ZYNGA INC
Form 10-Q
August 01, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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 Incorporation)	**(IRS Employer Identification No.)**
699 Eighth Street	
San Francisco, CA	**94103**
(Address of Principal Executive Offices)	**(Zip Code)**

(855) 449-9642

(Telephone No.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 þ 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 þ	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 þ

As of July 15, 2013, there were 620,966,387 shares of the Registrant s Class A common stock outstanding, 162,861,476 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, estimate, continue, anticipate, intend, could, would, project, plan, outlook, target, expressions, or the negative or plural of these words or expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our future operational and strategic plans;
- our future relationship with Facebook, changes in the Facebook platform or changes in our agreements with Facebook;
- the timing and success of our transition away from Facebook Credits and adoption of Facebook s local currency-based payments model;
- our ability to launch successful new games and hit games for web and mobile generally and in a timely matter;
- sustaining and expanding our franchise games;
- the growth of the social games market, including the mobile market and the advertising market;
- our ability to expand our offerings across several game genres;
- expanding our network, including creating and building a mobile network on multiple platforms and across multiple devices and the success of that network;
- our ability to transition our web franchises to mobile and create new franchises on the web and mobile;
- our ability to launch successful games, including invest & express games, on mobile;
- our ability to successfully acquire and integrate companies and assets;
- our plans and opportunities in real money gaming and agreement with bwin.party;
- the ability of our games to generate revenue and bookings for a significant period of time after launch and the timing for market acceptance of new games;
- retaining and adding players and increasing the monetization of our player base;

user traffic and publishing games from third-party developers on our network;

our evaluation of new business opportunities, including real money gaming;

our ability to rationalize our product pipeline, reduce marketing and technology expenditures and consolidate certain facilities;

our cost reduction plans and estimated savings and charges;

capital expenditures and investment in our network infrastructure, including data centers;

our use of working capital in general;

maintaining a technology infrastructure that can efficiently and reliably handle increased player usage, fast load times and the deployment of new features and products;

attracting and retaining qualified employees and key personnel;

maintaining, protecting and enhancing our intellectual property;

our ability to prevent credit card fraud and security breaches;

protecting our players information and adequately addressing privacy concerns; and

our stock repurchase program.

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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. We are also highly reliant on Facebook and the Facebook platform for a significant portion of our revenue. Our relationship with Facebook, the Facebook platform and our agreements with Facebook are subject to change. New risks 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.

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. 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)

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 217,332	$ 385,949
Marketable securities	897,935	898,821
Accounts receivable, net of allowance of $0 and $160 at June 30, 2013 and December 31, 2012 respectively	73,564	106,327
Income tax receivable	5,835	5,607
Deferred tax assets	18,981	30,122
Restricted cash	3,549	28,152
Other current assets	28,714	29,392
Total current assets	1,245,910	1,484,370
Long-term marketable securities	417,655	367,543
Goodwill	228,079	208,955
Other intangible assets, net	33,807	33,663
Property and equipment, net	413,344	466,074
Other long-term assets	17,064	15,715
Total assets	$ 2,355,859	$ 2,576,320
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 21,654	$ 23,298
Other current liabilities	89,321	146,883
Deferred revenue	262,213	338,964
Total current liabilities	373,188	509,145
Long-term debt		100,000
Deferred revenue	7,861	8,041
Deferred tax liabilities		24,584
Other non-current liabilities	112,810	109,047
Total liabilities	493,859	750,817
Stockholders equity:		
Common stock, $.00000625 par value, and additional paid in capital authorized shares: 2,020,517; shares outstanding: 802,674 (Class A, 619,047, Class B, 163,110, Class C, 20,517) as of June 30, 2013 and 779,250 (Class A, 589,100, Class B, 169,633, Class C, 20,517) as of December 31, 2012	2,776,854	2,725,605
Treasury stock		(295,113)
Accumulated other comprehensive income (loss)	(1,911)	(1,447)
Accumulated deficit	(912,943)	(603,542)

Total stockholders equity	1,862,000	1,825,503
Total liabilities and stockholders equity	$ 2,355,859	$ 2,576,320

See accompanying notes.

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Zynga Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenue:				
Online game	$ 203,326	$ 291,548	$ 432,892	$ 584,328
Advertising	27,409	40,945	61,432	69,137
Total revenue	230,735	332,493	494,324	653,465
Costs and expenses:				
Cost of revenue	61,077	94,841	130,471	184,963
Research and development	124,322	171,316	253,503	358,192
Sales and marketing	31,163	56,055	58,470	112,892
General and administrative	44,541	48,730	87,181	121,445
Total costs and expenses	261,103	370,942	529,625	777,492
Income (loss) from operations	(30,368)	(38,449)	(35,301)	(124,027)
Interest income	1,105	1,084	2,268	2,375
Other income (expense), net	(4,531)	21,250	(5,394)	20,108
Income (loss) before income taxes	(33,794)	(16,115)	(38,427)	(101,544)
(Provision for) benefit from income taxes	17,989	(6,696)	26,755	(6,618)
Net loss	$ (15,805)	$ (22,811)	$ (11,672)	$ (108,162)
Net loss per share attributable to common stockholders				
Basic	$ (0.02)	$ (0.03)	$ (0.01)	$ (0.15)
Diluted	$ (0.02)	$ (0.03)	$ (0.01)	$ (0.15)
Weighted average common shares used to compute net loss per share attributable to common stockholders:				
Basic	793,541	730,510	786,784	718,554
Diluted	793,541	730,510	786,784	718,554

See accompanying notes.

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Zynga Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net income (loss)	$ (15,805)	$ (22,811)	$ (11,672)	$ (108,162)
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(617)	(374)	(1,459)	(253)
Net change on unrealized gains (losses) on available-for-sale investments, net of tax	(1,121)	(148)	(1,428)	5
Net change on unrealized gains (losses) on derivative instruments	2,059		2,423	
Other comprehensive income (loss):	321	(522)	(464)	(248)
Comprehensive income (loss):	$ (15,484)	$ (23,333)	$ (12,136)	$ (108,410)

See accompanying notes.

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Zynga Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2013	2012
Operating activities:		
Net income (loss)	$ (11,672)	$ (108,162)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	62,919	68,605
Stock-based expense	55,810	229,307
(Gain) loss from sales of investments, assets and other, net	4,932	(398)
Net gain on termination of lease and purchase of building		(19,886)
Tax benefits from stock-based awards	(10,617)	5,210
Excess tax benefits from stock-based awards	10,617	(5,210)
Accretion and amortization on marketable securities	9,585	7,129
Deferred income taxes	(16,500)	(7,540)
Changes in operating assets and liabilities:		
Accounts receivable, net	32,909	24,754
Income tax receivable	(228)	14,169
Other assets	4,527	(9,545)
Accounts payable	(1,644)	(9,389)
Deferred revenue	(76,931)	(22,713)
Other liabilities	(37,907)	(20,490)
Net cash provided by operating activities	25,800	145,841
Investing activities:		
Purchases of marketable securities	(623,717)	(1,238,115)
Sales of marketable securities	146,123	80,098
Maturities of marketable securities	415,161	274,076
Purchase of corporate headquarters building		(233,700)
Acquisition of property and equipment	(6,290)	(77,915)
Business acquisition, net of cash acquired	(18,054)	(192,764)
Restricted cash	227	6,536
Other investing activities, net	(661)	(2,256)
Net cash provided by (used in) investing activities	(87,211)	(1,384,040)
Financing activities:		
Proceeds from debt, net of issuance costs		99,780
Taxes paid related to net share settlement of equity awards	(667)	(25,090)
Repurchases of common stock	(2,432)	
Proceeds from exercise of stock options	3,618	12,029
Proceeds from employee stock purchase plan	3,506	
Excess tax benefits from stock-based awards	(10,617)	5,210
Repayment of debt	(100,000)	
	(106,592)	91,929

Effect of exchange rate changes on cash and cash equivalents	(614)	(93)
Net increase (decrease) in cash and cash equivalents	(168,617)	(1,146,363)
Cash and cash equivalents, beginning of period	385,949	1,582,343
Cash and cash equivalents, end of period	$ 217,332	$ 435,980

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.

Accounting Policy Updates

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, 2012 (the Annual Report).

In June 2013, the Financial Accounting Standards Board ratified Emerging Issues Task Force (EITF) Issue 13-C, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists which concludes an unrecognized tax benefit should be presented as a reduction of a deferred tax asset when settlement in this manner is available under the tax law. The Company will adopt this amendment in the first quarter of 2014. We do not expect our adoption of this standard to have a material impact on our financial statements.

We made the following additions to our accounting policies:

Stock Based Expense

For ZSUs granted prior to our initial public offering, and awards subject to a performance condition, we recognize stock-based compensation expense using the accelerated attribution method, net of estimated forfeitures, in which compensation cost for each vesting tranche in an award is recognized ratably from the service inception date to the vesting date for that tranche. For ZSUs granted after the initial public offering, which are only, or will be only, subject to a service condition, we recognize stock-based expense on a ratable basis over the requisite service period for the entire award.

Business Combinations

In line with our growth strategy, we have completed acquisitions to expand our social games and mobile offerings, obtain employee talent, and expand into new markets. We account for acquisitions of entities that include inputs and processes and have the ability to create outputs as business combinations. We allocate the purchase price of the acquisition, which includes the estimated acquisition date fair value of contingent consideration, to the tangible assets, liabilities and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. Determining the fair value of such items requires judgment, including estimating future cash flows or estimating the cost to recreate an acquired asset. If actual results are lower than estimates, we could be required to record impairment charges in the future. Acquired intangible assets are amortized over their estimated useful lives. Intangible assets with indefinite lives are not amortized but rather tested for impairment annually, or more frequently if circumstances exist which indicate an impairment may exist.

Acquisition-related expenses and restructuring costs are expensed as incurred. During the one-year period beginning with the acquisition date, we may record certain purchase accounting adjustments related to the fair value of assets acquired and liabilities assumed against goodwill. After the final determination of the fair value of assets acquired or liabilities assumed, any subsequent adjustments are recorded to our consolidated statements of operations. Subsequent to the measurement period, our final determination of any acquired tax attributes value will affect our provision for income taxes in our consolidated statement of operations and could have a material impact on our results of operations and financial position. We record changes in the fair value of contingent consideration liabilities within operating expenses in our consolidated statement of operations each reporting period.

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Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of June 30, 2013, the interim consolidated statements of operations and, the interim consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2013 and 2012, and the interim consolidated statements of cash flows for the three and six months ended June 30, 2013 and 2012 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 six months ended June 30, 2013 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.

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):

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
U.S. government and government agency debt securities	$ 445,676	$ 117	$ (166)	$ 445,627
Corporate debt securities	849,711	221	(961)	848,971
Municipal securities	20,984	8		20,992
Total	$ 1,316,371	$ 346	$ (1,127)	$ 1,315,590

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
U.S. government and government agency debt securities	$ 464,517	$ 303	$ (5)	$ 464,815
Corporate debt securities	795,962	524	(170)	796,316
Municipal securities	5,234		(1)	5,233
Total	$ 1,265,713	$ 827	$ (176)	$ 1,266,364

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

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

	June 30, 2013
Due within one year	$ 897,935
After one year through three years	417,655
Total	$ 1,315,590

Changes in market interest rates and bond yields cause certain of our investments to fall below their cost basis, resulting in unrealized losses on marketable securities. As of June 30, 2013, we had unrealized losses of $1.1 million related to marketable securities that had a fair value of $610.6 million. As of December 31, 2012, we had unrealized losses of $0.2 million related to marketable securities that had a fair value of $417.7 million. None of these securities were in a continuous unrealized loss position for more than 12 months.

As of June 30, 2013 and December 31, 2012, 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 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.

Interest rate swaps are estimated using expected future cash flows related to our interest rate swap agreement, appropriately discounted considering the uncertainties associated with the obligation, and as calculated in accordance with the terms of the loan agreement and interest rate swap agreement. We determine the fair value of our interest rate swap by comparing the future discounted cash flows of the swap agreement based on its stated rate to the future discounted cash flows based on current market interest rates.

Contingent consideration represents the estimated fair value of the additional variable cash consideration payable in connection with our acquisition of Spooky Cool Labs LLC that is contingent upon the achievement of certain performance milestones. We estimated the fair value of the acquisition-related contingent consideration payable using probability-weighted discounted cash flow models, and applied a discount rate that appropriately captures 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 are forecasted future cash flows and the probability assumptions associated with such cash flows. Significant changes in actual and forecasted future cash flows may result in significant charges or benefits to our future operating expenses.

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. 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):

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (1)	$ 99,913	$	$	$ 99,913
U.S. government and government agency debt securities		445,629		445,629
Corporate debt securities (1)		850,208		850,208
Municipal securities (1)		24,944		24,944
Total	$ 99,913	$ 1,320,781	$	$ 1,420,694
Liabilities:				
Contingent consideration	$	$	$ 10,790	$ 10,790

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (1)	$ 226,993	$	$	$ 226,993
U.S. government and government agency debt securities		464,815		464,815
Corporate debt securities (1)		818,167		818,167
Municipal securities (1)		5,234		5,234
Total	$ 226,993	$ 1,288,216	$	$ 1,515,209
Liabilities:				
Interest rate swap agreements	$	$ 2,423	$	$ 2,423

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

4. Property and Equipment

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

	June 30, 2013	December 31, 2012
Computer equipment	$ 261,300	$ 294,208
Software	27,217	28,594
Land	89,130	89,130
Building	192,350	190,931
Furniture and fixtures	12,802	13,959
Leasehold improvements	16,512	20,383
	599,311	637,205
Less accumulated depreciation	(185,967)	(171,131)

Total property and equipment, net	$ 413,344	$ 466,074

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5. Acquisitions

On June 19, 2013, we acquired Spooky Cool Labs LLC, a provider of social games that we plan to use to release new social casino titles, for purchase consideration of approximately $30.6 million, which consisted of cash paid of $19.8 million and contingent consideration with a fair value of $10.8 million as of June 30, 2013. The contingent consideration may be payable based on the achievement of certain future performance targets during the two year period following the acquisition date and could be up to $100 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.

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 Spooky Cool Labs (in thousands, unaudited):

	Total
Developed technology, useful life of 3 years	$ 7,500
Net tangible assets acquired (liabilities assumed)	2,612
Goodwill	20,441
Total	$ 30,553

Goodwill, which is 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.

6. Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill from December 31, 2012 to June 30, 2013 are as follows (in thousands):

Goodwill December 31, 2012	$ 208,955
Additions	20,441
Foreign currency translation adjustments	(1,317)
Goodwill June 30, 2013	$ 228,079

Amortization expense related to amortizable intangible assets, excluding those acquired with the purchase of our building, for the six months ended June 30, 2013 and 2012 was $7.5 million and $21.5 million, respectively. As of June 30, 2013, future amortization expense related to these intangible assets is expected to be recognized as shown below (in thousands):

Year ending December 31:	
2013	6,436
2014	10,149
2015	6,274
2016 and thereafter	1,811
Total	$ 24,670

7. Income Taxes

The benefit from income taxes increased by $24.7 million and $33.3 million in the three and six months ended June 30, 2013, respectively, as compared to the same period of the prior year. These increases were attributable to the tax benefit recorded in the first quarter related to the reinstatement of the federal research and development tax credit retroactive to January 1, 2012 and the tax benefit recorded in the current quarter related to changes in the estimated jurisdictional mix of earnings, partially offset by the change in the valuation allowance associated with a portion of our net deferred tax assets.

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During 2012, we completed the implementation of our international structure, which resulted in a significant loss outside of the U.S for which no benefit was recorded. If and when the Company is profitable, we expect our global effective tax rate to be less than the U.S. statutory income tax rate.

8. Long-term Debt and Derivative Financial Instruments

In June, 2012, we entered into an agreement for a term loan of $100 million due June 30, 2017, at a variable interest rate of three month LIBOR plus 0.75 percent. Interest payments were made quarterly and the three month LIBOR reset once per quarter. The amounts borrowed were collateralized by our corporate headquarters building.

Concurrent with the execution of the loan agreement, to eliminate variability in interest payments, we entered into an interest rate swap agreement, such that the interest rate would be fixed at two percent. We designated the interest rate swap as a qualifying hedging instrument and accounted for it as a cash flow hedge in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*.

In April 2013, we fully repaid our outstanding long-term debt of $100 million and all accrued interest. Concurrent with our repayment of the debt, we also terminated the related interest rate swap agreement. As a result, we recorded a realized loss of $2.4 million in other income (expense), net in the consolidated statements of operations.

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 agreement 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. 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 interest rate for the credit facility is determined based on a formula using certain market rates, as described in the amended credit agreement. The agreement requires us to comply with certain covenants, including maintaining a minimum capitalization ratio, and maintaining a minimum cash balance. As of June 30, 2013, we have not drawn down any amounts under the credit facility and are in compliance with these covenants.

9. Other Current Liabilities

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

	June 30, 2013	December 31, 2012
Customer deposits	$ 14,788	$ 25,671
Accrued escrow for acquisitions	8,984	32,568
Other	65,549	88,644
Total other current liabilities	$ 89,321	$ 146,883

Customer deposits represent amounts received for unredeemed game cards as well as advanced payments from various customers. Accrued escrow from acquisitions mainly relates to amounts held in escrow under the terms of certain of our acquisition agreements. Other liabilities include various expenses that we accrue for transaction taxes, compensation liabilities and accrued accounts payable.

10. Restructuring

During the three months ended June 30, 2013, our Board of Directors (the Board) authorized, and we implemented a restructuring plan that included a reduction in work force of approximately 520 employees and the closure of certain office facilities as part of an overall plan to better align our cost structure against market opportunities. As a result of this restructuring, we recorded a charge of $25.1 million in the three months ended June 2013, which is included in operating expenses in our consolidated statement of operations. The restructuring charge is composed of $22.9 million of employee severance, $1.1 million related to non-cancelable contracts, and $1.1 million of other non-cash charges, primarily related to the disposal of certain assets. This restructuring charge does not include the impact of $11.5 million of net stock-based expense reversals associated with the net effect of forfeitures from employee terminations and the acceleration of unvested stock awards which were recorded in stock-based expense. As of June 30, 2013, the Company s restructuring related liabilities that are expected to result in future cash payouts related to the Q2 2013 restructuring were $5.4 million, including $4.1 million of employee severance and $1.3 million of non-cancelable contracts, the majority of which we expect to be paid out during Q3 2013.

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11. Stockholders Equity

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cost of revenue	$ (1,639)	$ 3,200	$ 294	$ 10,018
Research and development	15,888	65,246	36,788	143,392
Sales and marketing	3,973	12,218	5,386	25,133
General and administrative	7,666	14,792	13,342	50,764
Total stock-based expense	$ 25,888	$ 95,456	$ 55,810	$ 229,307

The following table shows stock option activity for the six months ended June 30, 2013 (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, 2012	80,819	$ 1.52	$ 100,225	7.43
Granted				
Forfeited and cancelled	(7,748)	2.49		
Exercised	(11,301)	0.32		
Balance as of June 30, 2013	61,770	$ 1.62	$ 89,656	6.73

The following table shows a summary of ZSU activity for the six months ended June 30, 2013 (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, 2012	56,648	$ 9.56	$ 133,690
Granted	45,869	3.21	
Vested	(13,778)	9.36	
Forfeited and cancelled	(15,738)	7.98	
Unvested as of June 30, 2013	73,001	$ 5.95	$ 202,943

Shares granted above include approximately 17.4 million performance-based ZSUs as part of our executive compensation plan with vesting that is dependent on the achievement of certain 2013 annual performance metrics, in addition to the passage of time, and we expensed $6.1 million in this period based on our current assessment of the most likely outcomes for these annual metrics.

The following table shows a summary of changes in accumulated other comprehensive income by component for the three and six months ended June 30, 2013 (in thousands):

	Foreign currency translation	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on derivative instruments	Total
Balance as of March 31, 2013	$ (516)	$ 343	$ (2,059)	$ (2,232)
Other comprehensive income before reclassifications	(614)	(1,088)	(379)	(2,081)
Amounts reclassified from accumulated other comprehensive income		(36)	2,438	2,402
Net current-period other comprehensive income	(614)	(1,124)	2,059	321
Balance as of June 30, 2013	$ (1,130)	$ (781)	$	$ (1,911)

	Foreign currency translation	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on derivative instruments	Total
Balance as of December 31, 2012	$ 327	$ 649	$ (2,423)	$ (1,447)
Other comprehensive income before reclassifications	(1,457)	(1,391)	(15)	(2,863)
Amounts reclassified from accumulated other comprehensive income		(39)	2,438	2,399
Net current-period other comprehensive income	(1,457)	(1,430)	2,423	(464)
Balance as of June 30, 2013	$ (1,130)	$ (781)	$	$ (1,911)

In October 2012, our Board authorized a program for the repurchase of our common stock in an amount of up to $200 million. During the six months ended June 30, 2013, we repurchased approximately 1.0 million shares of our common stock for $2.4 million under our 2012 program, and as of June 30, 2013, the remaining authorized amount of stock repurchases that may be made under the program was $185.7 million.

During the three months ended March 31, 2013, our Board approved the retirement of our treasury stock, approximately 31.3 million shares. Accordingly, we reclassified our treasury stock balance of $297.6 million, as a reduction to retained earnings.

12. 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 June 30,					
	2013			2012		
	Class A	Class B	Class C	Class A	Class B	Class C
	(unaudited)					
BASIC:						
Net income (loss)	$ (12,161)	$ (3,235)	$ (409)	$ (10,188)	$ (11,982)	$ (641)
Weighted-average common shares outstanding	610,622	162,402	20,517	326,274	383,719	20,517
Basic net income (loss) per share	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.03)
DILUTED:						
Net income (loss)	$ (12,161)	$ (3,235)	$ (409)	$ (10,188)	$ (11,982)	$ (641)
Reallocation of net income (loss) as a result of conversion of Class C shares to Class A shares	(409)			(641)		
Reallocation of net income (loss) as a result of conversion of Class B shares to Class A shares	(3,235)			(11,982)		
Net income (loss) attributable to common stockholders-diluted	$ (15,805)	$ (3,235)	$ (409)	$ (22,811)	$ (11,982)	$ (641)
Weighted-average common shares outstanding-basic	610,622	162,402	20,517	326,274	383,719	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	162,402			383,719		
Weighted-average common shares outstanding-diluted	793,541	162,402	20,517	730,510	383,719	20,517
Diluted net income (loss) per share	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.03)

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	Six Months Ended June 30,					
	2013			2012		
	Class A	Class B	Class C	Class A	Class B	Class C
	(unaudited)					
BASIC:						
Net income (loss)	$ (8,939)	$ (2,429)	$ (304)	$ (34,048)	$ (71,026)	$ (3,088)
Weighted-average common shares outstanding	602,501	163,766	20,517	226,188	471,849	20,517
Basic net income (loss) per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.15)	$ (0.15)	$ (0.15)
DILUTED:						
Net income (loss) attributable to common stockholders-basic	$ (8,939)	$ (2,429)	$ (304)	$ (34,048)	$ (71,026)	$ (3,088)
Reallocation of net income (loss) as a result of conversion of Class C shares to Class A shares	(304)			(3,088)		
Reallocation of net income (loss) as a result of conversion of Class B shares to Class A shares	(2,429)			(71,026)		
Net income (loss) attributable to common stockholders-diluted	$ (11,672)	$ (2,429)	$ (304)	$ (108,162)	$ (71,026)	$ (3,088)
Weighted-average common shares outstanding-basic	602,501	163,766	20,517	226,188	471,849	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	163,766			471,849		
Weighted-average common shares outstanding-diluted	786,784	163,766	20,517	718,554	471,849	20,517
Diluted net income (loss) per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.15)	$ (0.15)	$ (0.15)

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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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Stock options	64,241	85,407	68,533	92,933
Warrants	695	695	695	695
Restricted shares	5,224	16,082	5,510	18,300
ZSUs	64,597	50,762	60,577	60,707
Total	134,757	152,946	135,315	172,635

13. Commitments and Contingencies

Lease Commitments

We have entered into operating leases for facilities, including data center space. As of June 30, 2013, future minimum lease payments related to these leases are as follows (in thousands):

Year ending December 31:	
2013	$ 16,893
2014	33,325
2015	30,589
2016	24,907
2017	15,355
2018 and thereafter	45,981
	$ 167,050

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. The consolidated 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 December 16, 2011 and July 25, 2012. The consolidated complaint asserts claims for unspecified damages, and an award of costs and expenses to the putative class, including attorneys fees. The defendants motions to dismiss were filed on May 31, 2013, and a hearing on the motions is scheduled for August 30, 2013.

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. The action was removed to federal court, and was later remanded to San Francisco County Superior Court. The complaint alleges that the defendants violated the federal securities laws by issuing false or misleading statements in connection with a March 28, 2012 secondary offering of Class A common stock. The plaintiff seeks to represent a class of persons who acquired the Company s common stock pursuant or traceable to the secondary offering. On June 10, 2013, the defendants filed a demurrer and motion to stay the action, and a hearing on the demurrer and motion is scheduled for August 2, 2013.

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 a March 28, 2012 secondary offering. The defendants removed the case to the United States District Court for the District of Delaware on May 10, 2013. On June 3, 2013, the plaintiff filed a motion for remand. On June 17, 2013, the defendants filed a motion to dismiss and opposition to plaintiff s motion to remand. The court has not yet scheduled a hearing on these motions.

The Company believes it has meritorious defenses in the above securities class actions and will vigorously defend these actions.

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, 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. 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. 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. A derivative action was also filed in the United States District Court for the District of Delaware. The plaintiff in the District of Delaware action voluntarily dismissed the action on November 19, 2012. 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.

To date, there has been no discovery or other substantive proceedings in the actions described above. Accordingly, 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.

On February 10, 2012, an action entitled *Personalized Media Communications, LLC v. Zynga Inc.,* Case No. 2:12-cv-68 was filed against the Company in the United States District Court for the Eastern District of Texas. The plaintiff alleges infringement of four patents by 39 games and seeks an undisclosed amount of damages. On January 25, 2013, the court denied the Company s motion to transfer the action to the Northern District of California. The matter is scheduled to be called for trial on November 4, 2013. Discovery is ongoing and the parties are awaiting patent claim construction. The Company believes it has meritorious defenses and will vigorously defend this action. Given that the patent claims have not yet been construed and the Company s defenses have not yet been heard, 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. In addition, in February 2013, the Company filed four petitions for *inter partes* review in the United States Patent and Trademark Office before the Patent Trial and Appeal Board (the PTA Board). The petitions ask the PTA Board to review all asserted claims for the four patents that are the subject of the pending litigation action and, based on the referenced prior art, determine them to be invalid. On July 25, 2013, the PTA Board issued decisions authorizing the institution of the Company s requested *inter partes* reviews, entered a Scheduling Order, and set oral arguments for April 22, 2014.

The Company is also party to various legal proceedings and claims which arise in the ordinary course of business. In addition, we may receive notification 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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14. 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,	
	2013	2012	2013	2012
United States	$ 138,086	$ 200,180	$ 294,337	$ 396,635
All other countries [1]	92,649	132,313	199,987	256,830
Total revenue	$ 230,735	$ 332,493	$ 494,324	$ 653,465

(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, 2013	December 31, 2012
United States	$ 408,261	$ 459,906
All other countries	5,083	6,168
Total property and equipment, net	$ 413,344	$ 466,074

15. Subsequent Events

New Chief Executive Officer

On July 8, 2013, Don A. Mattrick commenced his employment with Zynga as its Chief Executive Officer and a member of the Board. In conjunction with his employment, the Board granted Mr. Mattrick 10.7 million ZSUs and 7.4 million stock options on July 15, 2013. Of these equity instruments, 8.9 million of the ZSUs will vest over a period of three years; the remaining 1.8 million ZSUs and 7.4 million stock options will vest over a period of five years.

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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 and you are cautioned not to place undue reliance on 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 online social game developer with approximately 187 million average MAUs for the three months ended June 30, 2013. We have launched some of the most successful social games in the industry in each of the last three years. Our games are accessible on Facebook and other social networks, mobile platforms and Zynga.com. Our games are generally available for free, and we generate revenue through the in-game sale of virtual goods, mobile game download fees and advertising.

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 as our business grows.

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 and advertising. 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 an ad-free mobile game.

Facebook is currently the primary distribution, marketing, promotion and payment platform for our games. We generate a significant portion of our revenue through the Facebook platform and expect to continue to do so for the foreseeable future. For example, for the three months ended June 30, 2013 and 2012, we estimate that 68% and 80% of our bookings, respectively, were generated through the Facebook platform, while 27% and 19% of our bookings, respectively, were generated through mobile platforms. For the three months ended June 30, 2013 and 2012, we estimate that 76% and 87% of our revenue, respectively, was generated through the Facebook platform, while 23% and 12% of our revenue, respectively, was generated through mobile platforms. 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.

We began migrating to Facebook Credits in July 2010 pursuant to an addendum to Facebook s standard terms and conditions, and in April 2011, we completed this migration. Contractually, Facebook remits to us an amount equal to 70% of the price stated to our players for use in our games. We recognize revenue net of amounts retained by Facebook. Players can purchase Facebook Credits from Facebook directly through our games or through game cards purchased from retailers and distributors.

In June 2012, Facebook announced its plans to discontinue the use of Facebook Credits and instead support pricing in local currencies. We expect to fully transition away from Facebook Credits and to adopt Facebook s local currency-based payments model in the third quarter of 2013.

On platforms other than Facebook, players purchase our virtual goods through various widely accepted payment methods offered in the games, including credit cards, PayPal, Apple iTunes accounts and direct wires.

Advertising. Advertising revenue primarily includes branded virtual goods and sponsorships, engagement ads and offers, mobile ads, display ads and licensing. We generally report our advertising revenue net of amounts due to advertising agencies and brokers.

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 is 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 better 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 US 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,	
	2013	**2012**	**2013**	**2012**
Reconciliation of Revenue to Bookings:				
Revenue	$ 230,735	$ 332,493	$ 494,324	$ 653,465
Change in deferred revenue	(43,157)	(30,905)	(76,931)	(22,713)
Bookings	$ 187,578	$ 301,588	$ 417,393	$ 630,752

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; gain (loss) from legal settlements; restructuring expense; depreciation and amortization; stock-based expense 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Reconciliation of Net Income (Loss) to Adjusted EBITDA:				
Net income (loss)	$ (15,805)	$ (22,811)	$ (11,672)	$ (108,162)
(Provision for) benefit from income taxes	(17,989)	6,696	(26,755)	6,618
Other income (expense), net	4,531	(21,250)	5,394	(20,108)
Interest income (expense), net	(1,105)	(1,084)	(2,268)	(2,375)
Restructuring expense, net	25,089		30,548	
Legal settlements				889
Depreciation and amortization	30,858	39,207	62,919	68,605
Stock-based expense	25,888	95,456	55,810	229,307
Change in deferred revenue	(43,157)	(30,905)	(76,931)	(22,713)
Adjusted EBITDA	$ 8,310	$ 65,309	$ 37,045	$ 152,061

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 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, and the net gain on the termination of our lease and the purchase of our corporate headquarters building;
- 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 losses associated with restructuring charges;
- adjusted EBITDA does not include gains and losses associated with 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.

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. Similarly, an individual who plays the same game on two different platforms (e.g. web and mobile) or on two different social networks on the same day would be counted as two 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 a particular game 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. Similarly, an individual who plays the same game on two different platforms (e.g., web and mobile) or on two different social networks in a 30-day period would be counted as two 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.

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MUUs. We define MUUs as the number of unique individuals who played any of our games on a particular platform 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. However, because we cannot always distinguish unique individuals playing across multiple platforms, an individual who plays any of our games on two different platforms (e.g., web and mobile) in a given 30-day period may be counted as two MUUs in the event that we do not have data that allows us to de-duplicate the player. Because many of our players play more than one game in a given 30-day period, MUUs are always 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 unique players who made a payment at least once during the applicable month through a payment method for which we can quantify the number of unique payers, including payers from certain of our mobile games. MUPs does not include payers who use certain payment methods for which we cannot quantify the number of unique payers. If a player made a payment in our games on two separate platforms (e.g., Facebook and Google+) in a period, the player would be counted as two unique payers in that period. MUPs are presented as an average of the three months in the applicable quarter.

ABPU. We define ABPU as (i) our total bookings in a given period, divided by (ii) the number of days in that period, divided by, (iii) 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.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2013	**2012**	**2013**	**2012**
	(users and payers in millions)			
Average DAUs	39	72	46	69
Average MAUs	187	306	220	299
Average MUUs	123	192	136	187
Average MUPs	1.9	4.1	2.2	3.8
ABPU	$ 0.053	$ 0.046	$ 0.051	$ 0.051

The decreases in DAUs, MAUs, MUUs and MUPs for the three months ended June 30, 2013 as compared to same periods of the prior year was the result of a decline in users from our games, primarily *Draw Something*, a game we acquired through the OMGPOP acquisition in the second quarter of 2012.

The decreases in DAUs, MAUs and MUUs for the six months ended June 30, 2013 as compared to same periods of the prior year was the result of declines in our existing games that were not offset by users playing new games launched in late 2012 or 2013.

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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:				
	Jun 30, 2013	**Mar 31, 2013**	**Dec 31, 2012**	**Sep 30, 2012**	**Jun 30, 2012**
Average monthly unique payer bookings (in thousands) (1)	$ 50,657	$ 64,028	$ 72,867	$ 71,760	$ 86,282
Average MUPs (in millions)	1.9	2.5	2.9	2.9	4.1
Monthly unique payer bookings per MUP (2)	$ 26	$ 26	$ 25	$ 25	$ 21

(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.

(2) Monthly unique payer bookings per MUP is calculated by dividing average monthly unique payer bookings by average MUPs.

Monthly unique payer bookings and average MUP both declined in the three months ended June 30, 2013, when compared to the three months ended March 31, 2013, consistent with our overall decline in user base. Monthly unique payer bookings per MUP was flat in the three months ended June 30, 2013, when compared to the three months ended March 31, 2013, as we were able to monetize our paying user base at the same rate as the previous three months.

Although we monitor our unique payer metrics, we focus on monetization, including through in-game advertising, of all of our players and not just our 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 the Zynga platform. Our operating metrics may not correlate directly to quarterly bookings or revenue trends in the short term.

Recent Developments

Changes in Executive Team and Board of Directors. In July 2013, subsequent to approval and appointment by the Board of Directors of the Company, Don A. Mattrick replaced Mark Pincus as Chief Executive Officer and was appointed as a director of the Company. Mr. Pincus continues to serve as Chairman of the Board and Chief Product Officer of the Company. Additionally, Mr. Pincus and Mr. Mattrick were appointed to a new committee of the Board, the Executive Committee, which serves as an administrative committee of the Board to facilitate approval of certain corporate actions in the intervals between full meetings of the Board. Subject to certain limitations set forth in its charter, the Executive Committee will serve to manage the operations and affairs of the Company between Board meetings, and will report to the full Board.

In the second quarter of 2013, Owen Van Natta resigned from his position as a director of the Company. Prior to his resignation, Mr. Van Natta was a member of the Mergers and Acquisition Committee of the Board.

Acquisition of Spooky Cool Labs. In the second quarter of 2013, we acquired Spooky Cool Labs LLC, a provider of social casino games, for mobile and web platforms, for purchase consideration of approximately $30.6 million in cash and contingent consideration. We acquired Spooky Cool Labs to expand our footprint in the social casino games space.

Game Launches. In the second quarter of 2013, we launched six games. On web platforms, we launched *Hidden Shadows*, and for mobile platforms, we launched *War of the Fallen, Draw Something 2, Battlestone, Solstice Arena* and *Running with Friends*.

Q2 2013 Restructuring. In the second quarter of 2013, we implemented a restructuring plan that included a reduction in work force of approximately 520 employees and the closure of certain offices as part of an overall plan to reduce the Company s long term cost structure.

Real Money Gaming. During 2012, we expanded our efforts into RMG markets by entering into an agreement with bwin.party to offer RMG products in the United Kingdom and filing an application for Preliminary Finding of Suitability with the Nevada Gaming Control Board. In the second quarter of 2013, we launched our first RMG offerings, *ZyngaPlusPoker* and *ZyngaPlusCasino*, in the United Kingdom through our agreement with bwin.party. While we continue to evaluate our RMG products in the United Kingdom test, in July 2013, we decided to withdraw our application from the Nevada Gaming Control Board and made the focused choice not to pursue a license for real money gaming in other U.S. jurisdictions in order to focus our resources and priorities against the growing market in free, social gaming, including social casino offerings.

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Factors Affecting Our Performance

Changes in Facebook Agreements. Facebook is the primary distribution, marketing, promotion and payment platform for our social games. We generate a significant portion of our bookings, revenue and players through the Facebook platform and expect to continue to do so for the foreseeable future. Facebook and other platforms generally have the discretion to change their platforms, terms of service and other policies with respect to us or other developers, 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 games and the release of fresh content and new features in existing games. 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, in particular many of our existing web 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 $0.046 in the three months ended June 30, 2012 to $0.053 in the three months ended June 30, 2013, due to many of the players accounting for the decline in DAU not being paying players contributing to online game bookings. In addition, mobile and international players have historically monetized at a lower level than web and U.S. players, respectively, on average. 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 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. We may incur increased player acquisition costs as our ability to cross-promote traffic to games that are offered on platforms other than Facebook, for example, games offered on Zynga.com, as well as our RMG offerings with bwin.party, will be limited by Facebook s standard terms of service, subject to certain exceptions.

New market development. We are investing in new distribution channels such as Zynga.com, 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 obtain users on Zynga.com, interest third-party game developers, attract advertisers and successfully extend Zynga.com to mobile.

We entered into an agreement with bwin.party to offer RMG products in the United Kingdom and in the second quarter of 2013, we launched our first RMG offerings, *ZyngaPlusPoker* and *ZyngaPlusCasino*, in the United Kingdom. However, we are evaluating our RMG products in the United Kingdom to determine whether or not they are on strategy and aligned with our near term market opportunities and priorities.

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. During the first six months of 2013, in addition to experiencing employee attrition, we 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. 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.

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Results of Operations

The following table sets forth our results of operations for the periods presented as a percentage of revenue for those periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Consolidated Statements of Operations Data:				
Revenue	100%	100%	100%	100%
Costs and expenses:				
Cost of revenue	26	29	26	28
Research and development	54	52	51	55
Sales and marketing	14	17	12	17
General and administrative	19	14	18	19
Total costs and expenses	113	112	107	119
Income (loss) from operations	(13)	(12)	(7)	(19)
Interest income				
Other income (expense), net	(2)	6	(1)	3
Income (loss) before income taxes	(15)	(6)	(8)	(16)
(Provision for) / benefit from income taxes	8	(1)	5	(1)
Net income (loss)	(7)%	(7)%	(3)%	(17)%

Revenue

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2013	2012		2013	2012	
	(in thousands)			(in thousands)		
Revenue by type:						
Online game	$ 203,326	$ 291,548	(30%)	$ 432,892	$ 584,328	(26%)
Advertising	27,409	40,945	(33%)	61,432	69,137	(11%)
Total revenue	$ 230,735	$ 332,493	(31%)	$ 494,324	$ 653,465	(24%)

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Total revenue decreased $101.8 million in the second quarter of 2013, as compared to the same period of the prior year. Bookings decreased by $114.0 million in the second quarter of 2013, as compared to the same period of the prior year. ABPU increased from $0.046 to $0.053 in the second quarter of 2013, as compared to the same period of the prior year, while average DAUs decreased from 72 million in the second quarter of 2012 to 39 million in the second quarter of 2013.

Online game revenue decreased $88.2 million in the second quarter of 2013, as compared to the same period of the prior year. This decrease is partially attributable to online game revenue from *FarmVille, CityVille* and *FrontierVille* decreasing by $50.6 million, $29.1 million, and $14.1 million, respectively. The decreases in online game revenue from *FarmVille, CityVille* and *FrontierVille* were due to an overall decline in bookings in these games. The decreases in online game revenue were partially offset by increases in online game revenue of $30.3 million and $13.8 million from *FarmVille 2* and *ChefVille,* respectively, which were the result of the launch of these games in September 2012 and August 2012, respectively. All other games, in aggregate, accounted for the remaining offsetting decrease in online game revenue of $38.5 million for the second quarter of 2013.

International revenue as a percentage of total revenue accounted for 40% in both the second quarter of 2013 and 2012.

In the three months ended June 30, 2013, *Zynga Poker*, *FarmVille* and *FarmVille* 2 were our top revenue-generating games and comprised 20%, 16% and 15% respectively, of our online game revenue for the period. In the three months ended June 30, 2012, *FarmVille*, *Zynga Poker* and *CityVille* were our top revenue-generating games and comprised 29%, 18%, and 13%, respectively, of our online game revenue. No other game generated more than 10% of online game revenue during either of these periods.

Consumable virtual goods accounted for 28% of online game revenue in both the second quarter of 2013 and 2012. Durable virtual goods accounted for 72% of online game revenue in both the second quarter of 2013 and 2012. The estimated weighted-average life of durable virtual goods was 13 months and 12 months for the second quarter of 2013 and 2012, respectively.

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Advertising revenue decreased $13.5 million in the three months ended June 30, 2013 as compared to the three months ended June 30, 2012, due to a $7.5 million decrease in in-game display ads, a $4.1 million decrease in in-game sponsorship revenue, and a $1.8 million decrease in in-game offers, engagement ads and other advertising revenue.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Total revenue decreased $159.1 million in the six months ended June 30, 2013, as compared to the same period of the prior year. Bookings decreased by $213.4 million in the six months ended June 30, 2013 as compared to the same period of the prior year. ABPU remained unchanged at $0.051 for the six months ended June 30, 2012 and the six months ended June 30, 2013. DAUs decreased from 69 million for the six months ended June 30, 2012 to 46 million for the six months ended June 30, 2013.

Online game revenue decreased $151.4 million in the six months ended June 30, 2013 as compared to the same period of the prior year. This decrease is primarily attributable to decreases in revenue from *Farmville*, *Cityville* and *FrontierVille* in the amounts of $99.7 million, $64.4 million and $35.8 million respectively. The decreases in online game revenue from these three games were the result of lower bookings for each of these games due to the overall decay rate in these games. These decreases were partially offset by higher revenues in *FarmVille 2* and *ChefVille*, in the amounts of $50.7 million and $24.3 million respectively, which were the result of the launch of these games in September 2012 and August 2012, respectively. All other games accounted for the remaining net increase of $26.5 million.

International revenue as a percentage of total revenue accounted for 40% and 39% in the six months ended June 30, 2013 and 2012, respectively.

In the six months ended June 30, 2013, *Zynga Poker, FarmVille*, and *FarmVille 2*, were our top revenue-generating games and comprised 21%, 16% and 12%, respectively, of our online game revenue for the period. In the six months ended June 30, 2012, *FarmVille*, *Zynga Poker,* and *CityVille*, were our top revenue-generating games and comprised 29%, 17%, and 15%, respectively, of our online game revenue for the period. No other game generated more than 10% of online game revenue during either of these six month periods.

Consumable virtual goods accounted for 29% of online game revenue in both the six months ended June 30, 2013 and 2012. Durable virtual goods accounted for 71% of online game revenue in both the six months ended June 30, 2013 and 2012. The estimated weighted-average life of durable virtual goods was 13 months in both the six months ended June 30, 2013 and June 30, 2012. In addition, changes in our estimated average life of durable virtual goods during the six months ended June 30, 2013 for various games resulted in an increase in revenue of $2.4 million in that period, 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 virtual goods resulted in an increase in revenue of $21.6 million.

Advertising revenue decreased $7.7 million from the six months ended June 30, 2012 to the six months ended June 30, 2013, due to a $5.4 million decrease in in-game sponsorship revenue, a $3.5 million decrease in licensing revenue, a $2.4 million decrease in in-game offers, engagement ads and other advertising revenue, partially offset by a $3.6 million increase in in-game display advertising.

Cost of revenue

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	% Change	2013	2012	% Change
	(in thousands)			(in thousands)		
Cost of revenue	$ 61,077	$ 94,841	(36%)	$ 130,471	$ 184,963	(29%)

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Cost of revenue decreased $33.8 million in the second quarter of 2013 as compared to the same period of the prior year. The decrease was primarily attributable to a decrease in third party hosting expense of $12.4 million, a decrease in depreciation and amortization expense of $7.8 million, a decrease in third party customer service expense of $7.1 million and a decrease in stock-based expense of $4.8 million in the second quarter of 2013 as compared to the same period of the prior year.

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Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Cost of revenue decreased $54.5 million in the six months ended June 30, 2013 as compared to the same period of the prior year. The decrease was primarily attributable to a decrease in third party hosting expense of $25.1 million, a decrease in third party customer service expense of $10.5 million, a decrease in stock-based expense of $9.7 million and a decrease in depreciation and amortization expense of $6.3 million in the six months ended June 30, 2013 as compared to the same period of the prior year.

Research and development

	Three Months Ended June 30, 2013	2012	% Change	Six Months Ended June 30, 2013	2012	% Change
	(in thousands)			(in thousands)		
Research and development	$ 124,322	$ 171,316	(27%)	$ 253,503	$ 358,192	(29%)

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Research and development expenses decreased $47.0 million in the second quarter of 2013 as compared to the same period of the prior year. The decrease was primarily attributable to a $49.4 million decrease in stock-based expense, and a decrease of $11.7 million in headcount-related expenses. These decreases were partially offset by restructuring expense of $19.8 million recognized in 2013.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Research and development expenses decreased $104.7 million in the six months ended June 30, 2013 as compared to the same period of the prior year. The decrease was primarily attributable to a $106.6 million decrease in stock-based expense, and a decrease of $15.7 million in headcount-related expenses. These decreases were partially offset by restructuring expense of $23.2 million recognized in 2013.

Sales and marketing

	Three Months Ended June 30, 2013	2012	% Change	Six Months Ended June 30, 2013	2012	% Change
	(in thousands)			(in thousands)		
Sales and marketing	$ 31,163	$ 56,055	(44%)	$ 58,470	$ 112,892	(48%)

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Sales and marketing expenses decreased $24.9 million in the second quarter of 2013 as compared to the same period of the prior year. The decrease was primarily attributable to a $14.9 million decrease in marketing expense due to fewer game launches, $8.2 million decrease in stock-based expenses, partially offset by restructuring expense of $1.0 million recognized in 2013.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Sales and marketing expenses decreased $54.4 million in the six months ended June 30, 2013 as compared to the same period of the prior year. The decrease was primarily attributable to a $29.5 million decrease in marketing costs due to fewer game launches, a $19.7 million decrease in stock-based expense and a decrease of $2.7 million in headcount-related expenses.

General and administrative

	Three Months Ended June 30, 2013	2012	% Change	Six Months Ended June 30, 2013	2012	% Change
	(in thousands)			(in thousands)		
General and administrative	$ 44,541	$ 48,730	(9%)	$ 87,181	$ 121,445	(28%)

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Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

General and administrative expense decreased $4.2 million in the second quarter of 2013 as compared to the same period of the prior year. The decrease was primarily attributable to a decrease of $7.1 million in stock-based expense, partially offset by restructuring expense of $3.4 million recognized in 2013.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

General and administrative expenses decreased $34.3 million in the six months ended June 30, 2013 as compared to the same period of the prior year. The decrease was primarily attributable to a decrease of $37.4 million in stock-based expense and a decrease of $6.4 million in headcount-related expenses. These decreases were partially offset by restructuring expense of $5.3 million recognized in 2013.

Other income (expense), net

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2013	2012		2013	2012	
	(in thousands)			(in thousands)		
Other income (expense), net	$ (4,531)	$ 21,250	N/M	$ (5,394)	$ 20,108	N/M

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Other income (expense), net decreased by $26 million in the second quarter of 2013 as compared to the same period of the prior year. The decrease was primarily attributable the recognition of a net gain of $19.9 million from the termination of our lease and purchase of our corporate headquarters in 2012. In addition, we recognized a $2.4 million loss during three months ended June 30, 2013 as a result of the termination of our interest rate swap.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Other income (expense), net decreased $26 million in the six months ended June 30,2013 as compared to the same period of the prior year. The decrease was primarily attributable to the $19.9 million net gain recognized from the termination of our lease and purchase of our corporate headquarters in 2012. In addition, we recognized a $2.4 million loss recognized in the six months ended June 30, 2013 as a result of the termination of our interest rate swap

Provision for income taxes

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2013	2012		2013	2012	
	(in thousands)			(in thousands)		
Provision for income taxes	$ 17,989	$ (6,696)	N/M	$ 26,755	$ (6,618)	N/M

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

The benefit from income taxes increased by $24.7 million in the second quarter of 2013 as compared to the same period of the prior year. This increase was attributable to the tax benefit recorded in the first quarter related to the reinstatement of the federal research and development tax credit effective January 1, 2013 and the tax benefit recorded in the current quarter related to changes in the estimated jurisdictional mix of earnings, partially offset by the change in the valuation allowance associated with a portion of our net deferred tax assets.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

The benefit from income taxes increased by $33.3 million in the six months ended June 30, 2013 as compared to the same period of the prior year. This increase was attributable to the tax benefit recorded in the first quarter related to the reinstatement of the federal research and development tax credit effective January 1, 2013 and the tax benefit recorded in the current quarter related to changes in the estimated jurisdictional mix of earnings, partially offset by the change in the valuation allowance associated with a portion of our net deferred tax assets

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Liquidity and Capital Resources

	Six Months Ended June 30, 2013	2012
	(in thousands)	
Consolidated Statements of Cash Flows Data:		
Acquisition of property and equipment	$ 6,290	$ 311,615
Depreciation and amortization	62,919	68,605
Cash flows provided by operating activities	25,800	145,841
Cash flows (used in) investing activities	(87,211)	(1,384,040)
Cash flows (used in) provided by financing activities	(106,592)	91,929

As of June 30, 2013, we had cash, cash equivalents and marketable securities of approximately $1.53 billion, which consisted of cash, money market funds, U.S. government and government agency debt securities, corporate debt securities and municipal securities. For the full year ended December 31, 2013, we expect to make capital expenditures of up to $25 million.

In addition, in October 2012, we announced that our Board authorized us to repurchase up to $200 million of our Class A common stock. As of June 30, 2013, we had repurchased $14.3 million of our Class A common stock under our stock repurchase program and the remaining authorized amount of stock repurchases that may be made under this plan was $185.7 million. The timing and amount of any stock repurchases will be determined based on market conditions, share price and other factors.

Operating Activities

Operating activities provided $25.8 million of cash during the six months ended June 30, 2013, when our net loss of $11.6 million is adjusted to exclude non-cash items. Significant non-cash items included depreciation and amortization of $62.9 million and stock-based expense of $55.8 million. Changes in our operating assets and liabilities used $79.2 million in cash for the six months ended June 30, 2013 primarily due to decrease in deferred revenue and other liabilities, offset by a decrease in accounts receivable.

Investing Activities

Investing activities used $87.2 million during the six months ended June 30, 2013. The primary outflows of cash were approximately $18.1 million for our acquisition of Spooky Cool Labs , net of acquired cash, and $623.7 million related to the purchase of marketable securities. To offset some of these outflows, we had cash inflows of $561.3 million related to the sales and maturities of marketable securities.

Financing Activities

Financing activities used approximately $106.6 million during the six months ended June 30, 2013. The primary outflows of cash were the repayment of $100.0 million in debt and excess tax benefits from stock-based awards of $10.6 million. These outflows of cash were partially offset by approximately $7.1 million of cash receipts from employee exercises of stock options and employee participation in our employee stock purchase plan.

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 agreement through 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. As of June 30, 2013, we had not drawn down any amounts on the credit facility.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangement in the second quarter of 2013 or in any prior periods.

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Lease Obligations

We have entered into operating leases for facilities, including data center space. As of June 30, 2013, future minimum lease payments related to these leases are as follows (in thousands):

Year ending December 31:		
2013	$	16,893
2014		33,325
2015		30,589
2016		24,907
2017		15,355
2018 and thereafter		45,981
	$	167,050

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

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. 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, 2012 for a more complete discussion of our critical accounting policies and estimates. In addition, we made the following addition to our critical accounting policies:

Stock-Based Expense

For ZSUs granted prior to our initial public offering, and awards subject to a performance condition, we recognize stock-based compensation expense using the accelerated attribution method, net of estimated forfeitures, in which compensation cost for each vesting tranche in an award is recognized ratably from the service inception date to the vesting date for that tranche. For ZSUs granted after the initial public offering, which are only, or will only be, subject to a service condition, we recognize stock-based expense on a ratable basis over the requisite service period for the entire award.

Business Combinations

In line with our growth strategy, we have completed acquisitions to expand our social games and mobile offerings, obtain employee talent, and expand into new markets. We account for acquisitions of entities that include inputs and processes and have the ability to create outputs as business combinations. We allocate the purchase price of the acquisition, which includes the estimated acquisition date fair value of contingent consideration, to the tangible assets, liabilities and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. Determining the fair value of such items requires judgment, including estimating future cash flows or estimating the cost to recreate an acquired asset. If actual results are lower than estimates, we could be required to record impairment charges in the future. Acquired intangible assets are amortized over their estimated useful lives. Intangible assets with indefinite lives are not amortized but rather tested for impairment annually, or more frequently if circumstances exist which indicate an impairment may exist.

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Acquisition-related expenses and restructuring costs are expensed as incurred. During the one-year period beginning with the acquisition date, we may record certain purchase accounting adjustments related to the fair value of assets acquired and liabilities assumed against goodwill. After the final determination of the fair value of assets acquired or liabilities assumed, any subsequent adjustments are recorded to our consolidated statements of operations. Subsequent to the measurement period, our final determination of any acquired tax attributes value will affect our provision for income taxes in our consolidated statement of operations and could have a material impact on our results of operations and financial position. We record changes in the fair value of contingent consideration liabilities within operating expenses in our consolidated statement of operations each reporting period.

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

During the six months ended June 30, 2013, 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, 2012 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 Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission (the SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2013, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended June 30, 2013 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 13 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 condensed consolidated financial statements and related notes.

We have marked with an asterisk (*) those risks described below that reflect substantive changes from, or additions to, the risks described in our Quarterly Report on Form 10-Q for the quarter-ended March 31, 2013.

Risks Related to Our Business and Industry

If Facebook changes its standard terms and conditions for developers in a way that is detrimental to us, our business will suffer.*

Facebook is currently the primary distribution, marketing, promotion and payment platform for our games. To date, we have derived a significant portion of our bookings (68% in the three months ended June 30, 2013) and revenue (76% in the three months ended June 30, 2013) and acquired substantially all of our players through Facebook. We expect to continue to derive a significant portion of our bookings and revenue from the Facebook platform for the foreseeable future. Except for the addenda described below, we are subject to Facebook s standard terms and conditions for application developers, which govern the promotion, distribution and operation of games and other applications on the Facebook platform, and which are subject to change by Facebook at its sole discretion at any time. If Facebook changes its standard terms and conditions in a way that is detrimental to us, our business would be harmed and our operating results would be adversely affected.

We have entered into two addenda to Facebook s standard terms of service that govern the distribution, promotion and operation of our games through the Facebook platform. The first addendum required us to use Facebook Credits as the primary payment method for any of our games that are either on the Facebook platform or that utilize the data from the Facebook social graph, and required Facebook to remit to us an amount equal to 70% of the price stated to our players. The second addendum obligated us to use Facebook Credits as the sole in-game payment mechanism in any games launched on our own social gaming network, and entitled Facebook to retain 30% of the stated price for transactions on our network. The second addendum also required us to use Facebook as the exclusive social platform for the Zynga properties and to exclusively launch certain of our games on the Facebook platform for up to 12 months, subject to certain exceptions.

In June 2012, Facebook announced its plans to discontinue the use of Facebook Credits and instead support pricing in local currencies. Facebook will continue to retain 30% of the stated price for transactions on their platform under the terms of their new payments program. We expect to fully transition away from Facebook Credits and to adopt Facebook s local currency-based payments model in the third quarter of 2013.

On November 28, 2012, we amended our agreements with Facebook such that our use of the Facebook platform and any data from Facebook on any Zynga service offered through a Zynga game page (for example, the With Friends Network) will be governed by Facebook s standard terms of service beginning on March 31, 2013. Under the current terms of service, we are limited in our ability to use a Facebook user s friends list and Facebook s communication channels to promote the With Friends Network. This may limit our ability to reach Facebook users from the With Friends Network and may limit the number of players that use the With Friends Network. In December 2012, Facebook amended its standard terms of service to prohibit (i) apps on the Facebook canvas from promoting or linking to game sites other than Facebook and (ii) the use of emails obtained from Facebook to promote or link to desktop web games on platforms other than Facebook. We are now prohibited from cross-promoting traffic to games that are offered on platforms other than Facebook from our games on Facebook, subject to limited exceptions. Moreover, as a result of the amended terms of service, we are no longer permitted to use e-mail addresses obtained from Facebook to promote desktop web games that are not on the Facebook platform, subject to certain limited exceptions.

Since March 31, 2013, we are no longer obligated to display Facebook advertising units or utilize Facebook s payment services (Facebook Credits or local-currency based payments) on any such Zynga game pages. We have the right to process our own payments, and Facebook no longer has the right to receive 30% of the proceeds from payments made on the With Friends Network.

We are no longer required to use Facebook as the exclusive social platform for the Zynga properties, or required to grant certain title exclusivities of Zynga games on the Facebook platform, subject to certain exceptions. However, now any social game launched by Zynga will generally be available through the Facebook web site concurrent with, or shortly following, the time such game is made available on another social platform or a Zynga property.

The addenda, including our recent amendments, with Facebook will each expire in 2015. Our current agreements with Facebook allow our users to use Zynga/Facebook co-branded game cards for the redemption of Facebook Credits and also allows for our own Zynga game cards, which were previously printed and delivered to our distributors and retailers, to continue to be sold to game players until all such cards are sold. We do not plan to print and sell more of our own cards for redemption on the Facebook platform, however since March 31, 2013, we have the right to sell our own game cards on other platforms, including on the With Friends Network.

Our business may be harmed if:

- Facebook discontinues or limits access to its platform by us;
- Facebook terminates or does not renew or modifies our addenda 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, other application developers, or Facebook changes how the personal information of its users is made available to application developers on the Facebook platform or shared by users;
- Facebook establishes more favorable relationships with one or more of our competitors; or
- Facebook develops 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 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. Additionally, if Facebook s user base transitions from Facebook s traditional platform to mobile devices, our efforts may not be successful in converting those mobile users to consumers of our mobile and multi-platform offerings.

As noted above, Facebook has broad discretion to change 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, 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. For instance, beginning in early 2010, Facebook changed its policies for application developers regarding use of its communication channels. These changes limited the level of communication among users about applications on the Facebook platform. As a result, the number of our players on Facebook declined. In addition, starting in April 2011, Facebook s policy requiring that applications on Facebook accept only its virtual currency, Facebook Credits, as payment from users, provided Facebook with a greater share of payments made by our players than it did when other payment options were allowed. Although our current agreements with Facebook allow our users to use Zynga-branded game cards for the redemption of Facebook Credits in our games on Facebook until all such existing game cards are sold, our future bookings and revenue may be negatively impacted during this transition period and upon the expiration of our game card program. Any such changes in the future could significantly alter how players experience or interact within our games, which may harm our business.

Our revenue, bookings and operating margins may decline.

The industry in which we operate is highly competitive and rapidly changing, which relies heavily on successful product launches and compelling content, products and services, and as such, if we fail to deliver such content, products and services or do not execute our strategy successfully, our revenue and bookings may decline. In addition, we believe that our operating margin will continue to experience downward pressure as a result of increasing competition and the need for increased operating expenditures for many aspects of our business. Further, the increased stock-based expense associated with restricted stock units (ZSUs) issued to our directors, employees and consultants, which we had not recognized prior to our initial public offering, will also exert downward pressure on our operating margin. We expect to continue to expend substantial financial and other resources on game development, including mobile games, the expansion of the With Friends Network, international expansion and our network infrastructure. Our operating costs will increase if we do not effectively manage costs. In addition, weak economic conditions or other factors could cause our business to contract, requiring us to implement significant additional cost cutting measures, including a decrease in research and development, which could harm our long-term prospects.

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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, traffic and operating results 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, 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 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.

It is difficult to predict when bookings from one of our games will begin to decline, as well as the decay rate for any particular game. 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 that achieve significant popularity and have the potential to become franchise 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, we may not meet our expectations or the expectations of securities analysts or investors for a given quarter.

In addition, 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, in early 2013, we decided to discontinue development of certain games that were originally expected to be released 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 can drive long-term enterprise value. Although the 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.

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 financial performance.

Our business will suffer if we are unable to continue to develop successful games for mobile platforms or successfully monetize mobile games we develop or acquire.

Developing games for mobile platforms is an important component of our strategy. We have devoted and we expect to continue to devote substantial resources to the development of our mobile games, and we cannot guarantee that we will continue to develop games that appeal to players or advertisers. In addition, we may 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. Generally, our mobile games 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 implement successful monetization strategies for our mobile games, our ability to grow revenue and our financial performance will be negatively affected.

Our ability to successfully develop games for mobile platforms will depend on our ability to:

- expand on our current mobile games;

effectively market new mobile and multi-platform games across multiple mobile devices to our existing web-based players and players of our current mobile games;

expand the With Friends Network to mobile;

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;
- minimize launch delays and cost overruns on the development of new games;
- effectively monetize mobile games without degrading the social game experience for our players;
- develop games that provide for a compelling and optimal user experience through existing and developing third party technologies, including third party software and middleware utilized by our players; 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. If we do not succeed in doing so, our business will suffer.

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. Traditionally, bookings from existing games decline over time. For example, in the second quarter of 2013, bookings declined 18% compared to the first quarter of 2013. For a game to remain popular, we must constantly enhance, expand or upgrade the game with new features that players find attractive. Such constant 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.

We operate in a new and rapidly changing industry, which makes it difficult to evaluate our business and prospects.

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;
- changes in consumer demographics and public tastes and preferences;
- the availability and popularity of other forms of entertainment;
- the worldwide growth of personal computer, broadband Internet and mobile device users, and the rate of any such growth;

- 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; 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. 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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Our prospects may suffer if the With Friends Network is unsuccessful.

We plan to expand the With Friends Network in 2013 to be more accessible to both web players and mobile players alike to make games more engaging, more social and more profitable. We began this effort with our beta launch of Zynga.com on the web in 2012. Our ability to increase our player base and revenue will depend, in part, on the successful operation and growth of the With Friends Network, including its extension to mobile. We updated Zynga.com in the first quarter of 2013 to streamline the player signup process to allow players to create a dedicated account directly with Zynga just for playing games. All players will have the option to connect to Zynga.com with Facebook to keep their existing game friends and game progress, while deciding what they share with their gaming community. If the With Friends Network fails to engage players, interest third-party game developers or attract advertisers, we may fail to generate sufficient revenue or bookings to justify our investment in the development and operation of the With Friends Network. We have limited experience launching third-party developed games on the With Friends Network, or supporting games developed by third parties. We may also encounter technical and operational challenges operating a network.

On November 28, 2012, we amended our agreements with Facebook such that our use of the Facebook platform and any data from Facebook on any Zynga service offered through a Zynga game page (for example, the With Friends Network) will be governed by Facebook s standard terms of service beginning on March 31, 2013. Under the current terms of service, we are limited in our ability to use a Facebook users friends list and Facebook s communication channels to promote the With Friends Network. This may limit our ability to reach Facebook users from the With Friends Network and may limit the number of players that use the With Friends Network. In December 2012, Facebook amended its standard terms of service to prohibit (i) apps on the Facebook canvas from promoting or linking to game sites other than Facebook and (ii) the use of emails obtained from Facebook to promote or link to desktop web games on platforms other than Facebook. We now are prohibited from cross-promoting traffic to games that are offered on platforms other than Facebook from our games on Facebook. Moreover, we are no longer permitted to use e-mail addresses obtained from Facebook to promote desktop web games that are not on the Facebook platform, subject to certain limited exceptions. In addition, we are subject to the terms of service of other third party social networks and platforms such as Apple and Google, where our games are distributed, which may limit our ability to operate or promote our network. If we are not successful in operating, growing and generating revenue from the With Friends Network, we may not be able to maintain or grow our revenue as anticipated and our financial results could be adversely affected.

Some of our players may make sales or purchases of virtual goods used in Zynga Poker or our other 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* virtual poker chips, through unauthorized third-party sellers in exchange for real currency. These unauthorized or fraudulent transactions are usually arranged on third-party websites and the virtual goods offered may have been obtained through unauthorized means such as exploiting vulnerabilities in our games, from scamming our players with fake offers or virtual goods or other game benefits, or from credit card fraud. We do not generate any revenue from these transactions. These unauthorized purchases and sales from third-party sellers could impede our revenue and profit growth by, among other things:

- decreasing revenue from authorized transactions;
- creating downward pressure on the prices we charge players for our virtual currency and virtual goods;
- increasing chargebacks from unauthorized credit card transactions;
- causing us to lose revenue from paying players as our partners increase their credit card fraud prevention efforts;
- causing us to lose revenue from paying players who stop playing a particular game;

- increasing costs we incur to develop technological measures to curtail unauthorized transactions;
- generating legal claims relating to the diminution of value of our virtual goods;
- result 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.

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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 the primary elements of this system, but some elements of this system are operated by third parties that we do not control and which would require significant time to replace. We have experienced, and may in the future experience, website 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 expect to continue to make significant investments to our technology infrastructure to maintain and improve all aspects of player experience and game performance. To the extent that our disaster recovery systems are not adequate, or 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.

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. 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. Security breaches 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 and corporate 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 or our players 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. 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 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 we could suffer financial exposure due to such events or in connection with remediation efforts, investigation costs, changed security, and system protection measures.

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 by Facebook s offering of free or discounted Facebook Credits, local currency-based payments, and/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.

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We rely on a small portion of our total players for nearly all of our revenue.

Compared to all players who play our games in any period, only a small portion are paying players. During the quarter ended June 30, 2013, we had approximately 1.9 million MUPs (excluding payers who use certain payment methods for which unique payer data is not available), who represent approximately two percent of our total players. We lose players in the ordinary course of business. In order to sustain our revenue levels, we must attract, retain and increase the number of 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. If we fail to grow or sustain the number of our players, or 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.

A small number of games have generated a majority of our revenue, and we must continue to launch and enhance games that 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, in particular many of our existing web 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 natural decline in the life cycle of our games, our business depends on our ability to consistently and timely launch new games across multiple platforms and devices that achieve significant popularity and have the potential to become franchise games. Each of our games requires significant engineering, marketing and other resources to develop, launch and sustain via regular upgrades and expansions, and such costs on average have increased over the last several years. Our ability to successfully launch, sustain and expand games and attract and retain players largely will depend on our ability to:

- anticipate and effectively respond to changing game player interests and preferences;
- anticipate or respond to changes in the competitive landscape;
- attract, retain and motivate talented game designers, product managers and engineers;
- develop, sustain and expand games that are fun, interesting and compelling to play;
- develop games that can build upon or become franchise games;
- effectively market new games and enhancements to our existing players and new players;
- minimize the launch delays and cost overruns on new games and game expansions;
- minimize downtime and other technical difficulties; and
- acquire 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 genres 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.

We have a new business model and a short operating history, which makes 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 we have a short operating history and a new business model, which makes 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 virtual goods. We have also recently launched our first offerings in RMG and have little or no experience with RMG to date. While we continue to evaluate our RMG products in the United Kingdom, in July 2013, we decided to make the focused choice not to pursue a license for real money gaming in the United States in order to focus our resources and priorities on what we believe is our biggest opportunity, free to play social games. However, we continue to evaluate our RMG products in the United Kingdom and we will continue to evaluate all our priorities against the growing market in free, social gaming, including social casino offerings. 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.

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

During the past year, we have implemented certain restructuring actions and cost reduction initiatives to better align our operating expenses with our revenue, including reducing our headcount, rationalizing our product pipeline, reducing marketing and technology expenditures and consolidating certain facilities, and we plan to continue to manage costs to better and more efficiently manage our business. For example, in the second quarter of 2013, we implemented a restructuring plan that included a reduction in work force of approximately 520 employees and the closure of certain office facilities as part of an overall plan to reduce our cost structure. This most recent restructuring plan and other such efforts could result in disruptions to our operations and adversely affect our business.

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
- enhancing 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.

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.

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. Such employees, particularly game designers, product managers, engineers and executives are in high demand, and we devote significant resources to identifying, recruiting, hiring, training, successfully integrating and retaining these employees. We have experienced significant turnover in our headcount over the last year, including within our senior management team, which has placed and will continue to place significant demands on our management and our operational, financial and technological infrastructure. As of December 31, 2012, approximately 35% of our employees had been with us for less than one year and approximately 70% for less than two years. In addition, during 2012, three of our executive officers resigned.

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.

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 (i) continue to launch new games and enhance existing games, including in each case on mobile, (ii) expand the With Friends Network, or (iii) execute our business strategy, and as a result, our business may suffer.

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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, in late 2009 and in 2010 we reduced in-game advertising offers in order to improve player experience. This decrease in in-game offers led to a reduction of advertising revenue in 2010 as compared to 2009. In addition, in early 2013, we decided to discontinue development of certain games that were originally expected to be released 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 can drive long-term enterprise value. Although the 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. This decision to discontinue certain games could negatively impact our operating results 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.

If we lose the services of our Chief Executive Officer, founder, or other members of our senior management team, we may not be able to execute our business strategy.*

Our success depends in a large part upon the continued service of our senior management team. In particular, our Chief Executive Officer, Don A. Mattrick, and our founder, Mark Pincus, are critical to our vision, strategic direction, culture, products and technology. We do not maintain key-man insurance for Messrs. Mattrick, or Pincus or any other member of our senior management team. The loss of our Chief Executive Officer, founder, or other members of senior management could harm our business.

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, tablets, televisions and set-top box devices, has increased dramatically, and we believe this trend is likely to continue. The generally lower processing speed, power, functionality and memory associated with these devices make playing our games through such devices more difficult and the versions of our games developed for these devices may not be compelling to players. In addition, each device manufacturer or platform provider may establish unique or restrictive terms and conditions for developers on such devices or platforms, and our games may not work well or be viewable on these devices as a result. 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.

Our efforts to enter the real money gaming market may not be successful and we may choose to exit the market completely to focus on our core business.*

In October 2012, we entered into an agreement with bwin.party to develop, test and operate certain real money online poker and casino games in the United Kingdom. In the second quarter of 2013, we launched our first RMG offerings, *ZyngaPlusPoker* and *ZyngaPlusCasino*, in the United Kingdom in connection with this agreement. We are evaluating our RMG products in the United Kingdom to determine whether or not they are on strategy and aligned with our near term market opportunities and priorities. We may decide these products and participation in regulated markets globally is consistent with near term market opportunities and priorities or we may decide to exit the market. We cannot assure you that our RMG products, or any products or partnerships we may launch in the future will be successful, or ultimately produce any material revenue.

We decided to withdraw our application from the Nevada Gaming Control Board and made the focused choice not to pursue a license for real money gaming in other U.S. jurisdictions in order to focus our resources and priorities on what we believe is our biggest opportunity, free to play social games. Our decision may not result in the long-term benefits that we expect, in which case the success of our business and operating results could be harmed. In connection with our decision to refocus on our core free to play business, we are evaluating our 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 assure you 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.

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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.

In addition, if we or our partners operate our RMG games in a negative manner, if players are less satisfied than expected with the games provided or if we or our partners fail to comply with regulatory requirements, our reputation could be adversely affected and we may not realize the anticipated benefits of this line of business or we may lose players and we may curtail our efforts in the RMG market.

Expansion into international markets is important for our strategy, and as we expand internationally, we will face additional business, political, regulatory, operational, financial and economic risks, any of which could increase our costs and hinder our efforts.

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 devote significant resources to international expansion through acquisitions, the establishment of additional offices and development studios, and increasing our foreign language offerings. 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. 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 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;

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;

foreign tax consequences;

foreign exchange controls or U.S. tax restrictions that might restrict or prevent us from repatriating income earned in countries outside the United States;

political, economic and social instability;

higher costs associated with doing business internationally;

export or import regulations; and

trade and tariff restrictions.

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Entering new international markets will be expensive, 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.

Competition within the broader entertainment industry is intense and 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.

Competition in the social game industry is intense.

The social game 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 social games for social networks 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. 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 the online social game 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 mobile-game competitors to enter the market and existing competitors to allocate more resources to develop and market competing games and applications.

Our revenue may be harmed by the proliferation of cheating programs and scam offers that seek to exploit our games and players affects 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 and may disrupt the virtual economies of our games. 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.

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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 June 30, 2013, we had $228 million of goodwill, intangible assets and other long-lived assets. If our market capitalization continues to decline below our net asset value or if our financial performance and/or condition deteriorates, 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, Inc. and we recorded an asset impairment charge of $95.5 million. For more information, see Note 5 Goodwill and Other Intangible Assets in the notes to the consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

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. 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. Additional challenges and risks include:

- significant competition from other game companies as the social game industry consolidates;
- the need to integrate the operations, systems, technologies, products and personnel of each acquired company, the inefficiencies and lack of control that may result if such integration is delayed or not implemented, and unforeseen difficulties and expenditures that may arise in connection with integration;
- the difficulty in determining the appropriate purchase price of acquired companies may lead to the potential impairment of intangible assets and goodwill acquired in the acquisitions;
- the potential incurrence of debt, contingent liabilities, amortization expenses or restructuring charges in connection with any acquisition;
- diversion of our management s attention away from our business and any difficulties encountered in the integration process;
- declining employee morale and retention issues resulting from changes in, or acceleration of, compensation, or changes in management, reporting relationships, or future prospects;
- 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 the financial impact of an acquisition transaction, including accounting charges;
- risks associated with our expansion into new international markets and doing business internationally, including those described under the risk factor caption Expansion into international markets is important for our growth, and as we expand internationally, we will face additional business, political, regulatory, operational, financial and economic risks, any of which could increase our costs

and hinder such growth 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 a product that has not met expectations; 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. 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 and we recorded an asset impairment charge of $95.5 million. For more information, see Note 5 Goodwill and Other Intangible Assets in the notes to the consolidated financial statements included elsewhere 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, trade dress, domain names and other product rights as critical to our success. We strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We enter into confidentiality and invention assignment agreements with our employees and contractors and confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. However, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary information or deter independent development of similar technologies by others.

We pursue the registration of our domain names, copyrights, trademarks, and service marks in the United States and in certain locations outside the United States. We are seeking to protect our trademarks, copyrights, patents and domain names in multiple jurisdictions, a process that is expensive and time-consuming and may not be successful or which we may not pursue in every location. 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. 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. 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.

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. Patent and other 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, 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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Although we do not believe that the final outcome of intellectual property litigation and claims that we currently face will have a material adverse effect on our business, our expectations may not prove to be correct. Even if these matters do not result in litigation or are resolved in our favor or without significant cash settlements, these matters, and the time and resources necessary to litigate or resolve them, could harm our business, operating results, financial condition, reputation or the market price of our Class A common stock.

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 the outcome, 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 12 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 current 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 breach of data privacy have been asserted against us. The U.S. government, including the Federal Trade Commission, the Department of Commerce and the U.S. Congress 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.

We began operations in 2007 and have grown rapidly. While our administrative 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 policy. 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, 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 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. 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 the area of information security and data protection, many states have passed laws requiring notification to players when there is a security breach for personal data, such as the 2002 amendment to California s Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to practically implement. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws 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 laws regarding consumer protection, 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. 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, certain of our casino-themed games, including *Zynga Poker*, may become subject to gambling-related rules and regulations and expose us to civil and criminal penalties if we do not comply. We have recently expanded our business to include RMG and launched our first real money online poker and casino games offerings in the United Kingdom through an agreement with bwin.party. RMG is subject to stringent, complicated and rapidly changing licensing and regulatory requirements, both federally and in each state, as well as internationally. Although we are not planning to seek any direct licenses in Nevada or other jurisdictions in the U.S., our partnership with bwin.party in the United Kingdom continues and we continue to explore RMG options in regulated markets globally, which may be subject to significant regulation. 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.

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, 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 regulation of currency, banking institutions and money transmission may be interpreted to cover 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 and in certain countries 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.

Companies and governmental agencies may restrict access to Facebook, our website 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 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 access to Facebook or our website 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 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.

In addition, if we or our partners operate our RMG games in a negative manner, if players are less satisfied than expected with the games provided or if we or our partners fail to comply with regulatory requirements, our reputation could be adversely affected and we may not realize the anticipated benefits of this line of business or we may lose players and we may curtail our efforts in the RMG market.

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

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

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

The current U.S. administration has made public statements indicating that it has made international tax reform a priority, and key members of the U.S. Congress have conducted hearings and proposed new legislation. Recent changes to U.S. tax laws, including limitations on the ability of taxpayers to claim and utilize foreign tax credits and the deferral of certain tax deductions until earnings outside of the United States are repatriated to the United States, as well as changes to U.S. tax laws that may be enacted in the future, could impact the tax treatment of our foreign earnings. Any changes in the U.S. taxation of our international business activities may impact our worldwide effective tax rate, our financial position and results of operations.

The intended tax benefits of our corporate structure and intercompany arrangements depend on the application of the tax laws of various jurisdictions and on how we operate our business.

Our corporate structure and intercompany arrangements, including the manner in which we develop and use our intellectual property and the transfer pricing of our intercompany transactions, are intended to reduce our worldwide effective tax rate. The application of the tax laws of various jurisdictions, including the United States, to our international business activities is subject to interpretation and depends on our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine that the manner in which we operate our business is not consistent with the manner in which we report our income to the jurisdictions, which could increase our worldwide effective tax rate and harm our financial position and results of operations.

Our corporate structure includes legal entities located in jurisdictions with income tax rates lower than the U.S. statutory tax rate. Our intercompany arrangements allocate income to such entities in accordance with arm s-length principles and commensurate with functions performed, risks assumed and ownership of valuable corporate assets. We believe that income taxed in certain foreign jurisdictions at a lower rate relative to the U.S. statutory rate will have a beneficial impact on our worldwide effective tax rate.

Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in foreign currency exchange rates or by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations. As we operate in numerous taxing jurisdictions, the application of tax laws can be subject to diverging and sometimes conflicting interpretations by tax authorities of these jurisdictions. It is not uncommon for taxing authorities in different countries to have conflicting views, for instance, with respect to, among other things, the manner in which the arm s length standard is applied for transfer pricing purposes, or with respect to the valuation of intellectual property. In addition, tax laws are dynamic and subject to change as new laws are passed and new interpretations of existing laws are issued or applied. In particular, there is uncertainty in relation to the U.S. tax legislation in terms of the future corporate tax rate but also in terms of the U.S. tax consequences of income derived from income related to intellectual property earned overseas in low tax jurisdictions.

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 tax benefits which we intend to eventually derive could be undermined due to changing tax laws or if we are unable to adapt the manner in which we operate our business.

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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 and network operations centers 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 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 our 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 Chairman and Chief Product Officer, beneficially owned approximately 60% of the total voting power of our outstanding capital stock as of June 30, 2013. As a result, Mark 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 June 30, 2012 and June 30, 2013, the stock price of our Class A common stock has ranged from $2.09 to $5.61. 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 stock repurchase program;
- 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;
- 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. 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 2012, we announced that our Board authorized us to repurchase up to $200 million of our Class A common stock. 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. Repurchases of our Class A common stock in the open market could result in increased volatility in our stock price.

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

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

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

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

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

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

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

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

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

As a result of disclosure of information in 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.

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

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Issuer Purchases of Equity Securities

On October 24, 2012, we announced that our Board authorized a stock repurchase program allowing us to repurchase up to $200 million of our outstanding shares of Class A common stock. Repurchases under this program may take place in the open market or in privately negotiated transactions and may be made under a Rule 10b5-1 plan. There is no guarantee as to the exact number of shares that will be repurchased by us, and we may discontinue repurchases at any time.

All of our stock repurchases were made pursuant to our publicly-announced stock repurchase plan through open market purchases under Rule 10b5-1 plans. During the six months ended June 30, 2013, we had repurchased an aggregate of 1.0 million shares of our Class A common stock under this repurchase program at a weighted average price of $2.43 per share for a total of $2.4 million. The remaining amount available for the repurchase of our Class A common stock was $185.7 million as of June 30, 2013.

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 Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Francisco, State of California, on August 1, 2013.

Zynga Inc.

By: /s/ Mark Vranesh
Mark Vranesh

Chief Financial Officer and Chief Accounting Officer

(On behalf of Registrant)

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of Zynga Inc.	S-1/A	333-175298	3.2	11/17/2011	
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	11/4/2011	
10.1	Amended and Restated Revolving Credit Agreement, dated as of July 21, 2011 and amended and restated as of June 20, 2013	8-K	001-35375	10.1	06/24/2013	
10.2+	Offer Letter, dated June 30, 2013, between Zynga Inc. and Don A. Mattrick.	8-K	001-35375	10.1	07/03/2013	
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(2)	XBRL Instance Document					
101.SCH(2)	XBRL Taxonomy Extension Schema Document					
101.CAL(2)	XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF(2)	XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB(2)	XBRL Taxonomy Extension Labels Linkbase Document					
101.PRE (2)	XBRL Taxonomy Extension Presentation Linkbase Document					

\+ Indicates management contract or compensatory plan.

(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.

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(2) Pursuant to applicable securities laws and regulations, the Registrant is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Registrant has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.