ZYNGA INC
Form 10-Q
August 04, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-35375

Zynga Inc.

(Exact name of registrant as specified in its charter)

Delaware	42-1733483
(State of or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
699 Eighth Street San Francisco, CA	94103
(Address of principal executive offices)	(Zip Code)

(855) 449-9642

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 15, 2017, there were 776,684,172 shares of the Registrant's Class A common stock outstanding, 68,259,136 shares of the Registrant's Class B common stock outstanding and 20,517,472 shares of the Registrant's Class C common stock outstanding.

Zynga Inc.

Form 10-Q Quarterly Report

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward looking statements. All statements, other than statements of historical fact, made in this Quarterly Report on Form 10-Q are forward looking. Examples of forward-looking statements include statements related to industry prospects, our future economic performance including anticipated revenues and expenditures, results of operations or financial position, and other financial items, our business plans and objectives, including our intended product releases, and may include certain assumptions that underlie the forward-looking statements. Forward-looking statements often include words such as "outlook," "projected," "intends," "will," "anticipate," "believe," "target," "expect," and statements in the future tense are generally forward-looking.

We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. The achievement or success of the matters covered by such forward-looking statements involves significant risks, uncertainties and assumptions, including those described in "Part II. Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment and industry. New risks may also emerge from time to time. It is not possible for our management to predict all of the risks related to our business and operations, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated, predicted or implied in the forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur, and reported results should not be considered as an indication of future performance. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Except as required by law, we undertake no obligation to update any forward-looking statements for any reason to conform these statements to actual results or to changes in our expectations.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Zynga Inc.

Consolidated Balance Sheets

(In thousands, except par value)

(Unaudited)

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

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

See accompanying notes.

Zynga Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

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

See accompanying notes.

Zynga Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

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

See accompanying notes.

Zynga Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

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

See accompanying notes.

Zynga Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Overview and Summary of Significant Accounting Policies

Organization and Description of Business

Zynga Inc. (“Zynga,” “we” or the “Company”) is a leading provider of social game services. We develop, market and operate social games as live services played on mobile platforms such as iOS and Android and social networking sites such as Facebook. Generally, all of our games are free to play, and we generate revenue through the in-game sale of virtual goods and advertising services. Our operations are headquartered in San Francisco, California, and we have several operating locations in the U.S. as well as various international office locations in North America, India and Europe.

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

Basis of Presentation and Consolidation

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

The accompanying interim consolidated financial statements and these related notes should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of June 30, 2017, the interim consolidated statements of operations, the interim consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2017 and 2016, the interim consolidated statements of cash flows for the six months ended June 30, 2017 and 2016 and the related footnote disclosures are unaudited. These unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP. In management’s opinion, the unaudited consolidated interim financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of the Company’s statement of financial position and operating results for the periods presented. The results for the three and six months ended June 30, 2017 are not necessarily indicative of the results expected for the full fiscal year or any other future period.

Use of Estimates

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

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)," which requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 supersedes the existing revenue recognition guidance and is effective for interim and annual reporting periods beginning after December 15, 2017. The standard permits the use of either a full retrospective or modified retrospective (cumulative effect) transition method. We will apply the modified retrospective approach when we adopt the standard in the first quarter of 2018.

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

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

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

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

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which provides guidance on specific topics related to how certain cash receipts and cash payments are classified in the statement of cash flows. In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Both standards are effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption is permitted. We will adopt the standards in the first quarter of 2018. While we continue to assess the potential impact of the new standards, we expect the adoption of these standards will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805) Clarifying the Definition of a Business,” which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The standard is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted. We will adopt the standard in the first quarter of 2018 and are currently in the process of evaluating the impact on our consolidated financial statements.

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

2. Fair Value Measurements

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

Cash equivalents, consists of money market funds, U.S. government and government agency securities and corporate debt securities, are carried at fair value. We estimate fair value as the exit price, which represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable and willing market participants.

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

Fair value is a market-based measurement that should be determined based on assumptions that knowledgeable and willing market participants would use in pricing an asset or liability. The valuation techniques used to measure the fair value of the Company's financial instruments, all of which have counterparties with high credit ratings, were valued based on quoted market prices or model-driven valuations using significant inputs derived from or corroborated by observable market data. We use a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

The composition of our financial assets and liabilities within the fair value hierarchy are as follows (in thousands):

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

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

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

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

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

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

3. Property and Equipment

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

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

4. Acquisitions

Acquisition of Solitaire Mobile Gaming Applications

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

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

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

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

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

5. Goodwill and Other Intangible Assets

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

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

(1) The increase is primarily related to translation gains (losses) on goodwill associated with the acquisition of NaturalMotion which the functional currency is denominated in British Pounds.

The details of our acquisition-related intangible assets as of June 30, 2017 are as follows (in thousands):

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

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

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

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

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

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

6. Income Taxes

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

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

7. Other Current Liabilities

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

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

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

8. Restructuring

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

Q2 2017 Restructuring Plan

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

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

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

Q2 2015 Restructuring Plan

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

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

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

9. Stockholders' Equity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. Commitments and Contingencies

Lease Commitments

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

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

Licensor and Marketing Commitments

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

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

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

Other Purchase Commitments

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

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

Legal Matters

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

Derivative Litigation

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

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

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

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

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

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

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

Mayer et al. v. Zynga

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

Other

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

12. Geographical Information

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

Revenue

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

[1] No country exceeded 10% of our total revenue for any periods presented.
The following represents our property and equipment, net by location (in thousands):

Property and equipment, net

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

13. Business Developments

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

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

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

Overview

We are a leading provider of social game services with approximately 80 million average monthly active users of our games ("MAUs") in the second quarter of 2017. We develop, market and operate social games as live services played on mobile platforms, such as iOS and Android, and social networking sites such as Facebook. Generally, all of our games are free to play, and we generate revenue through the in-game sale of virtual goods and advertising services.

We are a pioneer and innovator of social games and a leader in making "play" a core activity on mobile devices and social networking sites. Our objective is to become the worldwide leader in play by connecting the world through games.

Consistent with our free-to-play business model, a small portion of our players have historically been payers. Because the opportunity for social interactions increases as the number of players increases, we believe that maintaining and growing our overall number of players, including the number of players who may not purchase virtual goods, is important to the success of our business. As a result, we believe that the number of players who choose to purchase virtual goods will continue to constitute a small portion of our overall players.

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

How We Generate Revenue

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

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

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

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

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

Key Measures and Metrics

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

Key Non-GAAP Financial Measures

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

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

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

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

Limitations of Bookings

Key limitations of bookings are:

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

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

Key Operating Metrics

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

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

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

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

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

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

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

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

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

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

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

Other Metrics

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

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

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

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

Q2 2017 Highlights

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

Factors Affecting Our Performance

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

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

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

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

Player acquisition costs. We utilize advertising and other forms of player acquisition and retention to grow and retain our player audience. These expenditures generally relate to the promotion of new game launches and ongoing performance-based programs to drive new player acquisition and lapsed player reactivation. Over time, these acquisition and retention-related programs may become either less effective or costlier, negatively impacting our operating results. Additionally, as our player base becomes more heavily concentrated on mobile platforms, our ability to drive traffic to our games through unpaid channels may become diminished, and the overall cost of marketing our games may increase.

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

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

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

Results of Operations

Revenue

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