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 **(State of Incorporation)**	**42-1733483** **(IRS Employer** **Identification No.)**
699 Eighth Street **San Francisco, CA** **(Address of Principal Executive Offices)**	**94103** **(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	Six Months Ended June 30, 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.

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

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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, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 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.

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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, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 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