ZYNGA INC
Form 10-Q
November 04, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-35375

Zynga Inc.

(Exact name of registrant as specified in its charter)

Delaware	**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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of October 15, 2015, there were 798,805,953 shares of the Registrant s Class A common stock outstanding, 113,648,170 shares of the Registrant s Class B common stock outstanding and 20,517,472 shares of the Registrant s Class C common stock outstanding.

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Zynga Inc.

Form 10-Q Quarterly Report

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Zynga, the Zynga logo and other trademarks or service marks of Zynga appearing in this report are the property of Zynga. Trade names, trademarks and service marks of other companies appearing in this report are the property of their respective holders.

References in this report to DAUs mean daily active users of our games, MAUs mean monthly active users of our games, MUUs mean monthly unique users of our games, ABPU means average daily bookings per average DAU and references to MUPs mean monthly unique payers of our games. Unless otherwise indicated, these metrics are based on internally-derived measurements across all platforms on which our games are played. For further information about ABPU, DAUs, MAUs, MUPs, and MUUs as measured by us, see the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations Key Metrics.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. In some cases you can identify these statements by forward-looking words such as believe, may, will, might, estimate, continue, anticipate, in should, would, project, plan, outlook, target, expect, or similar expressions, or the negative or plural of the expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

our future spend, including spend on R&D and marketing and our future margins;

our future operational plans, use of cash, strategies and prospects;

the breadth and depth of our games slate for 2015 and the success of this slate including the success of *Empires & Allies*, *FarmVille: Harvest Swap* and the recently launched *Black Diamond Casino*;

our planned launch of mobile first games and new features for existing games, including our planned launch of 1 game in the fourth quarter of 2015;

our ability to grow mobile bookings in 2015;

our cost structure and cost reduction plans and estimated savings and charges, including our reduction in workforce, cost reduction measures and plan to lower discretionary spend;

our ability to accelerate execution, drive profitability and nurture creativity and innovation while reducing costs and lowering discretionary spend;

our ability to execute against our strategy and deliver long term value to our shareholders, employees and players;

our ability to accurately forecast our upcoming game launches and related bookings, revenue, and game performance;

our ability to accurately forecast our bookings, revenue and performance of our existing games;

our relationship and/or agreements with key licensing partners, additional platform providers or any other key partners;

our ability to launch and monetize successful new games and features for web and mobile in a timely manner and the success of these games and features;

our ability to sustain and expand key games to sustain and grow audiences, bookings and engagement, including our core franchises, which include FarmVille (*FarmVille, FarmVille 2, FarmVille 2: Country Escape),* Slots *(Wizard of Oz Slots* and *Hit It Rich! Slots),* Zynga Poker and With Friends *(Words With Friends, Words on Tour, Word Streak With Friends,* amongst others);

our ability to renew our existing brand, technology and content licenses as they expire and secure new licenses for top brands;

the process of integrating NaturalMotion Limited s (NaturalMotion s) and Rising Tide Games, Inc. s (Rising Tide Games s) operations with ours, including but not limited to our expected ability to expand our creative pipeline, accelerate our growth on mobile and deliver hit NaturalMotion and Rising Tide games on schedule;

the effectiveness of our marketing program and initiatives and our ability to obtain game featuring from partners;

our strategy of backing proven teams to develop or expand our game offerings in the four content categories where we are focused, the timely launch of our games in these categories and the success of these games;

our relationship with Facebook, changes in the Facebook platform and/or changes in our agreement with Facebook;

our relationship with Apple, Google and other Android platform providers, changes to the Android or iOS platforms and /or changes in our agreements with Apple, Google and/or other Android platform providers;

our ability to attract and retain key employees in light of business challenges, including employees key to franchise games and planned launches and senior management;

the impact of change in our senior management teams and management teams, new hires and other organizational changes and roles on our organization;

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our ability to efficiently deploy employees and leverage our teams and talent, including shifting resources when necessary to prioritize more important projects;

our ability to use data analytics to improve our player experience, gameplay and monetization;

our ability to manage new IP costs;

competition in our industry;

our ability to maintain technology infrastructure and employees that can efficiently and reliably handle increased player usage, changes in mobile devices and game platforms, fast load times and the rapid deployment of new features and products;

our ability to anticipate and address technical challenges that may arise;

our ability to protect our players information and adequately address privacy concerns;

our ability to maintain reliable security services and infrastructure to protect against security breaches, computer malware and hacking attacks;

market opportunity in the social gaming market, including the mobile market and advertising market and our ability to capitalize on and contribute to this market opportunity;

our ability to successfully monitor and adapt to changes in gaming platform and consumer demand as the industry continues to evolve;

our ability to develop, identify, market and launch hit games and new features and content for our existing games in a timely manner;

the ability of our games to generate revenue and bookings for significant period of time after launch and the timing for market acceptance of new games;

attrition or decline in existing games, including franchise games;

our ability to utilize, protect, defend and enforce our intellectual property;

our exposure to intellectual property disputes and other litigation;

our exposure to illegitimate credit card activity and other security risks, including sales or purchases of virtual goods used in our games through unauthorized or illegitimate third-party websites;

our ability to manage risks, costs and other challenges associated with international expansion;

the impact of laws and regulations on our business;

our evaluation of new business opportunities and acquisitions by us, including integration of newly acquired businesses;

changes in corporate strategy or management;

our ability to understand industry trends, such as seasonality, and position our business to take advantage of these trends;

the effectiveness of our cost cutting activities and our ability to control and reduce expenses, including our estimated savings and charges associated with our restructuring efforts; and

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

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II. Item 1A. Risk Factors of this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment and industry. New risks may also emerge from time to time. It is not possible for our management to predict all of the risks related to our business and operations, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. The achievement or success of the matters covered by such forward-looking statements involves significant risks, uncertainties and assumptions. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated, predicted or implied in the forward-looking statements.

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You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur, and reported results should not be considered as an indication of future performance. Factors that could cause or contribute to such differences include, but are not limited to, those described in the section titled Risk Factors. Except as required by law, we undertake no obligation to update any forward-looking statements for any reason to conform these statements to actual results or to changes in our expectations.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Zynga Inc.

Consolidated Balance Sheets

(In thousands, except par value)

(Unaudited)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 663,020	$ 131,303
Marketable securities	406,701	785,221
Accounts receivable, net of allowance of $0 at September 30, 2015 and December 31, 2014	87,214	89,611
Income tax receivable	5,016	3,304
Deferred tax assets	520	2,765
Restricted cash	210	48,047
Other current assets	31,475	22,688
Total current assets	1,194,156	1,082,939
Long-term marketable securities	4,515	231,385
Goodwill	667,195	650,778
Other intangible assets, net	72,497	66,861
Property and equipment, net	280,535	297,919
Restricted cash	1,000	
Other long-term assets	17,886	18,911
Total assets	$ 2,237,784	$ 2,348,793
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 27,507	$ 14,965
Other current liabilities	59,541	164,150
Deferred revenue	132,510	189,923
Total current liabilities	219,558	369,038
Deferred revenue	198	3,882
Deferred tax liabilities	6,592	5,323
Other non-current liabilities	91,007	74,858

Total liabilities	317,355	453,101
Stockholders equity:		
Common stock, $0.00000625 par value, and additional paid in capital - authorized shares: 2,020,517 shares outstanding: 932,923 shares (Class A, 798,658, Class B, 113,748, Class C, 20,517) as of September 30, 2015 and 905,860 (Class A, 770,658, Class B, 114,685, Class C, 20,517) as of December 31, 2014	3,206,629	3,096,982
Accumulated other comprehensive income (loss)	(41,414)	(29,175)
Accumulated deficit	(1,244,786)	(1,172,115)
Total stockholders equity	1,920,429	1,895,692
Total liabilities and stockholders equity	$ 2,237,784	$ 2,348,793

See accompanying notes.

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Zynga Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Online game	$ 151,168	$ 139,372	$ 461,292	$ 402,608
Advertising and other	44,569	37,239	117,656	95,255
Total revenue	195,737	176,611	578,948	497,863
Costs and expenses:				
Cost of revenue	57,187	53,286	172,588	158,078
Research and development	78,416	100,113	276,832	291,419
Sales and marketing	43,549	44,005	116,507	115,466
General and administrative	25,765	38,536	103,951	128,703
Total costs and expenses	204,917	235,940	669,878	693,666
Income (loss) from operations	(9,180)	(59,329)	(90,930)	(195,803)
Interest income (expense), net	566	841	1,965	2,487
Other income (expense), net	2,285	647	11,843	2,668
Income (loss) before income taxes	(6,329)	(57,841)	(77,122)	(190,648)
Provision for (benefit from) income taxes	(9,381)	(783)	(6,810)	(9,874)
Net income (loss)	$ 3,052	$ (57,058)	$ (70,312)	$ (180,774)
Net income (loss) per share:				
Basic	$ 0.00	$ (0.06)	$ (0.08)	$ (0.21)
Diluted	$ 0.00	$ (0.06)	$ (0.08)	$ (0.21)
Weighted average common shares used to compute net income (loss) per share:				
Basic	921,116	884,021	910,469	869,178
Diluted	940,032	884,021	910,469	869,178

See accompanying notes.

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Zynga Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Net income (loss)	$ 3,052	$ (57,058)	$ (70,312)	$ (180,774)
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(16,858)	(21,368)	(12,746)	(3,055)
Net change on unrealized gains (losses) on available-for-sale investments, net of tax	129	(272)	507	(409)
Other comprehensive income (loss)	(16,729)	(21,640)	(12,239)	(3,464)
Comprehensive income (loss)	$ (13,677)	$ (78,698)	$ (82,551)	$ (184,238)

See accompanying notes.

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Zynga Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	**2014**
Operating activities:		
Net income (loss)	$ (70,312)	$ (180,774)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	42,349	64,553
Stock-based expense	99,803	93,468
(Gain) loss from sales of investments, assets and other, net	(6,283)	2,131
Tax benefits from stock-based awards	90	
Excess tax benefits from stock-based awards	(90)	
Accretion and amortization on marketable securities	4,941	7,783
Deferred income taxes	(9,151)	(10,113)
Changes in operating assets and liabilities:		
Accounts receivable, net	2,544	(13,443)
Income tax receivable	(1,712)	3,200
Other assets	(11,860)	(3,860)
Accounts payable	12,226	(5,919)
Deferred revenue	(61,097)	13,838
Other liabilities	(49,360)	20,280
Net cash provided by (used in) operating activities	(47,912)	(8,856)
Investing activities:		
Purchases of marketable securities	(101,091)	(617,256)
Sales and maturities of marketable securities	702,017	667,706
Acquisition of property and equipment	(6,847)	(7,078)
Business acquisition, net of cash acquired	(20,023)	(391,711)
Proceeds from sale of property and equipment	750	5,059
Proceeds from sale of equity method investment	10,507	
Other investing activities, net		357
Net cash provided by (used in) investing activities	585,313	(342,923)
Financing activities:		
Taxes paid related to net share settlement of equity awards	(1,866)	(963)
Proceeds from employee stock purchase plan and exercise of stock options	7,292	15,728

Excess tax benefits from stock-based awards	90	
Acquisition related contingent consideration payment	(10,790)	
Net cash provided by (used in) financing activities	(5,274)	14,765
Effect of exchange rate changes on cash and cash equivalents	(410)	(231)
Net increase (decrease) in cash and cash equivalents	531,717	(337,245)
Cash and cash equivalents, beginning of period	131,303	465,523
Cash and cash equivalents, end of period	$ 663,020	$ 128,278

See accompanying notes.

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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) develops, markets, and operates online social games as live services played over the Internet and on social networking sites and mobile platforms. We generate revenue through the in-game sale of virtual goods and through advertising. 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 Canada, Asia and Europe.

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

Basis of Presentation and Consolidation

The accompanying 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, 2014.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of September 30, 2015, the interim consolidated statements of operations, the interim consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2015 and 2014, the interim consolidated statements of cash flows for the nine months ended September 30, 2015 and 2014 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 have been prepared on the same basis as the audited consolidated financial statements and 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 nine months ended September 30, 2015 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 expense and evaluation of goodwill, intangible assets, and long-lived assets for impairment. Actual results could differ materially from those estimates.

Changes in our estimated average life of durable virtual goods during the three and nine months ended September 30, 2015 for various games resulted in an increase in revenue and income from continuing operations of $7.4 million and $8.2 million, respectively, which is 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 recorded $9.9 million of revenue and income from continuing operations in the nine months ended September 30, 2015 due to changes in our estimated average life of durable goods for games that have been discontinued as there is no further service obligation after the closure of these games. These changes in estimates and discontinuance of games resulted in a $0.01 per share and $0.02 per share impact on our reported earnings per share for the three and nine months ended September 30, 2015, respectively.

Accounting Policy Updates

In September 2015, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which requires an acquirer in a business combination to recognize measurement-period adjustments during the period in which adjustment amounts are determined rather than retrospectively, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed as of the acquisition date. This standard will be applied prospectively to adjustments to provisional amounts that occur after the effective date. This standard will be effective for the Company beginning in the first quarter of 2016; however, early adoption is permitted. We do not expect this standard to have a material impact on our financial statements.

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In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, 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 in *Revenue Recognition (Topic 605)*. In July 2015, the FASB voted to amend ASU 2014-09 by approving a one-year deferral of the effective date as well as allowing early adoption as of the original effective date. Accordingly, the Company may adopt the standard in either the first quarter of 2017 or 2018. We are currently in the process of evaluating the timing of adoption of ASU 2014-09 as well as the impact on our consolidated financial statements.

2. Marketable Securities

The following tables summarize our amortized cost, gross unrealized gains and losses and fair value of our available-for-sale investments in marketable securities (in thousands):

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
U.S. government and government agency debt securities	$ 196,828	$ 86	$ (1)	$ 196,913
Corporate debt securities	214,276	50	(23)	214,303
Total	$ 411,104	$ 136	$ (24)	$ 411,216

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
U.S. government and government agency debt securities	$ 405,049	$ 68	$ (135)	$ 404,982
Corporate debt securities	611,950	39	(365)	611,624
Total	$ 1,016,999	$ 107	$ (500)	$ 1,016,606

For more detail on our method for determining the fair value of our assets, see Note 3 Fair Value Measurements

The estimated fair value of available-for-sale marketable securities, classified by their contractual maturities was as follows (in thousands):

	September 30, 2015
Due within one year	$ 406,701
After one year through three years	4,515
Total	$ 411,216

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Changes in market interest rates and bond yields caused certain investments to fall below their cost basis, resulting in unrealized losses on marketable securities. As of September 30, 2015, we had unrealized losses of $0.1 million related to marketable securities that had a fair value of $100.1 million. As of December 31, 2014, we had unrealized losses of $0.5 million related to marketable securities that had a fair value of $621.5 million. None of these securities were in a material continuous unrealized loss position for more than 12 months.

As of September 30, 2015 and December 31, 2014, we did not consider any of our marketable securities to be other-than-temporarily impaired. When evaluating our investments for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer, our ability and intent to hold the security to maturity and whether it is more likely than not that we will be required to sell the investment before recovery of its cost basis.

3. Fair Value Measurements

Our financial instruments consist of cash equivalents, short-term and long-term marketable securities and accounts receivable. Accounts receivable, net is stated at its carrying value, which approximates fair value.

Cash equivalents and short-term and long-term marketable securities, consisting of money market funds, U.S. government and government agency debt securities, municipal securities and corporate debt securities, are carried at fair value, which is defined as an exit price, representing 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.

Our contingent consideration liability represents the estimated fair value of the additional consideration payable in connection with our acquisitions of Spooky Cool Labs LLC (Spooky Cool Labs) and Rising Tide Games, Inc. (Rising Tide Games). The amount payable is contingent upon the achievement of certain performance milestones. We estimated the acquisition date fair value of the contingent consideration payable 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. Significant changes in actual and forecasted future cash flows may result in significant charges or benefits to our future operating expenses.

In the first quarter of 2015, we executed an amended agreement with Spooky Cool Labs. Under the terms of the amended agreement, the maximum amount payable by us is $58.8 million, which includes $53.8 million of contingent consideration and $5.0 million related to bonuses. We paid $53.8 million in the first quarter of 2015 and $5.0 million in the second quarter of 2015 to fully settle the contingent consideration liability balance and bonuses related to Spooky Cool Labs.

In the third quarter of 2015, we acquired Rising Tide Games. Under the terms of the agreement, the contingent consideration may be payable based on the achievement of certain future performance targets during the three year period following the acquisition date. The current contingent consideration expected to be earned and payable by us is $21.8 million; however, the maximum contingent consideration that could be earned and payable by us is $140.0 million.

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 debt instruments and all other 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.

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The composition of our financial instruments among the three Levels of the fair value hierarchy are as follows (in thousands):

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds [1]	$ 475,383	$	$	$ 475,383
U.S. government and government agency debt securities		196,913		196,913
Corporate debt securities		332,276		332,276
Total	$ 475,383	$ 529,189	$	$ 1,004,572
Liabilities:				
Contingent consideration	$	$	$ 21,778	$ 21,778

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds [1]	$ 41,595	$	$	$ 41,595
U.S. government and government agency debt securities		404,982		404,982
Corporate debt securities		611,624		611,624
Total	$ 41,595	$ 1,016,606	$	$ 1,058,201
Liabilities:				
Contingent consideration	$	$	$ 44,420	$ 44,420

[1] Includes amounts classified as cash and cash equivalents.

4. Property and Equipment

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

	September 30, 2015	December 31, 2014
Computer equipment	$ 120,586	$ 141,946
Software	32,108	31,778
Land	89,130	89,130

Building	195,296	194,574
Furniture and fixtures	10,794	10,616
Leasehold improvements	10,626	9,694
	458,540	477,738
Less accumulated depreciation	(178,005)	(179,819)
Total property and equipment, net	$ 280,535	$ 297,919

5. Acquisitions

On September 11, 2015, we acquired Rising Tide Games, a provider of social games that we plan to use to release new social casino titles, for purchase consideration of approximately $44.2 million, which consisted of cash paid of $22.4 million and contingent consideration with a fair value of $21.8 million as of September 30, 2015. The contingent consideration may be payable based on the achievement of certain future performance targets during the three year period following the acquisition date and could be up to $140.0 million. We will record changes in the fair value of contingent consideration liabilities within operating expenses in our consolidated statement of operations each future reporting period.

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For further details on our fair value methodology with respect to contingent consideration liabilities, see Note 3 Fair Value.

The following table summarizes the purchase date fair value of net tangible and intangible assets acquired from Rising Tide Games (in thousands, unaudited):

	Total
Developed technology, useful life of 5 years	$ 27,000
Net tangible assets acquired (liabilities assumed)	2,445
Goodwill	25,050
Deferred tax liabilities	(10,300)
Total	$ 44,195

Goodwill, which is not deductible for tax purposes, represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is primarily attributable to the assembled workforce of the acquired business and expected synergies at the time of the acquisition.

The information above provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, however, the preliminary measurements of fair value are subject to change including in the area of income taxes payable and deferred taxes which may change subject to the completion of certain tax returns.

6. Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill from December 31, 2014 to September 30, 2015 are as follows (in thousands):

Goodwill December 31, 2014	$ 650,778
Additions	25,050
Foreign currency translation adjustments [1]	(11,292)
Goodwill adjustments [2]	2,659
Goodwill September 30, 2015	$ 667,195

(1) The decrease is primarily related to translation losses on goodwill associated with the acquisition of NaturalMotion denominated in British pounds.

(2) Includes the impact of adjustments to goodwill resulting from changes in net assets (liabilities) acquired (assumed) and other adjustments, pursuant to our business combinations policy.

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The details of our acquisition-related intangible assets as of September 30, 2015 are as follows (in thousands):

	September 30, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed technology	$ 176,562	$ (112,474)	$ 64,088
Trademarks, branding and domain names	16,292	(8,938)	7,354
Acquired lease intangibles	5,708	(4,653)	1,055
Total	$ 198,562	$ (126,065)	$ 72,497

The details of our acquisition-related intangible assets as of December 31, 2014 are as follows (in thousands):

	December 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed technology	$ 151,376	$ (94,560)	$ 56,816
Trademarks, branding and domain names	16,292	(7,861)	8,431
Acquired lease intangibles	5,708	(4,094)	1,614
Total	$ 173,376	$ (106,515)	$ 66,861

These assets were, and continue to be, amortized on a straight-line basis. As of September 30, 2015, future amortization expense related to the intangible assets is expected to be recognized as shown below (in thousands):

Year ending December 31:	
2015	$ 7,815
2016	29,567
2017	11,330
2018 and thereafter	17,665
Total	$ 66,377

7. Income Taxes

The benefit from income taxes increased by $8.6 million and decreased by $3.1 million in the three and nine months ended September 30, 2015, respectively, as compared to the same periods of the prior year. The increase in the three months ended September 30, 2015 is primarily attributable to the tax impact of the Rising Tide Games purchase accounting of $10.3 million, offset by an increase in tax expense of $1.7 million related to changes in our jurisdictional mix of earnings. The decrease in the nine months ended September 30, 2015 is primarily attributable to the excess of the tax impact of the Rising Tide Games purchase accounting in the third quarter of 2015 over the release of the valuation allowance associated with the 2013 Federal research and development credit in the first

quarter of 2014 of $2.5 million, offset by changes in our jurisdictional mix of earnings of $5.6 million.

Purchase accounting for the Rising Tide Games acquisition required the establishment of a deferred tax liability related to the book-tax basis differences of identifiable intangible assets. The deferred tax liability created an additional source of U.S. future taxable income which resulted in a release of a portion of our U.S. valuation allowance recorded in our Statement of Operations.

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

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8. Other Current Liabilities

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

	September 30, 2015	December 31, 2014
Accrued accounts payable	24,417	17,542
Accrued compensation liability	11,050	26,113
Accrued restructuring liability	5,212	7,214
Other current liabilities	18,862	20,955
Accrued escrow for acquisitions		47,906
Contingent consideration liability		44,420
Total other current liabilities	$ 59,541	$ 164,150

Other current liabilities include various expenses that we accrue for transaction taxes, customer deposits and revenue sharing arrangements.

9. Restructuring

During the nine months ended September 30, 2015 we recorded a total restructuring charge of $16.7 million which was classified within our consolidated statement of operations as follows: Cost of Revenue $0.7 million, Research and Development $9.7 million, Sales and Marketing $0.8 million, and General and Administrative $5.5 million.

Q2 2015 Restructuring Plan

During the three months ended June 30, 2015, our board of directors authorized, and we implemented a restructuring plan that included a reduction in work force as part of the overall plan to reduce the Company s long term cost structure. As a result of this restructuring, we recorded a charge of $12.6 million in the nine months ended September 30, 2015, which is included in operating expenses in our consolidated statement of operations. The $12.6 million restructuring charge is comprised of $10.6 million of employee severance costs and $2.0 million related to lease and contract termination costs. This restructuring charge does not include the impact of $0.4 million of net stock-based expense reversals associated with the net effect of forfeitures from employee terminations. The remaining liability related to our Q2 2015 restructuring plan as of September 30, 2015 was $0.5 million and is expected to be paid out over the next 0.3 years.

The following table presents the activity for the three months ended June 30, 2015 and the three and nine months ended September 30, 2015 related to the Q2 2015 restructuring plan (in thousands):

	Three Months Ended		Nine Months Ended
	June 30, 2015	September 30, 2015	September 30, 2015
Restructuring liability - beginning of period	$	$ 1,860	$
Restructuring expense and adjustments	12,282	367	12,649
Cash payments	(10,422)	(1,736)	(12,158)

Restructuring liability (Q2 2015 Plan) - end of period	$ 1,860	$ 491	$ 491

Q1 2015 Restructuring Plan

During the three months ended March 31, 2015, our board of directors authorized, and we implemented a restructuring plan that included a reduction in work force and closure of the Beijing, China office as part of the overall plan to reduce the Company s long term cost structure. As a result of this restructuring, we recorded a charge of $3.8 million in the nine months ended September 30, 2015, which is included in operating expenses in our consolidated statement of operations. The $3.8 million restructuring charge in the nine months ended September 30, 2015 is comprised of $2.5 million of employee severance costs and $1.3 million related to lease and contract termination costs. This restructuring charge does not include the impact of $0.1 million of net stock-based expense reversals associated with the net effect of forfeitures from employee terminations.

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The following table presents the activity for the three months ended March 31, 2015 and June 30, 2015 and the nine months ended September 30, 2015 related to the Q1 2015 restructuring plan (in thousands):

	Three Months Ended		Nine Months Ended
	March 31, 2015	June 30, 2015	September 30, 2015
Restructuring liability - beginning of period	$	$ 330	$
Restructuring expense and adjustments	3,241	542	3,783
Cash payments	(2,911)	(872)	(3,783)
Restructuring liability (Q1 2015 Plan) - end of period	$ 330	$	$

There is no remaining liability for the Q1 2015 restructuring plan as of September 30, 2015.

Q1 2014 Restructuring Plan

The following table presents the activity for the three months ended March 31, 2015 and June 30, 2015 and the three and nine months ended September 30, 2015 related to the Q1 2014 restructuring plan (in thousands):

	Three Months Ended			Nine Months Ended
	March 31, 2015	June 30, 2015	September 30, 2015	September 30, 2015
Restructuring liability - beginning of period	$ 10,009	$ 8,082	$ 6,663	$ 10,009
Restructuring expense and adjustments	189	30	33	252
Cash payments	(2,116)	(1,449)	(1,491)	(5,056)
Restructuring liability (Q1 2014 Plan) - end of period	$ 8,082	$ 6,663	$ 5,205	$ 5,205

The remaining liability of $5.2 million is expected to be paid out over the next 1.3 years.

Other Plans

The following table presents the activity for the three months ended March 31, 2015 and June 30, 2015 and the three and nine months ended September 30, 2015 related to all other remaining historical restructuring plans from prior years (in thousands):

	Three Months Ended			Nine Months Ended
	March 31, 2015	June 30, 2015	September 30, 2015	September 30, 2015
Restructuring liability - beginning of period	$ 2,857	$ 1,957	$ 1,933	$ 2,857
Restructuring expense and adjustments	31		19	50
Cash payments	(931)	(24)	(1,168)	(2,123)

Restructuring liability (2013 Plan) - end of period	$ 1,957	$ 1,933	$ 784	$ 784

The remaining liability of $0.8 million is expected to be paid out over the next 2.1 years.

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10. Stockholders Equity

We recorded stock-based 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of revenue	$ 991	$ 1,110	$ 2,835	$ 3,391
Research and development	22,308	24,281	70,485	60,293
Sales and marketing	2,045	1,187	5,181	4,505
General and administrative	5,092	9,717	21,302	25,279
Total stock-based expense	$ 30,436	$ 36,295	$ 99,803	$ 93,468

The following table shows stock option activity for the nine months ended September 30, 2015 (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, 2014	39,460	$ 2.22	$ 47,347	6.74
Granted	300	2.99		
Forfeited and cancelled	(11,355)	3.37		
Exercised	(3,071)	0.46		
Balance as of September 30, 2015	25,334	$ 1.93	$ 31,980	5.71

The following table shows a summary of ZSU activity for the nine months ended September 30, 2015 (in thousands, except weighted-average grant date fair value):

	Outstanding ZSUs		
	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value of Unvested ZSUs
Unvested as of December 31, 2014	69,883	$ 3.64	$ 185,889
Granted	33,747	2.80	
Vested	(21,015)	4.04	
Forfeited and cancelled	(21,717)	3.22	

Unvested as of September 30, 2015	60,898	$	3.18	$	138,847

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The following table shows a summary of changes in accumulated other comprehensive income by component for the three and nine months ended September 30, 2015 (in thousands):

	Foreign Currency Translation	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Balance as of June 30, 2015	$ (24,669)	$ (16)	$ (24,685)
Other comprehensive income (loss) before reclassifications	(16,858)	130	(16,728)
Amounts reclassified from accumulated other comprehensive income		(1)	(1)
Net current-period other comprehensive income (loss)	(16,858)	129	(16,729)
Balance as of September 30, 2015	$ (41,527)	113	(41,414)

	Foreign Currency Translation	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Balance as of December 31, 2014	$ (28,781)	$ (394)	$ (29,175)
Other comprehensive income (loss) before reclassifications	(12,746)	540	(12,206)
Amounts reclassified from accumulated other comprehensive income		(33)	(33)
Net current-period other comprehensive income (loss)	(12,746)	507	(12,239)
Balance as of September 30, 2015	$ (41,527)	113	(41,414)

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

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. In computing diluted net income (loss) per share, 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, 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 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.

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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 September 30,					
	2015			2014		
	Class A	Class B	Class C	Class A	Class B	Class C
	(unaudited)					
BASIC:						
Net income (loss) attributable to common stockholders	$ 2,607	377	68	$ (48,121)	$ (7,613)	$ (1,324)
Weighted-average common shares outstanding	786,768	113,831	20,517	745,558	117,946	20,517
Basic net income (loss) per share	$ 0.00	$ 0.00	$ 0.00	$ (0.06)	$ (0.06)	$ (0.06)
DILUTED:						
Net income (loss) attributable to common stockholders	$ 2,607	377	68	$ (48,121)	$ (7,613)	$ (1,324)
Reallocation of net income (loss) as a result of conversion of Class C shares to Class A shares	68			(1,324)		
Reallocation of net income (loss) as a result of conversion of Class B shares to Class A shares	377			(7,613)		
Reallocation of net income (loss) to Class B and Class C shares		27	(1)			
Net income (loss) attributable to common stockholders-diluted	$ 3,052	$ 404	$ 67	$ (57,058)	$ (7,613)	$ (1,324)
Weighted-average common shares outstanding-basic	786,768	113,831	20,517	745,558	117,946	20,517
Conversion of Class C to Class A common shares	20,517			20,517		
Conversion of Class B to Class A common shares	113,831			117,946		
Weighted-average effect of dilutive securities:						
Stock options and employee stock purchase plan	11,994	10,446				
ZSUs	6,922	63				
Weighted-average common shares outstanding-diluted	940,032	124,340	20,517	884,021	117,946	20,517

Diluted net income (loss) per share	$ 0.00	$ 0.00	$ 0.00	$ (0.06)	$ (0.06)	$ (0.06)

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	Nine Months Ended September 30,					
	2015			2014		
	Class A	Class B	Class C	Class A	Class B	Class C
	(unaudited)					
BASIC:						
Net income (loss) attributable to common stockholders	$ (59,922)	$ (8,806)	$ (1,584)	$ (151,292)	$ (25,215)	$ (4,267)
Weighted-average common shares outstanding	775,926	114,026	20,517	727,425	121,236	20,517
Basic net income per share	$ (0.08)	$ (0.08)	$ (0.08)	$ (0.21)	$ (0.21)	$ (0.21)
DILUTED:						
Net income (loss) attributable to common stockholders	$ (59,922)	$ (8,806)	$ (1,584)	$ (151,292)	$ (25,215)	$ (4,267)
Reallocation of net income (loss) as a result of conversion of Class C shares to Class A shares	(1,584)			(4,267)		
Reallocation of net income (loss) as a result of conversion of Class B shares to Class A shares	(8,806)			(25,215)		
Net income (loss) attributable to common stockholders-diluted	$ (70,312)	$ (8,806)	$ (1,584)	$ (180,774)	$ (25,215)	$ (4,267)
Weighted-average common shares outstanding-basic	775,926	114,026	20,517	727,425	121,236	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	114,026			121,236		
Number of shares used in diluted net income (loss) per share	910,469	114,026	20,517	869,178	121,236	20,517
Diluted net income (loss) per share	$ (0.08)	$ (0.08)	$ (0.08)	$ (0.21)	$ (0.21)	$ (0.21)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Stock options and employee stock purchase plan	9,308	42,726	30,974	43,206
Restricted shares	7,791	13,763	9,102	12,333
ZSUs	40,445	51,550	64,056	56,484
Total	57,544	108,039	104,132	112,023

12. Commitments and Contingencies

Lease Commitments

We have entered into operating leases for facilities, including data center space. As of September 30, 2015, future minimum lease payments related to these leases are as follows (in thousands):

Year ending December 31:	
2015	$ 4,871
2016	23,594
2017	14,233
2018	13,104
2019	13,260
2020 and thereafter	21,918
	$ 90,980

Other Purchase Commitments

We have entered into several contracts for hosting of data systems and licensed intellectual property. Future minimum purchase commitments that have initial or remaining non-cancelable terms as of September 30, 2015, are as follows (in thousands):

Year ending December 31:	
2015	$ 4,417
2016	20,464
2017	13,110
2018	1,382
2019	330
2020 and thereafter	300

$ 40,003

Credit Facility

In June 2013, we amended our existing revolving credit agreement which we originally executed in July 2011, reducing our maximum available credit from $1.0 billion to $200 million, and extending the term through June 2018. Per the terms of our amended agreement, we paid additional up-front fees of $0.3 million to be amortized over the remaining extended term of the loan. The interest rate for the amended credit facility is determined based on a formula using certain market rates, as described in the amended credit agreement. Additionally, our minimum quarterly commitment fee was reduced from $0.6 million per quarter to $0.1 million per quarter based on the portion of the credit facility that is not drawn down. The agreement requires us to comply with certain covenants, including maintaining a minimum capitalization ratio, and maintaining a minimum cash balance. As of September 30, 2015, we had not drawn down any amounts under the credit facility and were in compliance with these covenants.

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Legal Matters

On July 30, 2012, a purported securities class action captioned DeStefano v. Zynga Inc. et al., Case No. 3:12-cv-04007-JSW, was filed in the United States District Court for the Northern District of California against the Company, and certain of our current and former directors, officers, and executives. Additional purported securities class actions containing similar allegations were filed in the Northern District. On September 26, 2012, the court consolidated various of the class actions as In re Zynga Inc. Securities Litigation, Lead Case No. 12-cv-04007-JSW. On January 23, 2013, the court entered an order appointing a lead plaintiff and approving lead plaintiff s selection of lead counsel. On April 3, 2013, the lead plaintiff and another named plaintiff filed a consolidated complaint. On February 25, 2014, the court granted the defendants motion to dismiss the consolidated complaint and provided plaintiffs leave to file an amended complaint.

The lead plaintiff filed a First Amended Complaint on March 31, 2014. The First Amended Complaint alleges that the defendants violated the federal securities laws by issuing false or misleading statements regarding the Company s business and financial projections. The plaintiffs seek to represent a class of persons who purchased or otherwise acquired the Company s securities between February 14, 2012 and July 25, 2012. The First Amended Complaint asserts claims for unspecified damages, and an award of costs and expenses to the putative class, including attorneys fees. On March 25, 2015, the Court issued an order denying the defendants motion to dismiss the First Amended Complaint. On April 28, 2015, the Court denied the defendants motion for leave to seek reconsideration of that order.

On June 12, 2015, the Court entered a scheduling order setting certain pretrial deadlines leading up to a hearing on any dispositive motions scheduled for May 12, 2017. On June 24, 2015, pursuant to a stipulation among the parties, the consolidated class actions were reassigned to Magistrate Judge Jacqueline Scott Corley for all further proceedings.

Pursuant to court order, a mediation session was conducted before the Honorable Edward Infante (Ret.) on August 4, 2015. The parties reached an agreement in principle to settle In re Zynga Inc. Securities Litigation as to all defendants for $23.0 million. The parties negotiated and executed a final stipulation of settlement and on October 2, 2015, lead plaintiff s counsel filed an unopposed motion for preliminary approval of the settlement. In response to issues raised by the Court at an October 8, 2015 and in an October 9, 2015 order, on October 15, 2015, lead plaintiff s counsel revised the papers in support of preliminary approval and filed a supplemental submission in support of lead plaintiff s unopposed motion for preliminary approval of the settlement. On October 27, 2015, the Court granted preliminary approval of the class action settlement. The settlement, which is subject to notice to the class and further court approval at a final fairness hearing scheduled on January 28, 2016, would be funded entirely by insurance and lead to the dismissal of all claims against the defendants. Accordingly there would be no impact to Zynga s financial statements if the final settlement is consistent with the current agreement. Given its preliminary nature, it remains possible that the settlement may not result in a final settlement, and that the assessment of the possibility of loss or adverse effect on our financial condition, if any, could therefore change in the near term.

In addition, a purported securities class action captioned Reyes v. Zynga Inc., et al. was filed on August 1, 2012, in San Francisco County Superior Court. Subsequent to various proceedings, on February 11, 2015, the court granted plaintiff s request for voluntary dismissal of the action with prejudice as to the named plaintiff s claims and without prejudice as to the claims of any other members of the proposed class.

On April 4, 2013, a purported class action captioned Lee v. Pincus, et al. was filed in the Court of Chancery of the State of Delaware against the Company, and certain of our current and former directors, officers, and executives. The complaint alleges that the defendants breached fiduciary duties in connection with the release of certain lock-up agreements entered into in connection with the Company s initial public offering. The plaintiff seeks to represent a class of certain of the Company s shareholders who were subject to the lock-up agreements and who were not

permitted to sell shares in an April 2012 secondary offering. On January 17, 2014, the plaintiff filed an amended complaint. On March 6, 2014, the defendants filed motions to dismiss the amended complaint and a motion to stay discovery while the motions to dismiss were pending. On November 14, 2014, the court denied the motion to dismiss brought by Zynga and the directors and granted the motion to dismiss brought by the underwriters who had been named as defendants. The Court endorsed a stipulation setting a briefing schedule for plaintiff s motion for class certification. Plaintiff s motion was filed on July 13, 2015. Briefing on the motion for class certification is complete and a hearing has been scheduled for November 20, 2015. On June 24, 2015, certain of the defendants filed a motion for relief from the court s November 14, 2014 decision denying the defendants

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motion to dismiss the complaint. Briefing on the motion for relief from the court s November 14, 2014 decision is complete. A hearing date has not been set. On August 19, 2015 the parties agreed to voluntarily dismiss three individual director defendants from the case. Although it is reasonably possible that our assessment of the possibility of loss could change in the near term due to one or more confirming events, the Company believes it has meritorious defenses in the Lee v. Pincus class action and will vigorously defend this action. Furthermore, given that we are in the early stages of the litigation process, we are unable to estimate the range of potential loss, if any.

Since August 3, 2012, nine 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, secondary offering in April 2012, and allegedly made 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 the federal securities class action described above. 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. April 24, 2015, the court endorsed a stipulation among the parties staying the action until the Delaware Chancery Court rules on the defendants motion to stay or dismiss (discussed below).

Beginning on August 16, 2012, four stockholder derivative actions were filed in the United States 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 the federal securities class action described above. 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 rules on the defendants motion to stay or dismiss (discussed below).

On April 4, 2014, a derivative action was filed in the Court of Chancery of the State of Delaware entitled Sandys v. Pincus, et al. Case No. 9512-CB. On December 9, 2014, the defendants filed a motion to stay or dismiss the action. Briefing on the motion to stay or dismiss is complete. A hearing on the motion has been scheduled for November 17, 2015.

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. We believe that the plaintiffs in the derivative actions lack standing to pursue litigation on behalf of Zynga. 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.

The Company is, at various times, also party to various other legal proceedings and claims 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, 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. We recognize legal expenses as incurred.

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13. Geographical Information

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

Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
United States	$ 131,542	$ 110,308	$ 379,103	$ 301,168
All other countries [1]	64,195	66,303	199,845	196,695
Total revenue	$ 195,737	$ 176,611	$ 578,948	$ 497,863

[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

	September 30, 2015	December 31, 2014
United States	$ 276,893	$ 294,708
All other countries	3,642	3,211
Total property and equipment, net	$ 280,535	$ 297,919

14. Subsequent Events

Share Repurchase Program

In October 2015, our Board of Directors authorized a share repurchase program of up to $200 million of our outstanding Class A common stock that remains in effect until October 2017. The timing and amount of any stock repurchases will be determined based on market conditions, share price and other factors. The 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 stock repurchase program will be funded from existing cash on hand. In connection with the share repurchase program, the Company may adopt one or more plans pursuant to the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934. 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, 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 program or otherwise in the future.

Changes in Executive Team

On November 3, 2015, Chief Financial Officer David Lee announced his resignation as CFO effective immediately and his departure from the company on December 11, 2015. Zynga has initiated a search for a replacement CFO and until a new CFO is appointed, Michelle Quejado, Zynga s Chief Accounting Officer, will serve as interim CFO effective immediately.

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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 social game developer with approximately 75 million average MAUs for the three months ended September 30, 2015. We have launched some of the most successful social games in the industry. Our games are accessible on mobile platforms, Facebook and other social networks and Zynga.com. Our games are generally available for free, 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 the Internet. Our objective is to become the worldwide leader in play by connecting the world through games.

Consistent with our free-to-play business model, compared to all players who play our games in any period, only a small portion of our players are 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.

The games that constitute our top games vary over time, but historically the top three revenue-generating games in any period contributed the majority of our revenue. Our top three games accounted for 60%, 54% and 55% of our online game revenue in 2014, 2013 and 2012, respectively.

On February 11, 2014, we completed the acquisition of 100% of the equity interests of NaturalMotion. NaturalMotion s shareholders and vested option holders received an aggregate of $391 million in cash and 39.8 million shares of our Class A common stock. NaturalMotion possesses industry leading technology and tools and its proven simulation technologies have powered some of the biggest console games and blockbuster movies. Zynga s acquisition of NaturalMotion expanded our creative pipeline into two new consumer categories People Simulation and Racing and provided Zynga with cutting-edge technology and tools, including Euphoria.

How We Generate Revenue

We operate our games as live services that allow players to play for free. We generate revenue primarily from the in-game sale of virtual goods, advertising and mobile game download fees. Revenue growth will depend largely on our ability to attract and retain players and more effectively monetize our player base through the sale of virtual goods and advertising. 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 2015, our business continued generating a higher percentage of bookings through mobile platforms than through the Facebook platform. For the three months ended September 30, 2015 and 2014 we estimate that we generated 69% and 55% of our bookings, respectively, from mobile platforms while 28% and 41% of our bookings, respectively, were generated from the Facebook platform. Facebook is still the largest single payment platform for our games and we generate a significant portion of our revenue through the Facebook platform. For the three months ended September 30, 2015 and 2014, we estimate that 64% and 48% of our revenue, respectively, was generated through mobile platforms, while 32% and 48% of our revenue, respectively, was generated through the Facebook platform. We have had to estimate this information because certain payment methods we accept and certain advertising networks do not allow us to determine the platform used.

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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 branded virtual goods and sponsorships, engagement ads and offers, mobile and display ads 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 Metrics

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

Key Financial Metrics

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, as opposed to revenue, is the fundamental top-line metric 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Reconciliation of Revenue to Bookings:				
Revenue	$ 195,737	$ 176,611	$ 578,948	$ 497,863
Change in deferred revenue	(19,758)	(1,123)	(61,097)	14,085
Bookings	$ 175,979	$ 175,488	$ 517,851	$ 511,948

Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure that we calculate as net income (loss), adjusted for provision for (benefit from) income taxes; other income (expense), net; interest income (expense), net; gain (loss) from significant legal settlements; restructuring expense, net; depreciation and amortization; impairment of intangible assets; stock-based expense; contingent consideration fair value adjustments; acquisition-related transaction expenses, and change in deferred revenue. We believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

We have included adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure we use to evaluate our financial and operating performance, generate future operating plans and make strategic decisions for the allocation of capital. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. 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 the related financial information prepared in accordance with U.S. GAAP.

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The following table presents a reconciliation of net income (loss) to adjusted EBITDA for each of the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Reconciliation of Net Income (Loss) to Adjusted EBITDA:				
Net income (loss)	$ 3,052	$ (57,058)	$ (70,312)	$ (180,774)
Provision for (benefit from) income taxes	(9,381)	(783)	(6,810)	(9,874)
Other income (expense), net	(2,285)	(647)	(11,843)	(2,668)
Interest income (expense), net	(566)	(841)	(1,965)	(2,487)
Restructuring expense, net	416	287	16,732	27,672
Gain (loss) on legal settlements	(1,681)		(1,681)	
Depreciation and amortization	11,287	19,283	42,349	64,553
Acquisition-related transaction expenses	895		895	6,425
Contingent consideration fair value adjustment		6,750	9,400	20,100
Stock-based expense	30,436	36,295	99,803	93,468
Change in deferred revenue	(19,758)	(1,123)	(61,097)	14,085
Adjusted EBITDA	$ 12,415	$ 2,163	$ 15,471	$ 30,500

Limitations of Bookings and Adjusted EBITDA

Some limitations of bookings and adjusted EBITDA are:

- adjusted EBITDA does not include the impact of stock-based expense;
- bookings and adjusted EBITDA 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;
- adjusted EBITDA does not reflect income tax expense;
- adjusted EBITDA does not include other income (expense) net, which includes foreign exchange gains and losses and interest income;
- adjusted EBITDA excludes depreciation and amortization and although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;

adjusted EBITDA does not include the impairment of intangible assets previously acquired, contingent consideration fair value adjustments, acquisition-related transaction expenses or restructuring expense;

adjusted EBITDA does not include gains and losses associated with significant legal settlements; and

other companies, including companies in our industry, may calculate bookings and adjusted EBITDA differently or not at all, which reduces their usefulness as a comparative measure.

Because of these limitations, you should consider bookings and adjusted EBITDA 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

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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, MUPs and ABPU for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014 Revised [1]	2014 As Reported	2015	2014 Revised [1]	2014 As Reported
	(users and payers in millions)					
Average DAUs	19	24	26	22	26	28
Average MAUs	75	103	112	86	114	122
Average MUPs [2]	0.9	1.2	1.3	1.0	1.3	1.5
ABPU	$ 0.100	$ 0.079	$ 0.073	$ 0.089	$ 0.071	$ 0.068

(1) For comparative purposes, DAUs, MAUs, MUPs and ABPU for the three and nine months ended September 30, 2014 have been revised to reflect the updated definitions for our key operating metrics to reduce duplication.

(2) MUPs exclude NaturalMotion legacy games (*CSR Racing*, *CSR Classics* and *Clumsy Ninja*) as our systems are unable to distinguish whether a player of a NaturalMotion legacy game is also a player of a Zynga game. We exclude payers of NaturalMotion legacy games to avoid potential double counting of MUPS.

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In the third quarter of 2015, the company made a subsequent modification to its calculations of MUU to further reduce duplication of users of both web and mobile platforms and to correct an error in calculating the third quarter of 2014 MUU which resulted in MUU for that period to be understated by 0.3 million users. The table below shows the revised and reported average MUUs for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014 Subsequent Revision in Q3 2015[4]	2014 Initial Revision in Q1 2015[3]	2014 As Reported	2015	2014 Subsequent Revision in Q3 2015[4]	2014 Initial Revision in Q1 2015[3]	2014 As Reported
	(users in millions)							
Average MUUs [5]	51	66	65	77	60	72	75	83

(3) MUUs for the three and nine months ended September 30, 2014 were initially revised in the first quarter of 2015 to reflect the updated definitions for our key operating metrics to reduce duplication.

(4) MUUs for the three and nine months ended September 30, 2014 were subsequently revised in the third quarter of 2015 to further reduce duplication of users of both web and mobile platforms and to correct an error in calculating the third quarter of 2014 MUU which resulted in MUU for that period to be understated by 0.3 million users.

(5) MUUs exclude NaturalMotion legacy games (*CSR Racing*, *CSR Classics* and *Clumsy Ninja*) as our systems are unable to distinguish whether a player of a NaturalMotion legacy game is also a player of a Zynga game. We exclude payers of NaturalMotion legacy games to avoid potential double counting of MUUs.

Average DAUs, MAUs and MUUs declined when comparing the three months ended September 30, 2015 and 2014. The declines in users for our existing games have exceeded the contribution to these metrics from newer titles such as *FarmVille 2: Country Escape.* ABPU increased in the third quarter of 2015 compared to the third quarter of 2014 due to a faster decline in DAUs in those periods than the decline in bookings. Future growth in audience and engagement will depend on our ability to retain current players, attract new players, launch new games and expand into new market and distribution platforms.

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:				
	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014 Revised [1]	Sep 30, 2014 Revised [1]
Average monthly unique payer bookings (in thousands) [2]	$ 40,780	$ 42,488	$ 41,352	$ 41,323	$ 43,739

Average MUPs (in millions) [3]	0.9	1.0	1.1	1.0	1.2
Monthly unique payer bookings per MUP [4]	$ 47	$ 44	$ 38	$ 41	$ 38

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	For the Three Months Ended:		
	Dec 31, 2014 As Reported	Sep 30, 2014 As Reported	Jun 30, 2014 As Reported
Average monthly unique payer bookings (in thousands) [2]	$ 41,323	$ 43,739	$ 44,844
Average MUPs (in millions) [3]	1.1	1.3	1.7
Monthly unique payer bookings per MUP [4]	$ 37	$ 33	$ 27

(1) For comparative purposes, average MUPs for 2014 have been revised to reflect the updated definitions for our key operating metrics to eliminate known instances of duplication of unique individuals who play on different social networks or platforms. As a result, monthly unique payer bookings per MUP have also been revised for 2014.

(2) 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 and NaturalMotion legacy games (*CSR Racing*, *CSR Classics* and *Clumsy Ninja*).

(3) MUPs exclude payers of NaturalMotion legacy games as our systems are unable to distinguish whether a player of a NaturalMotion legacy game is also a player of a Zynga game. We exclude payers of NaturalMotion legacy games to avoid potential double counting of MUPs.

(4) Monthly unique payer bookings per MUP is calculated by dividing average monthly unique payer bookings by average MUPs. This calculation excludes MUP data for NaturalMotion legacy games.

Although we monitor our unique payer metrics, we focus on monetization, including through in-game advertising, of all of our players and not just those who are payers. Accordingly, we strive to enhance content and our players game experience to increase our bookings and ABPU, which is a measure of overall monetization across all of our players through the sale of virtual goods and advertising.

Future growth in audience and engagement will depend on our ability to retain current players, attract new players, launch new games and expand into new markets and distribution platforms, and the success of our network. Our operating metrics may not correlate directly to quarterly bookings or revenue trends in the short term.

Recent Developments

Acquisition of Rising Tide Games. In the third quarter of 2015, we acquired Rising Tide Games, a provider of social casino games, for mobile and web platforms, for purchase consideration of approximately $44.2 million in cash and contingent consideration. We acquired Rising Tide Games to expand our footprint in the social casino games space.

Game Launches and Updates. In the third quarter 2015, we launched *Mountain Goat Mountain* for mobile platforms. We also launched a localized version of *Words With Friends* in six new languages, including Spanish, French, German and Italian.

Factors Affecting Our Performance

Platform agreements. Our games are primarily distributed, marketed and promoted through third parties, primarily Facebook, Apple s App store for iOS and the Google Play App Store for Android devices. 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 Facebook platform 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. Facebook, Apple and Google 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

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to launch and monetize successful new hit titles on various platforms. Although the amount of revenue and bookings we generate from a new game or an enhancement to an existing game can vary significantly, we expect our revenue and bookings to be correlated to the success and timely launch of our new games and our success in releasing engaging content and features. 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 and timely 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. For example ABPU increased from $0.079 in the three months ended September 30, 2014 to $0.100 in the three months ended September 30, 2015 due to higher decline in DAU of non-paying players (compared to paying players) who do not contribute to online game bookings. In addition, mobile and international players have historically monetized at a lower level than web and U.S. players, respectively. 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.

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 months 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.

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 more costly, 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.

In the first quarter of 2014, we completed the acquisition of NaturalMotion, the maker of *Clumsy Ninja* and *CSR Racing*. This allowed us to enter into two new consumer categories People Simulation and Racing and our future success is dependent upon our ability to leverage the games, workforce and technology we acquired.

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 and grow depends in large part on the efforts and talents of our employees. 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 our headcount and consolidating certain facilities. For example, in the second quarter of 2015, we implemented a restructuring plan that included a work force reduction. These cost reduction initiatives could negatively impact our ability to attract, hire and retain key employees, which is critical to our ability to grow our business and execute on our business strategy.

Results of Operations

Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
Revenue by type:						
Online game	$ 151,168	$ 139,372	8%	$ 461,292	$ 402,608	15%
Advertising and other	44,569	37,239	20%	117,656	95,255	24%
Total revenue	$ 195,737	$ 176,611	11%	$ 578,948	$ 497,863	16%

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Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Total revenue increased $19.1 million in the third quarter of 2015, as compared to the same period of the prior year, while bookings increased by $0.5 million in the third quarter of 2015, compared to the same period of the prior year. ABPU increased from $0.079 in the third quarter of 2014 to $0.100 in the third quarter of 2015, while average DAUs decreased from 24 million in the third quarter of 2014 to 19 million in the third quarter of 2015 and average MUPs decreased from 1.2 million in the third quarter of 2014 to 0.9 million in the third quarter of 2015.

Online game revenue increased $11.8 million in the third quarter of 2015 as compared to the same period of the prior year. This increase is primarily attributable to increases in revenue from *Wizard of Oz Slots, FarmVille 2: Country Escape* and *Hit It Rich! Slots* in the amounts of $18.1 million, $15.0 million and $6.2 million, respectively. Online game revenue increased for *Wizard of Oz Slots* and *FarmVille 2: Country Escape* as these games were launched in November 2014 and April 2014, respectively, while online game revenue increased for *Hit It Rich! Slots* as the game did not launch on all platforms and devices until May 2014. As we recognize revenue from the sale of durable virtual goods ratably over the estimated average playing period of paying players for the applicable game, revenue for these games in the third quarter of 2015 includes amortization of prior period deferred revenue. The overall increases in online game revenue were partially offset by decreases in online game revenue from *FarmVille 2, Zynga Poker (web)* and *FarmVille* in the amounts of $5.6 million, $4.8 million and $4.1 million, respectively, due to the overall decay rate in bookings and audience metrics in these games. Moreover, there was a $4.5 million decrease in online game revenue for *Ayakashi* as this game was discontinued in the second quarter of 2015. All other games accounted for the remaining net decrease of $8.5 million.

The increase in online game revenue in the third quarter of 2015 is also attributable to changes in estimated average durable life of virtual goods. During the three months ended September 30, 2015, changes in our estimated average life of durable virtual goods for various games resulted in an increase in revenue and income from continuing operations of $7.4 million, which is the result of adjusting the remaining recognition period of deferred revenue generated in prior periods at the time of a change in estimate. This change in estimate resulted in a $0.01 per share impact on our reported earnings per share for the third quarter of 2015. For the same period in the prior year, there was no material impact to revenue recognized for changes in our estimated average life of durable goods.

International revenue as a percentage of total revenue was 33% in the third quarter of 2015 and 38% in the third quarter of 2014.

In the three months ended September 30, 2015, *FarmVille 2*, *Zynga Poker, Hit It Rich! Slots*, *FarmVille 2: Country Escape* and *Wizard of Oz Slots* were our top revenue-generating games and comprised 21%, 17%, 16%, 14% and 12%, respectively, of our online game revenue for the period. In the three months ended September 30, 2014, *FarmVille 2, Zynga Poker* and *Hit It Rich! Slots* were our top revenue-generating games and comprised 27%, 22%, and 12%, 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 47% of online game revenue in the third quarter of 2015 and 40% of online game revenue in the third quarter of 2014. Durable virtual goods accounted for 53% of online game revenue in the third quarter of 2015 and 60% of online game revenue in the third quarter of 2014. The estimated weighted average life of durable virtual goods was 10 months in the third quarter of 2015 compared to 13 months in the third quarter of 2014.

Advertising and other revenue increased $7.3 million in the three months ended September 30, 2015 as compared to the three months ended September 30, 2014 due to a $5.5 million increase in in-game display ads and a $2.6 million

increase in in-game offers, engagement ads and other advertising revenue, offset by a $0.8 million decrease in in-game sponsorships.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Total revenue increased $81.1 million in the nine months ended September 30, 2015 as compared to the same period of the prior year and bookings increased by $5.9 million in the nine months ended September 30, 2015, compared to the same period of the prior year. ABPU increased from $0.071 in the nine months ended September 30, 2014 to $0.089 in the nine months ended September 30, 2015, while average DAUs decreased from 26 million in the nine months ended September 30, 2014 to 22 million in the nine months ended September 30, 2015 and average MUPs decreased from 1.3 million in nine months ended September 30, 2014 to 1.0 million in the nine months ended September 30, 2015.

Online game revenue increased $58.7 million in the nine months ended September 30, 2015 as compared to the same period of the prior year. This increase is primarily attributable to increases in revenue from *FarmVille 2: Country Escape, Hit It Rich! Slots* and *Wizard of Oz Slots* in the amounts of $62.8 million, $44.7 million and $39.6 million, respectively. Online game revenue increased for *FarmVille 2: Country Escape* and *Wizard of Oz Slots* as these games were launched in April 2014 and November 2014, respectively, while online game revenue increased for *Hit It Rich! Slots* as the game did not launch on all platforms and devices until May 2014. As we recognize revenue from the sale of durable virtual goods ratably over the estimated average playing period of paying players for the applicable game, revenue for these games for the nine months ended September 30, 2015 includes amortization of prior period deferred revenue. The overall increases in online game revenue were partially offset by a decrease in online game revenue from *FarmVille 2*, *FarmVille* and *Zynga Poker* (web) in the amounts of $28.1 million, $16.4 million and $11.9 million, respectively, due to the overall decay rate in bookings and audience metrics in these games. Moreover, there was a $10.9 million decrease in online game revenue for *Ayakashi* as this game was discontinued in the second quarter of 2015. All other games accounted for the remaining net decrease of $21.1 million.

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The increase in online game revenue in the nine months ended September 30, 2015, is also attributable to changes in estimated average durable life of virtual goods. During the nine months ended September 30, 2015, changes in our estimated average life of durable virtual goods for various games resulted in an increase in revenue and income from continuing operations of $8.2 million, which is the result of adjusting the remaining recognition period of deferred revenue generated in prior periods at the time of a change in estimate. For the same period in the prior year, changes in our estimated average life of durable goods resulted in a decrease of revenue of $0.8 million. We also recognized $9.9 million of revenue and income from continuing operations in the nine months ended September 30, 2015 due to changes in our estimated average life of durable goods for games that will be discontinued as there is no further service obligation after the closure of these games. These changes in estimates and discontinuance of games resulted in a $0.02 per share impact on our reported earnings per share for the nine months ended September 30, 2015.

International revenue as a percentage of total revenue was 35% in the nine months ended September 30, 2015 and 40% in the nine months ended September 30, 2014.

In the nine months ended September 30, 2015, *FarmVille 2*, *Zynga Poker*, *FarmVille 2: Country Escape,* and *Hit It Rich! Slots* were our top revenue-generating games and comprised 20%, 18%, 15% and 15%, respectively, of our online game revenue for the period. In the nine months ended September 30, 2014, *FarmVille 2* and *Zynga Poker* were our top revenue-generating games and comprised 29% and 24%, 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 44% of online game revenue in the nine months ended September 30, 2015 and 37% of online game revenue in the nine months ended September 30, 2014. Durable virtual goods accounted for 56% of online game revenue in the nine months ended September 30, 2015 and 63% of online game revenue in the nine months ended September 30, 2014. The estimated weighted average life of durable virtual goods was 11 months in the nine months ended September 30, 2015 compared to 12 months in the nine months ended September 30, 2014.

Advertising and other revenue increased $22.4 million in the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014 due a $28.8 million increase in in-game display ads as a result of better optimization on mobile platforms and a $7.5 million increase in in-game offers, engagement ads and other advertising revenue, offset by a $12.1 million decrease in licensing revenue driven by the final licensing payment from a strategic partner in 2014 and a $1.8 million decrease in in-game sponsorships.

Cost of revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
Cost of revenue	$ 57,187	$ 53,286	7%	$ 172,588	$ 158,078	9%

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Cost of revenue increased $3.9 million in the third quarter of 2015 as compared to the same period of the prior year. The increase was primarily attributable to a $4.7 million increase in payment processing fees from bookings generated from mobile payment processors, a $2.5 million increase in royalty expense for licensed intellectual property and a $5.9 million increase in hosting costs due to data center migration, offset by a $6.1 million decrease in depreciation expense due to the consolidation of data center facilities and a $1.5 million decrease in headcount-related expense.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Cost of revenue increased $14.5 million in the nine months ended September 30, 2015 as compared to the same period of the prior year. The increase was primarily attributable to a $22.5 million increase in payment processing fees primarily from bookings generated from mobile payment processors, a $10.0 million increase in royalty expense for licensed intellectual property and a $6.5 million increase in third party hosting costs due to data center migration, offset by a $20.2 million decrease in depreciation expense due to the consolidation of data center facilities and the related disposition of certain data center assets in prior periods.

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Research and development

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
Research and development	$ 78,416	$ 100,113	(22%)	$ 276,832	$ 291,419	(5%)

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Research and development expenses decreased $21.7 million in the third quarter of 2015 as compared to the same period of the prior year. The decrease was primarily attributable to an $11.9 million decrease in headcount-related expense, $6.8 million of expense recorded in the third quarter of 2014 to reflect the change in estimated fair value of the contingent consideration liability for Spooky Cool Labs and a $2.0 million decrease in stock-based expense.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Research and development expenses decreased $14.6 million in the nine months ended September 30, 2015 as compared to the same period of the prior year. The decrease was primarily attributable to a $14.6 million decrease in headcount-related expense and $10.7 million less expense in 2015 to reflect the change in estimated fair value of the contingent consideration liability of Spooky Cool Labs (the liability was settled in full in the first quarter of 2015), offset by a $10.2 million increase in stock-based expense primarily from grants related to the NaturalMotion acquisition in February 2014.

Sales and marketing

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
Sales and marketing	$ 43,549	$ 44,005	(1%)	$ 116,507	$ 115,466	1%

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Sales and marketing expenses decreased $0.5 million in the third quarter of 2015 as compared to the same period of the prior year. The decrease was primarily attributable to a $3.4 million decrease in marketing costs, offset by a $2.0 million increase in player acquisition costs and a $0.9 million increase in stock-based expense.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Sales and marketing expenses increased $1.0 million in the nine months ended September 30, 2015 as compared to the same period of the prior year primarily due to a $2.2 million increase in marketing software costs, offset by a $1.1 million decrease in headcount-related expense.

General and administrative

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
General and administrative	$ 25,765	$ 38,536	(33%)	$ 103,951	$ 128,703	(19%)

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

General and administrative expenses decreased $12.8 million in the third quarter of 2015 as compared to the same period of the prior year. The decrease was primarily attributable to a $4.6 million decrease in stock-based expense, a $3.6 million decrease in third party consulting expense and a $2.8 million decrease in headcount-related expense.

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Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

General and administrative expenses decreased $24.8 million in the nine months ended September 30, 2015 as compared to the same period of the prior year. The decrease was primarily attributable to an $11.8 million decrease in third party consulting expense, a $9.8 million decrease in restructuring expense and a $4.0 million decrease in stock-based expense, offset by a $2.5 million increase in software and other IT related costs.

Other income (expense), net

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
Other income (expense), net	$ 2,285	$ 647	NM	$ 11,843	$ 2,668	NM

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Other income (expense) net increased by $1.6 million in the third quarter 2015 as compared to the same period of the prior year. The increase was primarily attributed to a $0.7 million gain on sale of equipment in the third quarter of 2015 and a $0.7 million loss on an equity investment in the third quarter of 2014, which was sold in the first quarter of 2015.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Other income (expense), net increased $9.2 million in the nine months ended September 30, 2015 as compared to the same period of the prior year primarily due to a $8.6 million increase in other income which is primarily related to the sale of an equity investment in the first quarter of 2015 and a $1.3 million increase in sublease rental income.

Provision for (benefit from) income taxes

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
Provision for (benefit from) income taxes	$ (9,381)	$ (783)	NM	$ (6,810)	$ (9,874)	(31%)

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

The benefit from income taxes increased by $8.6 million in the three months ended September 30, 2015, as compared to the same period of the prior year. The increase in the three months ended September 30, 2015 is primarily attributable to the tax impact of the Rising Tide Games purchase accounting of $10.3 million, offset by an increase in tax expense of $1.7 million related to changes in our jurisdictional mix of earnings.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

The benefit from income taxes decreased by $3.1 million in the nine months ended September 30, 2015 as compared to the same period of the prior year. The decrease in the nine months ended September 30, 2015 is primarily

attributable to the excess of the tax impact of the Rising Tide Games purchase accounting in the third quarter of 2015 over the release of the valuation allowance associated with the 2013 Federal research and development credit in the first quarter of 2014 of $2.5 million, offset by changes in our jurisdictional mix of earnings of $5.6 million.

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Liquidity and Capital Resources

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Consolidated Statements of Cash Flows Data:		
Acquisition of property and equipment	$ (6,847)	$ (7,078)
Depreciation and amortization	42,349	64,553
Cash flows provided by (used in) operating activities	(47,912)	(8,856)
Cash flows provided by (used in) investing activities	585,313	(342,923)
Cash flows provided by (used in) financing activities	(5,274)	14,765

As of September 30, 2015, we had cash, cash equivalents and marketable securities of approximately $1.07 billion, which consisted of cash, money market funds, U.S. government and government agency debt securities and corporate debt securities.

Operating Activities

After our net loss of $70.3 million is adjusted to exclude non-cash items, operating activities used $47.9 million of cash during the nine months ended September 30, 2015. Significant non-cash items included stock-based expense of $99.8 million and depreciation and amortization of $42.3 million. Changes in our operating assets and liabilities declined $109.3 million for the nine months ended September 30, 2015 primarily due to a $61.1 million decrease in deferred revenue and a $33.6 million payment to settle the contingent consideration liability for Spooky Cool Labs in the first quarter of 2015 (the remaining payment to settle the full contingent consideration liability is included in financing activities and net loss in the amounts of $10.8 million and $9.4 million, respectively).

Investing Activities

Investing activities provided $585.3 million during the nine months ended September 30, 2015. The primary inflows of cash were due to $600.9 million of sales and maturities of marketable securities, net of purchases and $10.5 million from the sale of an equity method investment in the first quarter of 2015, offset by the acquisition of Rising Tide Games in September 2015 for $20.0 million, net of cash acquired.

Financing Activities

Financing activities used approximately $5.3 million during the nine months ended September 30, 2015. The primary outflow of cash was due to a $10.8 million payment to settle the contingent consideration liability for Spooky Cool Labs (the remaining payment to settle the full contingent consideration liability is included in changes in operating liabilities and net loss in the amounts of $33.6 million and $9.4 million, respectively), offset by $7.3 million of proceeds from employee stock purchase plan and exercise of stock options.

Credit Facility

In June 2013, we amended and restated our existing revolving credit agreement which we originally executed in July 2011, reducing our maximum available credit from $1.0 billion to $200 million, and extending the term of our amended agreement to expire in June of 2018. The interest rate for the credit facility is determined based on a formula using certain market rates, as described in the amended credit agreement. Additionally, our minimum quarterly commitment fee was reduced from $0.6 million per quarter to $0.1 million per quarter based on the portion of the credit facility that is not drawn down. The agreement requires us to comply with certain covenants, including maintaining a minimum capitalization ratio, and maintaining a minimum cash balance. As of September 30, 2015, we had not drawn down any amounts under the credit facility and were in compliance with these covenants. On July 1, 2015, we made a further, technical amendment to our credit agreement.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements in the third quarter of 2015 or in any prior periods.

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Contractual Obligations

	Payments due by period				
	Total	2015	2016-2017	2018-2019	Thereafter
Lease commitments	90,980	4,871	37,827	26,364	21,918
Other purchase commitments	40,003	4,417	33,574	1,712	300
Contingent consideration liability [(1)]	21,780		12,330	9,450	
Total contractual obligations	$ 152,763	$ 9,288	$ 83,731	$ 37,526	$ 22,218

(1) This amount represents the estimated fair value of the contingent consideration that could become payable in connection with our acquisition of Rising Tide Games. This number may change over time as we continue to evaluate the likelihood of payment of the contingent consideration. Under the terms of the agreement, the maximum amount that could be earned and payable by us is $140.0 million.

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

Lease commitments

We have entered into operating leases for facilities, including data center space.

Other purchase commitments

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

Contingent consideration liability

Contingent consideration liability represents the estimated fair value of additional consideration payable in connection with our acquisition of Rising Tide Games.

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, 2014. 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

Stock-based expense

Goodwill and indefinite-lived intangible assets

Impairment of long-lived assets

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, 2014 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

During the nine months ended September 30, 2015, 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, 2014 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 September 30, 2015, 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 September 30, 2015 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 12 Commitments and Contingencies in the notes to the consolidated financial statements included elsewhere in 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 or results of operations. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are not material may also significantly impair our business operations. Our business could be harmed by any of these risks. The trading price of our Class A common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this 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 Quarterly Report on Form 10-Q for the quarter-ended June 30, 2015.

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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 recently launched *Empires & Allies*, *FarmVille: Harvest Swap* and *Black Diamond Casino*, and expect to launch a new mobile slots title from the *Hit It Rich!* team in the fourth quarter of 2015. New games that we introduce need to generate sufficient bookings and revenues to offset the associated development and marketing costs. As our player base becomes more heavily concentrated on mobile platforms, our ability to drive traffic to our games through unpaid channels may become diminished, and the overall cost of marketing our games may increase. We may also encounter difficulty in integrating features on games developed for mobile platforms that a sufficient number of players will pay for or otherwise sufficiently monetizing mobile games. The success of our games depends, in part, on unpredictable and volatile factors beyond our control including consumer preferences, competing games, new mobile platforms and the availability of other entertainment experiences. If our games are not launched on time or do not meet consumer expectations, or they are not brought to market in a timely and effective manner, our ability to grow revenue and our financial performance will be negatively affected. For example, we recently experienced a delay in the introduction of *Looney Tunes Dash!* which had a negative impact on our financial results for the fourth quarter of 2014. We also recently announced that we will exit the Sports category to focus efforts on four categories: Social Casino, Action Strategy, Casual 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;
- 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;

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 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 are also a relatively new entrant in the mobile game market and, as a result have a relatively short history in developing and launching mobile games. As a result of this we may have difficulty predicting the development schedule of a new game and forecasting bookings for a game. If 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.

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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.*

We previously announced that we would launch six to ten new mobile games in 2015, including games in new categories. We subsequently revised this estimate first to six to eight new mobile games in 2015, and then again to six new mobiles games in 2015. We recently revised it a third time to 5 new mobile games in 2015. We also recently announced that we will exit the Sports category to focus efforts on four categories: Social Casino, Action Strategy, Casual and Invest Express. These revisions highlight the inherent risk that we may not launch games that we expect to launch in a given period according to schedule. Moreover, the games we do launch may not attract and retain a significant number of players or monetize well. If we do not launch games on schedule or our games do not monetize well, our business, revenue and bookings will be negatively impacted.

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, any loss of rights to any intellectual property underlying such games, or any other adverse developments relating to our most popular games, could harm our results of operations.

Our business is intensely competitive and hit driven. If we do not deliver hit products and services, or if consumers prefer our competitors products or services over our own, our operating results could suffer.

Competition in our industry 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 hit titles account for a significant portion of total revenue in each segment. Our competitors range from large established companies to emerging start-ups, and we expect new competitors to continue to emerge throughout the world. If our competitors develop and market more successful products or services, offer competitive products or services at lower price points or based on payment models perceived as offering a better value proposition, or if we do not continue to develop consistently high-quality and well-received products and services, our revenue, margins, and profitability will decline.

Our quarterly 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, adjusted EBITDA, 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. Any of these events could cause the market price of our Class A common stock to fluctuate. 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, which is the speed at which the popularity and player usage for a game declines and the commercial success of our new games. 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 in 2014 launches has caused us to extend soft launch periods for our games during 2015, including a move in the launch of *Dawn of Titans* and *CSR2* from 2015 to 2016, which results 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 these declines 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.

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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 in this Quarterly Report on Form 10-Q.

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. This could cause the market price of our Class A common stock to fluctuate.

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. We previously announced that we would launch six to ten new mobile games in 2015, including games in new categories. We subsequently revised this estimate first to six to eight new mobile games in 2015, and then again to six new mobile games in 2015. We recently revised it a third time to 5 mobile games in 2015. We also recently announced that we will exit the Sports category to focus efforts on four categories: Social Casino, Action Strategy, Casual and Invest Express. These revisions highlight the inherent risk that we may not launch games that we expect to launch in a given period according to schedule. Moreover, the games we do launch may not attract and retain a significant number of players or monetize well.

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;
- 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*.

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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 three months ended September 30, 2015, we had approximately 0.9 million MUPs (excluding payers who use certain payment methods for which unique payer data is not available and excluding NaturalMotion legacy games), who represent approximately 1 percent of our total players during the three months ended September 30, 2015. 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 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. Average MAU declined 27% percent from 103 million in the third quarter of 2014 to 75 million in the third quarter of 2015. 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.

A large portion of our business is dependent upon, and our bookings and revenues are derived from, the Facebook platform, and Facebook in many cases has the unilateral ability to interpret its policies and terms and conditions for applications and developers.*

Facebook is currently the largest payment platform for our games. To date, we have derived a significant portion of our bookings (28% in the three months ended September 30, 2015) and revenue (32% in the three months ended September 30, 2015) and acquired a significant number of our players through Facebook. Except for certain limited addenda, we are subject to Facebook s standard terms and conditions for application developers, which govern the promotion, distribution between us and Facebook and operation of games and other applications on the Facebook platform.

Our business may be harmed if:

Facebook discontinues or limits our access to its platform;

Facebook terminates or seeks to terminate our contractual relationship altogether;

Facebook prohibits us from offering our games on the Facebook platform because it determines that we are a competitor or for other reasons;

Facebook modifies its terms of service or other policies, including fees charged to, or other restrictions on, us or other application developers;

Facebook makes operational changes to its platform that we are not able to adapt to our game offerings;

Facebook changes how the personal information of its users is made available to application developers on the Facebook platform or is able to be shared by users;

Facebook modifies or interprets its terms of service or other policies in a manner that impacts our ability to advertise, either for our games or for third party products or services;

Facebook establishes more favorable relationships with one or more of our competitors;

Facebook platform or purchasing functionality becomes unavailable for a period of time; or

Facebook develops or acquires its own competitive offerings.

In addition, we have benefited from Facebook s strong brand recognition and large user base. If Facebook loses its market position or otherwise falls out of favor with Internet users or other factors cause its user base to stop growing or to shrink, we would need to identify alternative channels for marketing, promoting and distributing our games, which would consume substantial resources and may not be effective, or available at all.

Facebook 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. Facebook may also change its fee structure, add fees associated with access to and use of the Facebook platform, alter how we are able to advertise on the Facebook platform, change how the personal information of its users is made available to application developers on the Facebook platform or restrict how Facebook users can share information with friends on their platform or across platforms other than Facebook. If changes were made that were detrimental to us, our business would be harmed and our operating results would be adversely affected.

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Facebook recently introduced a new version of its developer platform and we must migrate our games to that platform by a certain date. We have made the decision not to migrate multiple games to the new platform, which has impacted and will continue to impact our web based bookings and revenue in 2015. If we are unable to timely and effectively migrate the remainder of our games to the new Facebook platform, or develop new games that work with this platform our players may lose access to games or features or otherwise encounter a negative gaming experience, resulting in reduced bookings and revenue. In addition, when we do migrate games to the new platform, the new platform may change the way 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.

If we violate, or if Facebook believes we have violated its terms of service, it could limit or discontinue our access to the platform, which would harm our business.

We also rely on the continued functionality of the Facebook platform. If our players or potential players are not able to access our games through this platform or encounter difficulties in doing so, we may lose players, resulting in decreased bookings and revenue. The level of service provided by Facebook may also impact the purchase, usage and satisfaction with the virtual goods or currency purchased by our players, adversely affecting our business and profitability. If Facebook experiences interruptions in service or issues with its in-app purchasing functionality regularly or for a prolonged basis, or other similar issues arise that impact our ability to generate revenues on the Facebook platform, it could have a negative impact on our revenues and operating results.

To be successful, we must increasingly leverage the global connectivity and distribution of mobile platforms, making the success of our business dependent on this technology and our relationships with mobile platform providers, which in many cases have the unilateral ability to interpret their policies and terms and conditions for applications and developers.*

Our social games increasingly leverage the global connectivity and distribution of mobile platforms including Apple s App Store for iOS devices and the Google Play App Store for Android devices. Our games are distributed on these platforms and the virtual items we sell in our games are purchased using the payment processing systems of these platform providers. In the third quarter of 2015, 69% of our bookings was generated through mobile platforms. We are subject to the standard policies and terms of service of these third party platforms, which govern the promotion, distribution and operation of games on the platform and can be changed by the platform providers, in their sole discretion, at any time. 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 third party platforms. Any such changes could significantly harm our business in both the short-term and long-term.

For example, Apple recently 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 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.

If we violate, or a platform provider believes we have violated its terms of service, it could limit or discontinue our access to the platform, which would harm our business.

We also rely on the continued functionality of the Apple App Store and the Google Play App Store. If our players or potential players are not able to access our games through these platforms or encounter difficulties in doing so, we may lose players, resulting in decreased bookings and revenue. The level of service provided by these storefronts may also impact the purchase, usage and satisfaction with the virtual goods or currency purchased by our players, adversely affecting our business and profitability. Further, in the past these digital storefronts have experienced interruptions in service or issues with their in-app purchasing functionality. If these types of interruptions were to occur regularly or for a prolonged basis, or other similar issues arise that impact our ability to generate revenues from these storefronts, it could have a negative impact on our revenues and operating results.

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

On May 6, 2015 we announced a restructuring, including a reduction in headcount of approximately 18% of our global workforce, including contractors, and on February 12, 2015 we announced that we were closing our studio in Beijing, China. In 2013 and 2014, we implemented certain restructuring actions and cost reduction initiatives to better align our operating expenses with our

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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.

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 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 including but not limited by, 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 Apple s iOS or Google s Android operating system. Unlike the Apple ecosystem in which Apple controls both the device (iPhone, iPod Touch and iPad) and the storefront (Apple s App Store), the Android ecosystem is highly fragmented since a large number of 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. 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 harm our business, operating results and financial condition. 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 new and rapidly changing industry.

The social game industry, through which we derive substantially all of our revenue, is a new and rapidly evolving industry. The growth of the social 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;

the transition of our players from the web to mobile devices, and our ability to effectively monetize games on mobile devices and across multiple platforms and devices;

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, would harm our business and prospects.

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Security breaches, computer viruses and computer hacking attacks could harm our business, reputation, brand and results of operations.

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, and the inadvertent transmission of computer viruses could harm our business, financial condition and operating results. 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, our games involve the storage and transmission of players personal information in our facilities and on our equipment, networks and corporate systems run by us or managed by third-parties including Facebook, Apple, Microsoft, Amazon, and Google. Security breaches of our systems or third-parties on whom we rely could expose us to litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation and potential liability. Our player data, 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 players data or our advertiser s data. Additionally, outside parties may attempt to fraudulently induce employees or players to disclose sensitive information in order to gain access to our players data or our advertiser s data. We must continuously examine and modify our security controls and business policies to address the use of new devices and technologies enabling players to share data and communicate in new ways, and the increasing focus by our players and regulators on controlling and protecting user data.

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 network infrastructure 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 breach of our security 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 exposure due to such events or in connection with remediation efforts, investigation costs or penalties, changed security and system protection measures. Any of these actions could have a material and adverse effect on our business, reputation and operating results.

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. 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 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. For example, the operation of *CityVille* was interrupted for several hours in April 2011 and the operation of most of our games was interrupted for several hours in January 2013, in each case due to network outages. 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 would harm our reputation and operations. 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 harm our business or reputation. We expect to continue to maintain our technology infrastructure to maintain and improve our player experience and game performance. 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 and operating results may suffer. 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.

We rely on third party hosting and cloud computing providers to operate certain aspects of our business. Any disruption of or interference with our use of these hosting and cloud computing services would impact our operations and adversely impact our business.*

Third parties provide us with distributed computing infrastructure platforms for business operations, or what is commonly referred to as a cloud computing service, as well as other hosting services. Recently, we migrated a significant portion of our

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computing to run on hosting services provided by third parties and cloud computing services run by third parties, such as Amazon Web Services. We continue to migrate additional computing to third party hosting and cloud computing services, and we have architected our software and computer systems to utilize data processing, storage capabilities and other services provided by third party hosting and cloud computing providers. Any disruption of or interference with our use of hosting cloud computing services provided by third parties could impact our operations, and our business could be adversely impacted.

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 acquisition of NaturalMotion is significant, and the anticipated benefits of the acquisition could be impacted by a number of risks specific to NaturalMotion s business, as well as by risks related to the integration process.*

On February 11, 2014, we completed our acquisition of NaturalMotion. The process of integrating NaturalMotion s operations into our operations could result in unforeseen operating difficulties, absorb significant management attention, and require significant resources that would otherwise have been available for the ongoing development of our existing operations. If we are unsuccessful in addressing these risks and challenges, our business and prospects would be harmed. Particular significant risks and challenges include, but are not limited to:

- the potential lack of employee retention stemming from the acquisition;
- that NaturalMotion s games may not succeed or perform as we anticipated;
- that NaturalMotion s pipeline of future products under development, including *Dawn of Titans* and *CSR2*, may take longer than predicted to develop and launch or may fail to launch at all. For example, we recently announced that the previously anticipated 2015 launches of *Dawn of Titans* and *CSR2* are being moved to 2016;

the difficulty of integrating our and NaturalMotion s tools and technology into each other s current and future mobile products; and

the risk that the implementation of our existing models and mechanics fails to enhance NaturalMotion s products.

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;

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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 elsewhere in this Quarterly Report on Form 10-Q;

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 earnout provisions in the agreements relating to such acquisitions or the potential obligation to fund an earnout 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 and operating results. 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 example, in the third quarter of 2012, we made the decision to discontinue the development of certain games associated with technology and other intangible assets previously acquired from OMGPOP, Inc. (OMGPOP) and we recorded an asset impairment charge of $95.5 million.

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 Zynga Poker Classic 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;

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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 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 for any reason, 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 meet the demand of our user base. If direct advertising relationships change or we exhaust the available inventory of these third parties, 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, 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 (and conversely significantly increases our marketing expenses in the fourth 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

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decline, and our operating results will suffer. We have incurred significant losses since inception, including a net loss of $209 million in 2012, a net loss of $37 million in 2013 and a net loss of $226 million in 2014. As of September 30, 2015, we had an accumulated deficit of $1.2 billion.

In addition, we believe that our operating margin will continue to 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 and international expansion. 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 Metrics.

As we transition our business to focus on mobile products, there is more likelihood of having difficulty calculating these metrics. As described under the heading titled Management s Discussion and Analysis of Financial Condition and Results of Operations Key Metrics, we have recently updated our calculation of these metrics to take into account our business s transition to mobile 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. These metrics are disclosed under the heading titled Management s Discussion and Analysis of Financial Condition and Results of Operations Key Metrics.

We are unable to distinguish whether a player of legacy NaturalMotion game is also a player of a Zynga game. As a result of this we exclude NaturalMotion players from our calculation of MUU to avoid potential double counting. This issue has been resolved for future NaturalMotion releases, so players of new games released by NaturalMotion in 2015 and beyond will be included in our MUU calculations.

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 or revenue 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 and operating results.

If we fail to effectively manage our human resources, our business 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 have seen significant turnover in our management team in 2015, including the recent resignation of a Chief Financial Officer. Our Chief Executive Officer, Mark Pincus, is critical to our vision, strategic direction, culture, products and technology and the continued retention of the remaining senior management team is important to our transition. We do not have employment agreements, other than offer letters, with our senior management team and we do not maintain key-man insurance for Mr. Pincus or any other member of our senior management team. The loss of our Chief Executive Officer or other members of senior management could harm our business.

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 September 30, 2015, approximately 29% of our employees had been with us for less than one year and approximately 55% for less than two years.

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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 continue to develop the infrastructure of a public company, we may find it difficult to maintain our entrepreneurial, execution-focused culture. In addition, our recent operating results, the decline in our revenue 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 could be harmed. Moreover, if our team fails to work together effectively to execute our plans and strategies on a timely basis, our business 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 increases, we may incur significant expenses in continuing this practice. In addition, our recent operating results, the decline in our revenue 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 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 recently announced that we would exit the Sports category. In early 2013, we decided to discontinue development of certain games that were originally expected to be released in, and then meaningfully contribute to bookings for, the second quarter of 2013, in order to focus on games with the potential of becoming franchise games that drive long-term enterprise value. Although these discontinued games 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 and operating results could be harmed.

An increasing number of individuals are utilizing devices other than personal computers to access the Internet, and versions of our games developed for these devices might not gain widespread adoption, or may not function as intended.

The number of individuals who access the Internet through devices other than a personal computer, such as smart phones, handheld computers such as net books and tablets, televisions, video game consoles and set-top box devices, has increased dramatically, and we believe this trend is likely to continue. Certain of our games or versions of our

games may not be compelling to players on such devices. In addition, each device manufacturer or platform provider may establish unique or restrictive terms and mobile users also frequently change or upgrade their mobile devices. Our business and operating results may be harmed if our players do not install our games when they change or upgrader their device.

To expand our business, we will need to support a number of alternative devices and technologies. Once developed, we may choose to port or convert a game into separate versions for alternative devices with different technological requirements. As new devices and new mobile platforms or updates to platforms are continually being released, we may encounter problems in developing versions of our games for use on these alternative devices and we may need to devote significant resources to the creation, support and maintenance of such devices and platforms. If we are unable to successfully expand the platforms and devices on which our games are available, or if the versions of our games that we create for alternative platforms and devices are not compelling to our players, our business will suffer. For example, in September 2014, we released a new version of our poker offering that was intended to reimagine the game with an entirely new experience for mobile and replace the original game for mobile applications. Due to playability issues, some players playing on older devices reported that they were not having a smooth and seamless experience and that they preferred the classic design and play style of the original game. This resulted in us both having to address the issues impacting *Zynga Poker* so that it would offer a more optimal player experience and re-launch *Zynga Poker Classic*, which offers familiar gameplay that stays true to our traditional poker experience. To have more successful game launches in the future, we will need to hire and retain

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engineers with the expertise to develop games and game updates on mobile platforms, better anticipate technical and operational issues in connection with a launch so that they can be addressed prior to launch and stay true to our consumer-centric approach to decision making to offer optimal player experiences. If we are unsuccessful in any of these endeavors, or are otherwise unable to keep up with rapidly changing technology, to offer new games and game updates that appeal to our player base or to monetize our mobile games, our business will suffer.

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 focus on mobile first games over the last year. The number of people using mobile Internet-enabled devices has increased dramatically in the past few years and we expect that this trend will continue. However, the mobile market, particularly the market for mobile games is still emerging and it may not grow as 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. Any decline in the growth of the mobile market or in the use of mobile devices for games could harm our business.

We have a new business model and a short operating history, which make it difficult to evaluate our prospects and future financial results and may increase the risk that we will not be successful.

We began operations in April 2007, and became publicly listed in December 2011, and we have a short operating history and a new business model, which make it difficult to effectively assess our future prospects. Our business model is based on offering games that are free to play. To date, only a small portion of our players pay for our products. We cannot assure that any of our efforts will be successful or result in the development or timely launch of additional products, or ultimately produce any material revenue.

We are not participating in the real money gaming market at this time and, if we elect to participate in this market, our efforts may not be successful.

Our agreement with Bwin.Party Digital Entertainment plc (bwin.party) to develop, test and operate certain real money online poker and casino games in the United Kingdom ended in February of 2015 and we sunsetted our real money gaming (RMG) offerings *ZyngaPlusPoker* and *ZyngaPlusCasino* in the United Kingdom. Our RMG products in the United Kingdom did not produce any material revenue.

We are not currently participating in global RMG markets and, in 2013 we decided to withdraw our application from the Nevada Gaming Control Board. We may evaluate from time to time possible participation in global RMG markets. If we elect to participate in global regulated markets, gaming laws may require us, each of our subsidiaries engaged in gaming operations, certain of our directors, officers and employees, and in some cases, our stockholders, to obtain licenses or findings of suitability from gaming authorities. Gaming authorities have very broad discretion in determining whether an applicant qualifies for a license or should be deemed suitable. If we are required to obtain a license to participate in a global RMG market, we cannot provide assurance that we will be able to obtain a license in a timely fashion or that we will be able to obtain a license at all.

In addition, regulatory and legislative developments, including excessive taxation, may prevent or significantly limit our ability, or the ability of any entity with which we may partner in the future, to enter into or succeed in RMG. Becoming familiar with and complying with these requirements will increase our costs and subject our business to

greater scrutiny by regulators in many different jurisdictions. If our brand becomes associated with RMG we may lose current players, advertisers or partners or have difficulty attracting new players, advertisers or partners, which could adversely impact our business.

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Our international operations are subject to increased challenges and risks.

Continuing to expand our business to attract players in countries other than the United States 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 United States. 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. For example, we recently announced that we are closed our office in Beijing, China because its recent game launches and product localization initiatives did not meet expectations. We may not be able to offer our games in certain countries. 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:

- 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 issued new principles in

January 2014 relating to in-app purchases in free-to-play games that are directed toward children 16 and under, which principles became effective in April 2014);

compliance with anti-bribery laws including without limitation, compliance with 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 United States 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.

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, RMG 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.

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Competition in our industry is intense and there are low barriers to entry.

Our industry is highly competitive and we expect more companies to enter the sector and a wider range of social games to be introduced. Our competitors that develop games for networks, on both web and mobile, vary in size and include companies such as DeNA Co. Ltd. (Japan), Electronic Arts Inc., Gameloft SA, GREE International, Inc., Glu Mobile Inc., King.com Inc., Rovio Mobile Ltd., Supercell Inc., GungHo Online Entertainment, Inc., Kabam and The Walt Disney Company. In addition, online game developers and distributors who are primarily focused on specific international markets, such as Tencent Holdings Limited in Asia, and high-profile companies with significant online presences that to date have not developed social games, such as Facebook, Apple Inc., Google Inc. and Microsoft Corporation, 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.

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.

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 net asset value or if our financial performance and/or condition deteriorates.*

As of September 30, 2015, we had $1.0 billion of goodwill, intangible assets and other long-lived assets. Our February 2014 acquisition of NaturalMotion increased our reported goodwill and intangible assets. If our market capitalization declines below our net asset 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 example, in the third quarter of 2012, we made the decision to discontinue the development of certain games associated with technology and other intangible assets previously acquired from OMGPOP and we recorded an asset impairment charge of $95.5 million. In addition, in the third quarter of 2013 we recorded an intangible asset impairment charge of $10.2 million related to various prior acquisitions. For more information, see Note 6 Goodwill and Other Intangible Assets in the notes to the consolidated financial statements included in this Quarterly Report on Form 10-Q.

Failure to protect or enforce our intellectual property rights or the costs involved in such enforcement could harm our business and operating results.

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.

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We pursue the registration of our copyrights, trademarks, service marks, domain names, and patents in the United States and in certain locations outside the United States. 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 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 United States 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.

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 and operating results. If we fail to maintain, protect and enhance our intellectual property rights, our business and operating results 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!, Hit it Rich! Slots* and *Wizard of Oz Slots* and have built many of our games on proprietary source code, 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, 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, operations and revenue 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 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 and operating results.

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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 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, operating results, and financial condition. See the section titled Legal Matters included in Note 11 Commitments and Contingencies in the notes to the consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

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

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, 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 operating results.

Evolving regulations, industry standards and practices by platform providers concerning data privacy could prevent us from providing our games to our players, or require us to modify our games, thereby harming our business.

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the Internet and mobile platforms are under increased public scrutiny, and civil claims alleging liability for the violation of data privacy laws have been asserted against us. The U.S. government, including the Federal Trade Commission, the Department of Commerce, U.S. Congress, and various State Attorneys General 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. 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. In addition, the European Union has proposed reforms to its existing data protection legal framework, which may result in a greater compliance burden for companies with users in Europe. Various government and consumer agencies have also called for new regulation and changes in industry practices. For example, in February 2012, the California Attorney General announced a deal with Amazon, Apple, Google, Hewlett-Packard, Microsoft and Research in Motion to strengthen privacy protection for users that download third-party apps to smartphones and tablet devices.

We began operations in 2007. While our administrative and technical systems have developed rapidly, during our earlier history our practices relating to intellectual property, data privacy and security, and legal compliance may not have been as robust as they are now, and there may be unasserted claims arising from this period that we are not able to anticipate. In addition, our business, including our ability to operate and expand internationally, could be adversely affected if laws or regulations are adopted, interpreted, or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices, the design of our website, games, features or our privacy policies. In particular, the success of our business has been, and we expect will continue to be, driven by our ability to responsibly use the data that our players share with us. Therefore, our business could be harmed by any significant change to applicable laws, regulations or industry practices or the requirements of platform providers regarding the use or disclosure of data our players choose to share with us, age verification, underage players or the manner in which the express or implied consent of consumers for such use and disclosure is obtained. Such changes may require us to modify our game features and advertising practices, possibly in a material manner, and may limit our ability to use the data that our players share with us.

We process, store and use personal information and other data, which subjects us to governmental regulation and other legal obligations related to privacy, information security, data protection, consumer protection and protection of minors and our actual or perceived failure to comply with such obligations 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

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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. We generally comply with industry standards and are subject to the terms of our own privacy policies and privacy-related obligations to third parties (including voluntary third-party certification bodies such as TRUSTe). 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. 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 more costly or difficult for us to do so. For example, if a country enacted legislation that required data of their citizens gathered by online services to be held within the country, we may not be able to comply with such legislation or compliance could be so difficult or costly that we chose not to stop offering services to citizens of that country. Any failure or perceived failure by us to comply with our privacy policies, 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. 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.

In this area 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. In January 2014, the Federal Trade Commission announced a settlement with Apple related to in-app purchases made by minors. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Moreover, in the areas of privacy, information security, data protection, consumer protection and protection of minors, foreign laws and regulations are often more restrictive than those in the United States. In particular, the European Union and its member states traditionally have taken broader views as to types of data that are subject to data protection, and have imposed legal obligations on companies in this regard. Any failure on our part to comply with laws in these areas may subject us to significant liabilities.

Our business is subject to a variety of other 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 United States and abroad, 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 United States. 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. For example, laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement, and other theories based on the nature and content of the materials searched, the ads posted or the content provided by users. 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. 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 United States and other jurisdictions regarding whether social casino applications should be subject to a higher level or different type of regulation than other social game applications and, if so, what this regulation should include. If new casino-themed regulations are imposed certain of our casino-themed games, including *Zynga Poker, Zynga Poker Classic, Hit it Rich! Slots* and *Wizard of Oz Slots,* 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 casino games, make our games more difficult to access, decrease our user base or otherwise harm our business, bookings or revenue.

It is difficult to predict how existing laws will be applied to our business and 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 and operating results.

It is possible that a number of laws and regulations may be adopted or construed to apply to us in the United States and elsewhere that could restrict the online and mobile industries, including player privacy, advertising, taxation, content suitability,

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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 United States or elsewhere regarding these activities may lessen the growth of social game services and impair our business. In addition, some concern has been expressed in Europe, Australia and in certain other jurisdictions that social gaming should be regulated to protect consumers, in particular minors and persons susceptible to addiction to social games. This concern could lead to the adoption of legislation or regulations that may impose additional burdens upon us, prohibit the offering of our games to certain users or territories, increase our costs or require changes to our games.

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 user s 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.

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 Facebook 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, our website or other social platforms. For example, the government of the People s Republic of China has blocked access to Facebook in China. 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.

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, including RMG, may adversely affect our reputation, business, financial condition and results of operations. We are not currently participating in RMG, but we may evaluate from time to time possible participation in global RMG markets. We believe RMG could have risks that are different than those associated with other new initiatives. In particular, RMG is subject to stringent, complicated and rapidly changing licensing and regulatory requirements. Regulatory and legislative developments, including excessive taxation, may prevent or significantly limit our ability, or the ability of any entity with which we may partner in the future, to enter into or succeed in RMG. Becoming familiar with and complying with these requirements will increase our costs and subject our business to greater scrutiny by regulators in many different jurisdictions. If our brand becomes associated with RMG we may lose current players, advertisers or partners or have difficulty attracting new players, advertisers or partners, which could adversely impact our business.

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, or a combination of existing and new devices,

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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.

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, such as our recent acquisition of NaturalMotion, a company domiciled in the U.K., 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.

The enactment of legislation implementing changes in the U.S. taxation of international business activities, the adoption of other tax reform policies, or policies in jurisdictions outside the United States could materially impact our financial position and results of operations.

Changes in tax laws or tax rulings could materially affect our financial position and results of operations. For example, the current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, could affect the tax treatment of our foreign earnings. In addition, 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, are actively considering changes to existing tax laws. 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, and use our intellectual property and the transfer pricing of our intercompany transactions. The tax laws applicable to our business, including the laws of the United States 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 increase our worldwide effective tax rate and harm our financial position and results of operations.

Our facilities are located near known earthquake fault zones, and the occurrence of an earthquake or other natural disaster 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. We are also vulnerable to damage from other types of 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.

We are subject to contractual covenants which place certain limitations on how we manage our business.

We have not drawn down on our credit agreement (as defined in this Quarterly Report on Form 10-Q), but if we do use this as a source of funds it may limit our ability to take various actions, including incur indebtedness, grant liens, merge with or consolidate with another entity, dispose of all or substantially all assets and pay dividends or make distributions. Accordingly, we may be restricted from taking actions that management believes would be desirable and in the best interests of us and our stockholders. Our credit agreement also requires us to maintain compliance with a capitalization ratio and maintain a minimum cash balance. A breach of any of the covenants contained in our credit agreement could result in an event of default under the agreement and would allow our lenders to pursue various remedies, including accelerating the repayment of any outstanding indebtedness.

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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 may be harmed.

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. Mark Pincus, our Chief Executive Officer, beneficially owned approximately 62% of the total voting power of our outstanding capital stock as of September 30, 2015. 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, Mark 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 control a majority of our total voting power. Mark Pincus is entitled to vote his shares 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.

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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 September 30, 2015 and September 30, 2014, the stock price of our Class A common stock has ranged from $2.20 to $3.13. In addition to the factors discussed in these Risk Factors and elsewhere in this Quarterly Report on Form 10-Q, 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 12 Commitments and Contingencies in the notes to the consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. 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 October 2015, our Board of Directors authorized a share repurchase program of up to $200 million of our outstanding Class A common stock that remains in effect until October 2017. The timing and amount of any stock repurchases will be determined based on market conditions, share price and other factors. The 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 stock repurchase program will be funded from existing cash on hand. In connection with the share repurchase program, the Company may adopt one or more plans pursuant to the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934. 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, 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 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.

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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, particularly our directors and officers that hold such 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. For example, in connection with the filing of our Registration Statement on Form S-3 in February 2014, covering the resale of shares issued to the security holders of NaturalMotion prior to our acquisition, we registered 28,178,201 shares of our Class A common stock, which were eligible to be resold immediately thereafter. In addition, in connection with the assumption of certain outstanding equity awards held by the employees of NaturalMotion prior to the acquisition, we filed a Registration Statement on Form S-8 covering up to 6,850,973 shares of our Class A common stock. These will vest in accordance with the terms of the replacement option awards granted at the time of the acquisition. As of September 30, 2015, 3,182,256 of these options had vested. We also issued 39.8 million shares of our Class A common stock in connection with the acquisition of NaturalMotion; certain of the shares issued to employees were subject to time based repurchase options. The repurchase option on 3,848,472 shares was released on or prior to February 11, 2015. In addition, we issued approximately 1.1 million shares of Class A common stock to employees in connection with our 2014 bonus program. These shares were issued out of the shares reserved under our 2011 Equity Incentive Plan.

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 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 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 this Quarterly Report on Form 10-Q and in our other 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 and operating results 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 and operating results.

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We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any 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

None

ITEM 5. OTHER INFORMATION

Resignation of Chief Financial Officer

Effective November 3, 2015, David Lee resigned as Chief Financial Officer of the company. The company entered into a Separation Agreement and General Release, dated November 3, 2015 (the Separation Agreement), with Mr. Lee to memorialize the parties mutual desire to separate employment. The Separation Agreement provides, among other things:

Mr. Lee resigned from his position as Zynga s Chief Financial Officer effective November 3, 2015 and his employment with the company will end on December 11, 2015. He will continue to receive his regular pay and benefits until such date.

Consistent with the terms of the Retention Agreement that Mr. Lee entered into with the Company on April 23, 2015 (the Retention Agreement), which was filed with the SEC as Exhibit 10.2 to the Company s Current Report on Form 8-K filed on April 27, 2015 and which is incorporated herein by reference, (a) Mr. Lee will receive a lump sum severance payment on June 12, 2016 of $450,000, which is an amount equal to six months of his annual base salary and target annual bonus, (b) the company will accelerate the vesting of 192,500 unvested restricted stock units and unvested options to purchase 80,000 shares of Class A common stock previously granted to Mr. Lee and (c) Mr. Lee will not be required to repay the company any portion of the one-time signing bonus in the amount of $500,000 that he received under his offer letter when he joined the company.

Mr. Lee and Zynga each agreed not to disparage the other in any manner likely to be harmful to their respective business or personal reputation.

Mr. Lee agreed to a release of claims related to Mr. Lee s employment and other relationships with Zynga and Zynga s affiliates, and the termination of Mr. Lee s employment and other relationships with Zynga and Zynga s affiliates. Payment of the severance and accelerated vesting described above is contingent upon Mr. Lee executing and not revoking the release of claims following the termination of his employment with the Company

Certain of Mr. Lee s obligations, such as those in relation to intellectual property and confidentiality, remain in effect.

The foregoing summary of the Separation Agreement does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Separation Agreement, which is attached as Exhibit 10.2 and incorporated herein by reference.

Appointment of Interim Chief Financial Officer

On November 3, 2014, the Company appointed Michelle Quejado (age 48), the Company s Chief Accounting Officer, as the Company s Interim Chief Financial Officer. She will also retain her position as Chief Accounting Officer.

Prior to joining the Company in March, 2015, Ms. Quejado held various financial roles at Lam Research Corporation (a multinational semiconductor company) between September 1999 and March 2015, most recently serving as its Assistant Corporate Controller. From November 1998 through September 1999, she held a financial role at a small start-up. From July 1989 through November 1998, Ms. Quejado served as an auditor for the United States Department of Defense.

Ms. Quejado is a Certified Public Accountant and holds a B.S. degree in Accounting from the University of Southern Oregon.

There are no arrangements or understandings between Ms. Quejado and any other persons pursuant to which she was selected as Interim Chief Financial Officer. There are also no family relationships between Ms. Quejado and any director or executive officer of the Company and she has no direct or indirect material interest in any transaction required to be disclosed pursuant to Item 404(a) of Regulation S-K.

Employment Terms

Ms. Quejado s employment is on an at-will basis and is not for a specified term. The material terms of her employment are summarized below:

Base Salary and Bonus. Ms. Quejado will receive an annual salary of $325,000. In addition, Ms. Quejado will be eligible to participate in the Company s performance bonus plan for similarly situated executive officers.

Equity Awards Restricted Stock Units and Stock Options. Ms. Quejado received a grant of 250,000 restricted stock units of Class A common stock of the Company. The restricted stock units were granted on May 15, 2015, and will vest over four years. On June 11, 2015, Ms. Quejado received an additional grant of 60,000 restricted stock units of Class A common stock of the Company which will vest over two years. On November 3, 2015, Ms. Quejado received an additional grant of 150,000 restricted stock units of Class A common stock of the Company which will vest over four years.

Change in Control Severance Benefit Plan. Ms. Quejado participates in the Company s Change in Control Severance Benefit Plan (the CIC Plan), which provides for partial acceleration of outstanding equity awards upon a change in control and further partial acceleration upon termination or constructive termination following a change in control. The foregoing description is qualified in its entirety by the full text of the CIC Plan, which was filed with the

Securities and Exchange Commission (the SEC) as Exhibit 10.23 to the Company s Registration Statement on Form S-1 filed on November 17, 2011, and is incorporated herein by reference.

Other Benefits. Ms. Quejado participates in the health insurance and benefit programs generally available to senior executives of the Company. Ms. Quejado s bonuses and equity grants are subject to the Company s executive compensation recoupment policies as in effect from time to time.

In accordance with the Company s customary practice, the Company entered into an indemnification agreement with Ms. Quejado, which requires the Company to indemnify her against certain liabilities that may arise in connection with her status or service as an officer. The foregoing description is qualified in its entirety by the full text of the form of indemnification agreement, which was filed with the SEC as Exhibit 10.6 to the Company s Registration Statement on Form S-1 filed on November 17, 2011, and is incorporated herein by reference.

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 incorporated by reference in, this Quarterly Report on Form 10-Q.

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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 November 4, 2015.

By: /s/ Michelle Quejado
Michelle Quejado
Interim Chief Financial officer and Chief Accounting Officer
(On behalf of Registrant)

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EXHIBIT INDEX

		Incorporated by Reference				
Exhibit No.	**Description of Exhibit**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed Herewith**
3.1	Amended and Restated Certificate of Incorporation of Zynga Inc.	8-K	001-35375	3.1	6/13/2014	
3.2	Amended and Restated Bylaws of Zynga Inc.	S-1/A	333-175298	3.4	11/17/2011	
4.1	Form of Zynga Inc. Class A Common Stock Certificate	S-1/A	333-175298	4.1	11/04/2011	
10.1+	Non-Employee Director Compensation Policy	10-Q	001-35375	10.1	11/07/2014	
10.2	Separation Agreement					X
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.					X
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.					X
32.1(1)	Certifications of Chief Executive Officer and Chief Financial Officer 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.

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(1) The certifications attached as Exhibit 32.1 accompany 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, and shall not be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.