom's Office of Fair Trading's 2014 principles relating to in-app purchases in free-to-play games that are directed toward children 16 and under);
- compliance with anti-bribery laws, including the Foreign Corrupt Practices Act;
- credit risk and higher levels of payment fraud;
- currency exchange rate fluctuations;
- protectionist laws and business practices that favor local businesses in some countries;
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the tax laws of the U.S. or the foreign jurisdictions in which we operate;
- political, economic and social instability;
- higher costs associated with doing business internationally;
- export or import regulations; and
- trade and tariff restrictions.

If we are unable to manage the complexity of our global operations successfully, our business, financial condition and operating results could be adversely affected. Additionally, our ability to successfully gain market acceptance in any particular market is uncertain, and the distraction of our senior management team could harm our business, financial condition or results of operations.

The vote by the United Kingdom to exit from the European Union could harm our business, financial condition or results of operations.*

On March 29, 2017, the United Kingdom triggered Article 50 of the Treaty on European Union by notifying the European Council of its intention to withdraw from the European Union (commonly referred to as the "Brexit"). Negotiations have commenced to determine the future terms of the United Kingdom's relationship with the European Union, including the terms of trade between the U.K. and the European Union. The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate.

The announcement of Brexit caused (and the actual exit of the United Kingdom from the European Union is expected to cause future) significant volatility in global stock markets, which could cause our stock price to be subject to wide fluctuations, and significant fluctuations in foreign currency exchange rates, which will affect our financial results as we report in U.S. dollars and may affect our ability to attract and retain employees in the United Kingdom. The announcement of Brexit also created (and the actual exit of the United Kingdom from the European Union may create future) global economic uncertainty, which may cause our players to reduce the amount of money they spend on our games. The actual exit of the United Kingdom from the European Union could cause disruptions to and create uncertainty surrounding our business, including affecting our and NaturalMotion's relationships with existing and future players, suppliers and employees. Any of these effects of Brexit (and the announcement thereof), and others we cannot anticipate, could harm our business, financial condition or results of operations.

Companies and governmental agencies may restrict access to Facebook, our website, mobile applications or the Internet generally, which could lead to the loss or slower growth of our player base.

Our players generally need to access the Internet and in particular platforms such as Facebook, Apple, Google and our website to play our games. Companies and governmental agencies could block access to Facebook, our website, mobile applications or the Internet generally for a number of reasons such as security or confidentiality concerns or regulatory reasons, or they may adopt policies that prohibit employees from accessing Facebook, Apple, Google and our website or other social platforms. If companies or governmental entities block or limit such or otherwise adopt policies restricting players from playing our games, our business could be negatively impacted and could lead to the loss or slower growth of our player base.

Fluctuations in foreign currency exchange rates will affect our financial results, which we report in U.S. dollars.

As we continue to expand our international operations, we become more exposed to the effects of fluctuations in currency exchange rates. We incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency, and an increasing percentage of our international revenue is from players who pay us in currencies other than the U.S. dollar. Fluctuations in the exchange rates between the U.S. dollar and those other currencies could result in the dollar equivalent of such expenses being higher and/or the dollar equivalent of such foreign-denominated revenue being lower than would be the case if exchange rates were stable. This could have a negative impact on our reported operating results.

Changes in tax laws or tax rulings could materially affect our financial position and results of operations.

The tax regimes we are subject to or operate under are unsettled and may be subject to significant change. Changes in tax laws or tax rulings, or changes in interpretations of existing laws, could materially affect our financial position and results of operations. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, have recently proposed or recommended changes to existing tax laws or have enacted new laws that could impact our tax obligations. For example, in 2015 the United Kingdom enacted the Diverted Profits Tax. In addition, the current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority. Any changes in the taxation of our international business activities may impact our worldwide effective tax rate, our financial position and results of operations.

We may have exposure to greater than anticipated tax liabilities.

Our income tax obligations are based in part on our corporate operating structure and intercompany arrangements, including the manner in which we develop, value, manage, and use our intellectual property and the valuation of our intercompany transactions. The tax laws applicable to our business, including the laws of the U.S. and other jurisdictions, are subject to interpretation and certain jurisdictions are aggressively interpreting their laws in new ways in an effort to raise additional tax revenue. Our existing corporate structure and intercompany arrangements have been implemented in a manner we believe is in compliance with current prevailing tax laws. However, the taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could impact our worldwide effective tax rate and harm our financial position and results of operations.

We may be required to record impairment related to our goodwill, intangible assets or other long-lived assets if our market capitalization declines below our reporting unit carrying value value or if our financial performance and/or condition deteriorates including specific games for which we have recorded intangible assets.*

As of June 30, 2017, we had over $900 million of goodwill, intangible assets and other long-lived assets. If our market capitalization declines below our reporting unit carrying value or if our financial performance and/or condition deteriorate, we may have to impair our goodwill, intangible assets or other long-lived assets, which could adversely impact our results of operations and financial position. For more information, see Note 5 – “Goodwill and Other Intangible Assets” in the notes to the consolidated financial statements included herein.

We may require additional capital to meet our financial obligations and support business growth, and this capital might not be available on acceptable terms or at all.

We intend to continue to make significant investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new games and features or enhance our existing games, improve our operating infrastructure or acquire complementary businesses, personnel and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our Class A common stock. Any debt financing that we secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business, financial condition or results of operations may be harmed.

The occurrence of an earthquake or other natural disaster at or near one of our facilities could cause damage to our facilities and equipment, which could require us to curtail or cease operations.

Our principal offices are located in the San Francisco Bay Area, an area known for earthquakes, and are thus vulnerable to damage. All of our facilities are also vulnerable to damage from natural or manmade disasters, including power loss, fire, explosions, floods, communications failures, terrorist attacks and similar events. If any disaster were to occur, our ability to operate our business at our facilities could be impaired and we could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

Risks Related to Our Class A Common Stock

The three class structure of our common stock has the effect of concentrating voting control with those stockholders who held our stock prior to our initial public offering, including our founder and certain other executive officers, employees and directors and their affiliates; this limits our other stockholders' ability to influence corporate matters.*

Our Class C common stock has 70 votes per share, our Class B common stock has seven votes per share and our Class A common stock has one vote per share. Mr. Pincus, our Executive Chairman, beneficially owned approximately 70% of the total voting power of our outstanding capital stock as of June 30, 2017. As a result, Mr. Pincus has significant influence over the management and affairs of the Company and control over matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our Company or our assets. Mr. Pincus may hold this voting power for the foreseeable future, subject to additional issuances of stock by the Company or sales by Mr. Pincus. This concentrated voting control limits the ability of our other stockholders to influence corporate matters and could adversely affect the market price of our Class A common stock.

Future transfers or sales by holders of Class B common stock or Class C common stock will result in those shares converting to Class A common stock, which will have the effect, over time, of increasing the relative voting power of those stockholders who retain their existing shares of Class B or Class C common stock. In addition, as shares of Class B common stock are transferred or sold and converted to Class A common stock, the sole holder of Class C common stock, Mr. Pincus, will have greater relative voting control to the extent he retains his existing shares of Class C common stock, and as a result he could in the future continue to control a majority of our total voting power. Mr. Pincus is entitled to vote the shares he beneficially owns in his own interests and may do so.

Certain provisions in our charter documents and under Delaware law could limit attempts by our stockholders to replace or remove our Board of Directors or current management and limit the market price of our Class A common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing changes in our Board of Directors or management. Our certificate of incorporation and bylaws include provisions that:

- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our Board of Directors;
- prohibit cumulative voting in the election of directors; and
- reflect three classes of common stock, as discussed above.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder.

Our share price has been and will likely continue to be volatile.*

The trading price of our Class A common stock has been, and is likely to continue to be, highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. Between June 30, 2016 and June 30, 2017, the stock price of our Class A common stock ranged from $2.40 to $3.86. In addition to the factors discussed in these "Risk Factors" and elsewhere in this filing, factors that may cause volatility in our share price include:

- changes in projected operational and financial results;

- issuance of new or updated research or reports by securities analysts;
- market rumors or press reports;
- announcements related to our share repurchase program;
- our announcement of significant transactions;
- the use by investors or analysts of third-party data regarding our business that may not reflect our actual performance;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- the activities, public announcements and financial performance of our commercial partners, such as Facebook, Apple and Google;
- fluctuations in the trading volume of our shares, or the size of our public float relative to the total number of shares of our Class A, Class B and Class C common stock that are issued and outstanding;

- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and
- general economic and market conditions.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our Class A common stock. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We have been the target of this type of litigation as described in the section titled "Legal Matters" included in Note 11 —"Commitments and Contingencies" in the notes to the consolidated financial statements included herein. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could harm our business.

In addition, in November 2016, the 2016 Share Repurchase Program was authorized for up to $200 million of our outstanding Class A common stock that remains in effect through the end of October 2018. The timing and amount of any stock repurchases will be determined based on market conditions, share price and other factors. The 2016 Share Repurchase Program does not require us to repurchase any specific number of shares of our Class A common stock, and may be modified, suspended or terminated at any time without notice. The 2016 Share Repurchase Program will be funded from existing cash on hand or other sources of financing as the Company may determine to be appropriate. Share repurchases under these authorizations may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, purchases through 10b5-1 plans or by any combination of such methods. Repurchases of our Class A common stock in the open market could result in increased volatility in our stock price. There is no guarantee that we will do any share repurchases under the 2016 Share Repurchase Program or otherwise in the future.

Our Class A common stock price may be volatile due to third-party data regarding our games.

Third parties, such as AppData, AppAnnie and comScore publish daily data about us and other social game companies with respect to DAUs and MAUs, monthly revenue, time spent per user and other information concerning social game usage. These metrics can be volatile, particularly for specific games, and in many cases do not accurately reflect the actual levels of usage of our games across all platforms and may not correlate to our bookings or revenue from the sale of virtual goods. There is a possibility that third parties could change their methodologies for calculating these metrics in the future. To the extent that securities analysts or investors base their views of our business or prospects on such third-party data, the price of our Class A common stock may be volatile and may not reflect the performance of our business.

If securities or industry analysts do not publish research about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our Class A common stock, to some extent, depends on the research and reports that securities or industry analysts publish about our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or lower their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Future sales or potential sales of our Class A common stock in the public market could cause our share price to decline.

If the existing holders of our Class B common stock sell a large number of shares, they could adversely affect the market price for our Class A common stock. Sales of substantial amounts of our Class A common stock in the public market, or the perception that these sales could occur, could cause the market price of our Class A common stock to decline.

Certain holders of our Class B common stock are also entitled to rights with respect to the registration of such shares under the Securities Act of 1933 (the “Securities Act”) pursuant to an investors’ rights agreement. If these holders of our Class B common stock, by exercising their registration rights, sell a large number of shares, they could adversely affect the market price of our Class A common stock. If we file a registration statement for the purposes of selling additional shares to raise capital and are required to include shares held by these holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired. Sales of substantial amounts of our Class A common stock in the public market, following the release of lock-up agreements, the filing of additional registration statements, or otherwise, or the perception that these sales could occur, could cause the market price of our Class A common stock to decline.

If we are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial reporting may be adversely affected.

If we are unable to maintain adequate internal controls for financial reporting in the future, or if our auditors are unable to express an opinion as to the effectiveness of our internal controls as required pursuant to the Sarbanes-Oxley Act, investor confidence in the accuracy of our financial reports may be impacted or the market price of our Class A common stock could be negatively impacted.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified Board members.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the NASDAQ Global Select Market and other applicable securities rules and regulations. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results.

As a result of disclosure of information in our public filings with the SEC as required of a public company, our business and financial condition have become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business, financial condition or results of operations could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business, financial condition or results of operations.

We have no plans to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not have any plans to pay cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors. Accordingly, investors must rely on sales of their Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND ISSUER PURCHASES OF EQUITY SECURITIES

Unregistered Sales of Equity Securities

None

Issuer Purchases of Equity Securities

Stock repurchases during the second quarter of 2017, which were all made pursuant to the 2016 Share Repurchase Program, were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs(1)	Maximum Dollar Value That May Yet Be Purchased Under the Program(1)
April 1 - April 30, 2017	3,007,802	$ 2.79	3,007,802	$72,872,462
May 1 - May 31, 2017	—	$ —	—	$72,872,462
June 1 - June 30, 2017	—	$ —	—	$72,872,462
Total	3,007,802	$ 2.79	3,007,802	

(1)

In November 2016, we announced that our Board of Directors authorized the 2016 Share Repurchase Program, which authorizes us to repurchase up to $200 million of our outstanding Class A common stock. The 2016 Share Repurchase Plan remains in effect through the earlier of (i) the end of October 2018, (ii) the date that $200 million of our outstanding Class A common stock has been purchased under the 2016 Share Repurchase Plan, or (iii) the date that our Board of Directors cancels the 2016 Share Repurchase Plan.

ITEM 5. OTHER INFORMATION

Frequency of Advisory Vote to Approve Executive Compensation

At the Annual Meeting held on May 1, 2017, a majority of shares voted in favor of holding an advisory vote to approve executive compensation every year. Our Board of Directors has considered the outcome of this advisory vote and has determined, as was recommended with respect to this proposal by our Board of Directors in the proxy statement for the Annual Meeting, that we will hold an annual advisory vote to approve executive compensation.

ITEM 6. EXHIBITS

The exhibits listed in the Exhibit Index following the signature pages of this Quarterly Report on Form 10-Q are filed with, or furnished with, or incorporated by reference in, this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report on to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of San Francisco, State of California, on August 4, 2017.

ZYNGA INC.
By: /s/ Gerard Griffin
Gerard Griffin
Chief Financial Officer

(On behalf of Registrant)

By: /s/ Jeffrey Buckley
Jeffrey Buckley
Chief Accounting Officer

(On behalf of Registrant)

EXHIBIT INDEX

		Incorporated by Reference				
Exhibit No.	Description of Exhibit	Form	File No.	Exhibit	Filing Date	Filed or Furnished Herewith
3.1	Seventeenth Amended and Restated Certificate of Incorporation of Zynga Inc.	8-K	001-35375	3.1	6/13/2014	
3.2	Second Amended and Restated Bylaws of Zynga Inc.	8-K	001-35375	3.1	3/1/2016	
4.1	Form of Zynga Inc. Class A Common Stock Certificate	S-1/A	333-175298	4.1	11/4/2011	
10.1+	Zynga Inc. Non-Employee Director Compensation Policy	10-Q	001-35375	10.1	5/5/2017	
10.2+	Promotion Letter between Zynga Inc. and Jeffrey Buckley	10-Q	001-35375	10.1	5/5/2017	
31.1	Certification of the Chief Executive Officer of Zynga Inc. pursuant to rule 13a-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of the Chief Financial Officer of Zynga Inc. pursuant to rule 13a-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1•	Certification of the Chief Executive Officer and Chief Financial Officer of Zynga Inc. pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					
101.SCH	XBRL Taxonomy Extension Schema Document					
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					

+Indicates management contract or compensatory plan.

•The certification attached as Exhibit 32.1 accompanying this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or any other filing under the Exchange Act, except as expressly set forth by specific reference in such a filing.