ZYNGA INC
Form 10-Q
November 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

OR

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

Commission File Number: 001-35375

Zynga Inc.

(Exact name of registrant as specified in its charter)

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

(855) 449-9642

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	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

As of October 15, 2016, there were 775,224,508 shares of the Registrant's Class A common stock outstanding, 96,201,758 shares of the Registrant's Class B common stock outstanding and 20,517,472 shares of the Registrant's Class C common stock outstanding.

Zynga Inc.

Form 10-Q Quarterly Report

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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 "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."

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our future spend, including spend on R&D and marketing and our future margins;
- our future operational plans, use of cash, strategies and prospects;
- the breadth and depth of our game slate for 2016 and the success of this slate and future launches from this slate;
- the timely launch and success of our games
- our ability to change our mix of R&D and unlaunched game slate to live games;
- our ability to increase the predictability of our business and to continue to transition to mobile;
- our planned launch of mobile first games and new features for existing games;
- our ability to grow mobile bookings in 2016 and beyond;
- our cost structure and cost reduction plans and estimated savings and charges, including our reduction in workforce and reduction in centralized services costs and spend;
- our ability to accelerate execution, drive profitability and nurture creativity and innovation while reducing costs and lowering discretionary spend;
- our ability to execute against our turnaround strategy and deliver long-term value to our shareholders, employees and players and fulfill our mission to connect the world through games;
- our ability to accurately forecast our upcoming game launches and bookings and revenue related to upcoming game launches and our existing games;
- our ability to accurately forecast our bookings, revenue and performance of our existing games;
- our relationship or agreements with key licensing partners, additional platform providers or any other key partners;
- our ability to launch and monetize successful new games and features for web and mobile in a timely manner and the success of these games and features;
- our ability to sustain player engagement, optimize our games to increase long-term player retention and monetize our live games and games in geo-lock testing;
- our ability to renew our existing brand, technology and content licenses as they expire and secure new licenses for top brands;
- the success of our acquisitions;
- the process of integrating newly acquired businesses with ours, including but not limited to our expected ability to expand our creative pipeline, accelerate our growth on mobile and deliver hit games on schedule from such newly acquired businesses;
- the effectiveness of our marketing program and initiatives and our ability to obtain game featuring from partners;
- our strategy of backing proven teams to develop or expand our game offerings in the content categories where we are focused, the timely launch of our games in these categories and the success of these games;
- our relationship with Facebook, changes in the Facebook platform or changes in our agreement with Facebook;
- our relationship with Apple, Google and other Android platform providers, changes to the Android or iOS platforms or changes in our agreements with Apple, Google or other Android platform providers;
- our ability to attract and retain key employees in light of business challenges, including employees key to franchise games and planned launches and senior management;
- the impact of change in our senior management team and management teams, new hires and other changes in our organization;

- the strength of our balance sheet and our ability to effectively manage our cost structure and investments;
- our ability to efficiently deploy employees and leverage our teams and talent, including shifting resources when necessary to prioritize more important projects;
- our ability to use data analytics to improve our player experience, gameplay and monetization;
- our ability to manage new IP costs;
- competition in our industry;
- our ability to maintain technology infrastructure and employees that can efficiently and reliably handle increased player usage, changes in mobile devices and game platforms, fast load times and the rapid deployment of new features and products;
- our ability to anticipate and address technical challenges that may arise;
- our ability to protect our players' information and adequately address privacy concerns;
- our ability to maintain reliable security services and infrastructure to protect against security breaches, computer malware and hacking attacks;
- market opportunity in the social gaming market, including the mobile market, the advertising market, the market for social game categories in which we invest, and our ability to capitalize on and contribute to this market opportunity;
- the success of our advertising offerings, and our ability to grow advertising bookings;
- our ability to successfully monitor and adapt to changes in gaming platform and consumer demand as the industry continues to evolve;
- our ability to develop, identify, market and launch hit games and new features and content for our existing games in a timely manner;
- the ability of our games to generate revenue and bookings for a significant period of time after launch and the timing for market acceptance of new games;
- attrition or decline in existing games' audience and financial performance, including franchise games;
- our ability to utilize, protect, defend and enforce our intellectual property;
- our exposure to intellectual property disputes and other litigation;
- our exposure to illegitimate credit card activity and other security risks, including sales or purchases of virtual goods used in our games through unauthorized or illegitimate third-party websites;
- our ability to manage risks, costs and other challenges associated with international expansion;
- the impact of laws and regulations on our business;
- our evaluation of new business opportunities and acquisitions by us, including integration of newly acquired businesses;
- changes in corporate strategy or management;
- our ability to understand industry trends, such as seasonality, and position our business to take advantage of these trends;
- our ability to build on our social legacy in both our web games and our new mobile games and build a player network across mobile games;
- our ability to operate in an entrepreneurial manner, successfully invest in and innovate on game mechanics and successfully invest in and leverage data and analytics in our operations;
- the effectiveness of our cost cutting activities and our ability to control and reduce expenses, including our estimated savings and charges associated with our restructuring efforts; and
- our share repurchase program, including our ability to execute on and repurchase shares under the program

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Zynga Inc.

Consolidated Balance Sheets

(In thousands, except par value)

(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 866,319	$ 742,217
Marketable securities	4,501	245,033
Accounts receivable, net of allowance of $0 at September 30, 2016 and December 31, 2015	72,351	79,610
Income tax receivable	1,010	5,233
Restricted cash	2,082	209
Other current assets	27,718	39,988
Total current assets	973,981	1,112,290
Goodwill	633,913	657,671
Other intangible assets, net	32,309	64,016
Property and equipment, net	269,285	273,221
Restricted cash	3,050	986
Other long-term assets	28,021	16,446
Total assets	$ 1,940,559	$ 2,124,630
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 16,045	$ 29,676
Other current liabilities	64,871	77,691
Deferred revenue	130,904	128,839
Total current liabilities	211,820	236,206
Deferred revenue	260	204
Deferred tax liabilities	5,243	6,026
Other non-current liabilities	76,391	95,293
Total liabilities	293,714	337,729
Stockholders' equity:		
Common stock, $0.00000625 par value, and additional paid in capital - authorized shares: 2,020,517; shares outstanding: 889,328 shares (Class A, 772,573, Class B, 96,238 Class C, 20,517) as of September 30, 2016 and 903,617 (Class A, 769,533,	3,323,823	3,234,551

Class B, 113,567, Class C, 20,517) as of December 31, 2015		
Treasury stock	—	(98,942)
Accumulated other comprehensive income (loss)	(106,555)	(52,388)
Accumulated deficit	(1,570,423)	(1,296,320)
Total stockholders' equity	1,646,845	1,786,901
Total liabilities and stockholders' equity	$ 1,940,559	$ 2,124,630

See accompanying notes.

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Zynga Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Online game	$134,254	$151,168	$407,134	$461,292
Advertising and other	48,170	44,569	143,746	117,656
Total revenue	182,424	195,737	550,880	578,948
Costs and expenses:				
Cost of revenue	62,675	57,187	175,917	172,588
Research and development	73,913	78,416	227,883	276,832
Sales and marketing	49,802	43,549	136,777	116,507
General and administrative	21,656	25,765	69,414	103,951
Impairment of intangible assets	20,677	—	20,677	—
Total costs and expenses	228,723	204,917	630,668	669,878
Income (loss) from operations	(46,299)	(9,180)	(79,788)	(90,930)
Interest income	800	566	2,266	1,965
Other income (expense), net	980	2,285	4,985	11,843
Income (loss) before income taxes	(44,519)	(6,329)	(72,537)	(77,122)
Provision for (benefit from) income taxes	(2,782)	(9,381)	204	(6,810)
Net income (loss)	$(41,737)	$3,052	$(72,741)	$(70,312)
Net income (loss) per share attributable to common stockholders:				
Basic	$(0.05)	$0.00	$(0.08)	$(0.08)
Diluted	$(0.05)	$0.00	$(0.08)	$(0.08)
Weighted average common shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	882,408	921,116	875,656	910,469
Diluted	882,408	940,032	875,656	910,469

See accompanying notes.

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Zynga Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$(41,737)	$3,052	$(72,741)	$(70,312)
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(6,030)	(16,858)	(54,290)	(12,746)
Net change on unrealized gains (losses) on available-for-sale investments, net of tax	(7)	129	123	507
Other comprehensive income (loss):	(6,037)	(16,729)	(54,167)	(12,239)
Comprehensive income (loss):	$(47,774)	$(13,677)	$(126,908)	$(82,551)

See accompanying notes.

Zynga Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Operating activities:		
Net income (loss)	$(72,741)	$(70,312)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,158	42,349
Stock-based expense	80,982	99,803
(Gain) loss from sales of investments, assets and other, net	160	(6,283)
Tax benefits (costs) from stock-based awards	—	90
Excess tax benefits (costs) from stock-based awards	—	(90)
Accretion and amortization on marketable securities	322	4,941
Deferred income taxes	(2,734)	(9,151)
Impairment of intangible assets	20,677	—
Changes in operating assets and liabilities:		
Accounts receivable, net	8,743	2,544
Income tax receivable	1,711	(1,712)
Other assets	(2,519)	(11,860)
Accounts payable	(10,171)	12,226
Deferred revenue	2,121	(61,097)
Other liabilities	(26,436)	(49,360)
Net cash provided by (used in) operating activities	32,273	(47,912)
Investing activities:		
Purchases of marketable securities	—	(101,091)
Sales and maturities of marketable securities	240,337	702,017
Acquisition of property and equipment	(6,621)	(6,847)
Business acquisitions, net of cash acquired	(33,630)	(20,023)
Proceeds from sale of property and equipment	3,035	750
Proceeds from sale of equity method investment	—	10,507
Net cash provided by (used in) investing activities	203,121	585,313
Financing activities:		
Taxes paid related to net share settlement of equity awards	(2,163)	(1,866)
Repurchases of common stock	(112,392)	—
Proceeds from employee stock purchase plan and exercise of stock options	5,570	7,292
Excess tax benefits (costs) from stock-based awards	—	90
Acquisition-related contingent consideration payment	—	(10,790)
Net cash provided by (used in) financing activities	(108,985)	(5,274)

Effect of exchange rate changes on cash and cash equivalents	(2,307)	(410)
Net increase (decrease) in cash and cash equivalents	124,102	531,717
Cash and cash equivalents, beginning of period	742,217	131,303
Cash and cash equivalents, end of period	$866,319	$663,020

See accompanying notes.

Zynga Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Overview and Summary of Significant Accounting Policies

Organization and Description of Business

Zynga Inc. (“Zynga,” “we” or the “Company”) develops, markets, and operates 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 North America, India and Europe.

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

Basis of Presentation and Consolidation

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

The accompanying interim consolidated financial statements and these related notes should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of September 30, 2016, the interim consolidated statements of operations, the interim consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015, the interim consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015 and the related footnote disclosures are unaudited. These unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP. In management’s opinion, the unaudited consolidated interim financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments of a normal recurring nature necessary for the fair presentation of the Company’s statement of financial position and operating results for the periods presented. The results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results expected for the full fiscal year or any other future period.

Use of Estimates

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

Changes in our estimated average life of durable virtual goods resulted in an increase in revenue and income from operations of $0.5 million and $0.5 million in the three and nine months ended September 30, 2016, respectively, which is the result of adjusting the remaining recognition period of deferred revenue generated in prior periods at the time of a change in estimate. We also recognized $0.2 million and $3.8 million of revenue and income from operations in the three and nine months ended September 30, 2016, respectively, due to changes in our estimated average life of durable virtual goods for games that have been discontinued as there is no further service obligation after the closure of these games. These changes in estimates did not impact our reported earnings per share for the three months ended September 30, 2016 and resulted in a $0.01 per share impact on our reported earnings per share for the nine months ended September 30, 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)," which requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 supersedes the existing revenue recognition guidance in "Revenue Recognition (Topic 605)". In July 2015, the FASB voted to amend ASU 2014-09 by approving a one-year deferral of the effective date as well as allowing early adoption as of the original effective date. Accordingly, the Company may adopt the standard in either the first quarter of 2017 or 2018. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which clarifies the implementation guidance on principal versus agent consideration in determining whether an entity controls a specified good or service before it is transferred to the customer. We are currently in the process of evaluating the impact and adoption method of ASU 2014-09 and ASU 2016-08 on our consolidated financial statements.

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

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," to simplify the accounting for share-based payment transactions, including income taxes and classification in the statement of cash flows. It also provides an option to recognize gross share-based compensation expense with actual forfeitures recognized as they occur. The standard is effective in the first quarter of 2017 and early adoption is permitted.

We are currently in the process of evaluating the impact of ASU 2016-09 on our consolidated financial statements.

2. Marketable Securities

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

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
U.S. government and government agency debt securities	$3,000	$ 1	$ —	$ 3,001
Corporate debt securities	1,500	—	—	1,500
Total	$4,500	$ 1	$ —	$ 4,501

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
U.S. government and government agency debt securities	$145,066	$ —	$ (80)	$144,986
Corporate debt securities	100,093	12	(58)	100,047
Total	$245,159	$ 12	$ (138)	$245,033

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

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

	September 30, 2016
Due within one year	$ 4,501
After one year through three years	—
Total	$ 4,501

Changes in market interest rates and bond yields caused certain investments to fall below their cost basis, resulting in unrealized losses on marketable securities. As of September 30, 2016, we had unrealized losses of $4 thousand related to marketable securities that had a fair value of $40.3 million. As of December 31, 2015, we had unrealized losses of $0.1 million related to marketable securities that had a fair value of $199.1 million. None of these securities were in a material continuous unrealized loss position for more than 12 months.

As of September 30, 2016 and December 31, 2015, we did not consider any of our marketable securities to be other-than-temporarily impaired. When evaluating our investments for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer, our ability and intent to hold the security to maturity and whether it is more likely than not that we will be required to sell the investment before recovery of its cost basis.

3. Fair Value Measurements

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

Cash equivalents and short-term marketable securities, consisting of money market funds, U.S. government and government agency debt securities and corporate debt securities, are carried at fair value, which is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable and willing market participants.

Our contingent consideration liability represents the estimated fair value of the additional consideration payable in connection with our acquisitions of Rising Tide Games, Inc. (“Rising Tide”), Zindagi Games, Inc. (“Zindagi”) and PuzzleSocial, Inc. (“PuzzleSocial”). The amount payable is contingent upon the achievement of certain performance targets. We estimated the acquisition date fair value of the contingent consideration payable using discounted cash flow models, and applied a discount rate that appropriately captured a market participant’s view of the risk associated with the obligations. The significant unobservable inputs used in the fair value measurement of the acquisition-related contingent consideration payable were forecasted future cash flows and the timing of those cash flows and the risk-adjusted discount rate. Significant changes in actual and forecasted future cash flows may result in significant charges or benefits to our future operating expenses.

In the third quarter of 2015, we acquired Rising Tide. Under the terms of the agreement, the contingent consideration of up to $140.0 million may be payable based on the achievement of certain future performance targets during the three year period following the acquisition date. We initially estimated the acquisition date fair value of the contingent consideration payable using discounted cash flow models, and applied a risk-adjusted discount rate that appropriately captured a market participant’s view of the risk associated with the obligations. In the third quarter of 2016, we updated this analysis and recorded the change in estimated fair value of the contingent consideration liability as a benefit of approximately $5.8 million within Research and Development in our consolidated statement of operations, reducing the liability to $1.4 million. The decrease in the fair value of the liability is primarily driven by a decline in our expectations about the future performance of the acquired games.

In the first quarter of 2016, we acquired Zindagi. Under the terms of the agreement, the contingent consideration of up to $60.0 million may be payable based on the achievement of certain future performance targets during the three year period following the acquisition date. We initially estimated the acquisition date fair value of the contingent consideration payable using discounted cash flow models, and applied a risk-adjusted discount rate that appropriately captured a market participant's view of the risk associated with the obligations. In the third quarter of 2016, we updated this analysis and noted no change in the estimated fair value of the contingent consideration liability from the second quarter of 2016. The current contingent consideration liability is $0.2 million.

In the third quarter of 2016, we acquired PuzzleSocial. Under the terms of the agreement, the contingent consideration of up to $42.0 million may be payable based on the achievement of certain future performance targets during the two and a half year period following the acquisition date. We initially estimated the acquisition date fair value of the contingent consideration payable using discounted cash flow models, and applied a risk-adjusted discount rate that appropriately captured a market participant's view of the risk associated with the obligations. The current contingent consideration liability is $0.4 million.

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

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

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

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

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

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds [1]	$434,399	$—	$—	$434,399
U.S. government and government agency debt securities	—	3,001	—	3,001
Corporate debt securities [1]	—	290,724	—	290,724
Total	$434,399	$293,725	$—	$728,124
Liabilities:				
Contingent consideration	$—	$—	$1,986	$1,986

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds [1]	$362,587	$—	$—	$362,587
U.S. government and government agency debt securities	—	184,975	—	184,975
Corporate debt securities [1]	—	277,193	—	277,193
Total	$362,587	$462,168	$—	$824,755
Liabilities:				
Contingent consideration	$—	$—	$18,490	$18,490

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

The following table presents the activity for the nine months ended September 30, 2016 related to our Level 3 liabilities (in thousands):

Level 3 Liabilities:	Rising Tide	Zindagi	PuzzleSocial	Total

Contingent consideration – December 31, 2015	$18,490	$—	$ —	$18,490
Additions	—	1,260	406	1,666
Fair value adjustments	(17,090)	(1,080)	—	(18,170)
Contingent consideration – September 30, 2016	$1,400	$180	$ 406	$1,986

4. Property and Equipment

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

	September 30, 2016	December 31, 2015
Computer equipment	$ 26,666	$ 36,373
Software	31,416	30,950
Land	89,130	89,130
Building	197,020	195,372
Furniture and fixtures	10,485	10,348
Leasehold improvements	8,428	7,748
	$ 363,145	$ 369,921
Less accumulated depreciation	(93,860)	(96,700)
Total property and equipment, net	$ 269,285	$ 273,221

During the fourth quarter of 2015, we completed the exit of one of our data centers in Santa Clara, and initiated the sale of certain computer data center equipment, resulting in the assets meeting held for sale criteria. Accordingly, these assets were written down to their fair value and reclassified from property and equipment to other current assets, with $83.9 million and $80.7 million being reclassified from computer equipment and accumulated depreciation respectively, for a net amount of $3.2 million. The $3.2 million reflects the fair value of the assets less estimated costs to sell. During the first and second quarter of 2016, $0.4 million and $1.2 million of the assets meeting held for sale criteria were sold, respectively. During the second quarter of 2016, we finalized the sale of these assets and decreased the fair value of the assets less estimated costs to sell to $2.9 million, resulting in a loss of $0.3 million. During the third quarter of 2016, we collected $1.3 million in cash related to the remaining balance of assets meeting the held for sale criteria.

5. Acquisitions

Acquisition of Zindagi

On January 1, 2016, we acquired the assets of Zindagi, a provider of social games, for purchase consideration of approximately $13.8 million, which consisted of cash paid of $12.5 million (net of prepaid compensation expense of $2.5 million) and contingent consideration with a fair value of $1.3 million. As of September 30, 2016, the fair value of the contingent consideration liability is $0.2 million. The contingent consideration may be payable based on the achievement of certain future performance targets during the three year period following the acquisition date and could be up to $60.0 million. We will record changes in the fair value of contingent consideration liabilities within operating expenses in our consolidated statement of operations each future reporting period.

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

	Total
Developed technology, useful life of 3 years	$3,257
Goodwill	10,503
Total	$13,760

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.

Acquisition of PuzzleSocial

On July 1, 2016, we acquired 100% of the equity interests of PuzzleSocial, a provider of mobile crossword puzzle games, for purchase consideration of approximately $20.4 million, which consisted of cash paid of $20.0 million and contingent consideration with a fair value of $0.4 million. As of September 30, 2016, the fair value of the contingent consideration liability is $0.4 million. The contingent consideration may be payable based on the achievement of certain future performance targets during the two and a half year period following the acquisition date and could be up to $42.0 million. We will record changes in the fair value of contingent consideration liabilities within operating expenses in our consolidated statement of operations each future reporting period.

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

	Total
Developed technology, useful life of 4.5 years	$6,923
Customer base, useful life of 1 year	3,499
Net tangible assets acquired (liabilities assumed)	2,144
Goodwill	11,811
Deferred tax liabilities	(3,948)
Total	$20,429

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

For further details on our fair value methodology with respect to contingent consideration liabilities for Zindagi and PuzzleSocial, see Note 3 – "Fair Value Measurements".

6. Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill from December 31, 2015 to September 30, 2016 are as follows (in thousands):

Goodwill – December 31, 2015	$657,671
Additions	23,191
Foreign currency translation and other adjustments [1]	(46,949)
Goodwill – September 30, 2016	$633,913

[1] The decrease is primarily related to cumulative translation losses on goodwill associated with the acquisition of NaturalMotion denominated in British Pounds. Includes the impact of adjustments to goodwill resulting from changes in net assets (liabilities) acquired (assumed) and other adjustments, pursuant to our business combinations policy.

The details of our acquisition-related intangible assets as of September 30, 2016 are as follows (in thousands):

September 30, 2016

	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed technology	$154,301	$ (128,985)	$ 25,316
Trademarks, branding and domain names	16,290	(9,895)	6,395
Acquired lease intangibles	5,708	(5,110)	598
Total	$176,299	$ (143,990)	$ 32,309

Our updated financial forecast as of September 30, 2016, indicated a reduction of future undiscounted cash flows for certain games associated with developed technology previously acquired from Rising Tide and Zindagi. As a result, we performed an impairment analysis and determined the estimated fair values of Rising Tide's and Zindagi's intangible assets to be $18.2 million and $2.4 million lower, respectively, than their carrying values as of September 30, 2016. Accordingly, we recorded this amount as an impairment charge in our consolidated statements of operations.

The details of our acquisition-related intangible assets as of December 31, 2015 are as follows (in thousands):

	December 31, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed technology	$174,970	$ (118,940)	$ 56,030
Trademarks, branding and domain names	16,290	(9,210)	7,080
Acquired lease intangibles	5,708	(4,802)	906
Total	$196,968	$ (132,952)	$ 64,016

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

As of September 30, 2016, future amortization expense related to the intangible assets is expected to be recognized as shown below (in thousands):

Year ending December 31:	
2016	$6,483
2017	9,994
2018	4,550
2019 and thereafter	5,162
Total	$26,189

7. Income Taxes

The benefit from income taxes decreased by $6.6 million and expense from income taxes increased by $7.0 million in the three and nine months ended September 30, 2016, respectively, as compared to the same periods of the prior year. The decrease in the benefit from income taxes for the three months ended September 30, 2016 is primarily attributable to less benefit being recognized for the release of our U.S. valuation allowance related to the acquisition of PuzzleSocial compared to the U.S. valuation allowance release related to the acquisition of Rising Tide for the same period in the prior year. In addition, there was an increase in foreign tax expense related to a change in our jurisdictional mix of earnings in the three months ended September 30, 2016. The increase in expense for the nine months ended September 30, 2016 is primarily attributable to less benefit being recognized for the release of our U.S. valuation allowance related to the acquisition of PuzzleSocial compared to the U.S. valuation allowance release related to the acquisition of Rising Tide for the same period in the prior year. In addition, there was an increase in foreign tax expense related to a change in our jurisdictional mix of earnings in the nine months ended September 30, 2016.

Purchase accounting for the PuzzleSocial acquisition required the establishment of a deferred tax liability related to the book-tax basis differences of identifiable intangible assets. The deferred tax liability created an additional source of U.S. future taxable income which resulted in a release of our U.S. valuation allowance recorded in our Statement of Operations. The release of our U.S. valuation allowance as a result of the PuzzleSocial acquisition resulted in less benefit as compared to the release of our U.S. valuation allowance as a result of the Rising Tide acquisition for the same period in the prior year.

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

8. Other Current Liabilities

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

	September 30, 2016	December 31, 2015
Accrued accounts payable	$ 21,805	$ 31,700
Accrued compensation liability	16,507	16,278
Accrued restructuring liability	5,586	9,859
Other current liabilities	20,973	19,854
Total other current liabilities	$ 64,871	$ 77,691

Accrued compensation liability represents employee bonus and other payroll withholding expenses. Other current liabilities include various expenses that we accrue for transaction taxes, customer deposits and accrued vendor expenses.

9. Restructuring

During the nine months ended September 30, 2016, we recorded total restructuring charges of $2.1 million which were classified within our consolidated statement of operations as follows: Research and Development $0.1 million and General and Administrative $2.0 million.

Q2 2015 Restructuring Plan

During the three months ended June 30, 2015, our board of directors authorized, and we implemented a restructuring plan that included a reduction in work force as part of the overall plan to reduce the Company's long term cost structure. As a result of ongoing initiatives associated with this restructuring, we recorded a charge of $0.9 million in the nine months ended September 30, 2016, which is included in operating expenses in our consolidated statement of operations and comprised of lease and contract termination costs. The remaining liability related to our Q2 2015 restructuring plan as of September 30, 2016 was $20.8 million and is expected to be paid out over the next 5.8 years.

The following table presents the activity for the three months ended March 31, 2016 and June 30, 2016 and the three and nine months ended September 30, 2016 related to the Q2 2015 restructuring plan (in thousands):

	Three Months Ended March 31, 2016	Three Months Ended June 30, 2016	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Restructuring liability - beginning of period	$ 26,406	$ 25,089	$ 21,837	$ 26,406
Restructuring expense and adjustments	456	417	50	923
Cash payments	(1,773)	(3,669)	(1,079)	(6,521)
Restructuring liability (Q2 2015 Plan) - end of period	$ 25,089	$ 21,837	$ 20,808	$ 20,808

Q1 2014 Restructuring Plan

The following table presents the activity for the three months ended March 31, 2016 and June 30, 2016 and the three and nine months ended September 30, 2016 related to the Q1 2014 restructuring plan (in thousands):

	Three Months Ended March 31, 2016	Three Months Ended June 30, 2016	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Restructuring liability - beginning of period	$ 2,290	$ 1,525	$ 2,184	$ 2,290
Restructuring expense and adjustments	16	1,267 (1)	(104)	1,179
Cash payments	(781)	(608)	(2,064)	(3,453)
Restructuring liability (Q1 2014 Plan) - end of period	$ 1,525	$ 2,184	$ 16	$ 16

(1) A $1.3 million adjustment was recorded in the second quarter of 2016 to increase our restructuring liability as a result of revising the expected income from a subtenant in a data center facility we had previously vacated in the first quarter of 2014.

Other Plans

The following table presents the activity for the three months ended March 31, 2016 and June 30, 2016 and the three and nine months ended September 30, 2016 related to all other remaining historical restructuring plans from prior years (in thousands):

	Three Months Ended March 31, 2016	Three Months Ended June 30, 2016	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Restructuring liability - beginning of period	$ 332	$ (82)	$ 83	$ 332
Restructuring expense and adjustments	(10)	18	6	14
Cash payments	(404)	147	(22)	(279)
Restructuring liability (2013 Plan) - end of period	$ (82) [1]	$ 83	$ 67	$ 67

The remaining liability of $67 thousand is expected to be paid out over the next 1.1 years.

(1) The liability is a net receivable due to the timing of sublease income for restructured data center space in Virginia.

10. Stockholders' Equity

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of revenue	$1,049	$991	$2,825	$2,835
Research and development	18,662	22,308	63,078	70,485
Sales and marketing	1,541	2,045	5,738	5,181
General and administrative	3,223	5,092	9,341	21,302
Total stock-based expense	$24,475	$30,436	$80,982	$99,803

The following table shows stock option activity for the nine months ended September 30, 2016 (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, 2015	23,215	$ 1.93	$ 35,949	5.36
Granted	15,000	2.54		
Forfeited and cancelled	(2,857)	3.01		
Exercised	(3,693)	0.27		
Balance as of September 30, 2016	31,665	$ 2.32	$ 34,718	6.58

The following table shows a summary of ZSU activity for the nine months ended September 30, 2016 (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, 2015	62,436	$ 3.06	$ 167,328
Granted	31,596	2.27	
Vested	(22,386)	2.82	
Forfeited and cancelled	(9,289)	2.86	
Unvested as of September 30, 2016	62,357	$ 2.78	$ 181,459

The following table shows a summary of changes in accumulated other comprehensive income by component for the three and nine months ended September 30, 2016 (in thousands):

	Foreign Currency Translation	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Balance as of June 30, 2016	$ (100,521)	$ 3	$ (100,518)
Other comprehensive income (loss) before reclassifications	(6,030)	(7)	(6,037)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—
Net current-period other comprehensive income (loss)	(6,030)	(7)	(6,037)
Balance as of September 30, 2016	$ (106,551)	$ (4)	$ (106,555)

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	Foreign Currency Translation	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Balance as of December 31, 2015	$ (52,261)	$ (127)	$(52,388)
Other comprehensive income (loss) before reclassifications	(54,290)	124	(54,166)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1)	(1)
Net current-period other comprehensive income (loss)	(54,290)	123	(54,167)
Balance as of September 30, 2016	$ (106,551)	$ (4)	$(106,555)

In October 2015, we announced that our board of directors authorized a stock repurchase program allowing us to repurchase up to $200 million of our outstanding shares of Class A common stock (the "Q4 2015 Repurchase Program"). From January 1, 2016 to February 2, 2016 we repurchased 42.2 million shares under the Q4 2015 Repurchase Program at an average price per share of $2.40, for a total of $101.9 million. All of our stock repurchases under the Q4 2015 Repurchase Program were made through open market purchases under Rule 10b5-1 plans.

The Q4 2015 Repurchase Program was completed in February 2016 – in the aggregate we repurchased 80.2 million shares under the Q4 2015 Repurchase Program at an average price of $2.50 for a total of $200 million.

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

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

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

	Three Months Ended September 30,					
	2016			2015		
	Class A	Class B	Class C	Class A	Class B	Class C
	(unaudited)					
BASIC:						
Net income (loss) attributable to common stockholders	$(36,203)	$(4,564)	$(970)	$2,607	$377	$68
Weighted-average common shares outstanding	765,403	96,488	20,517	786,768	113,831	20,517
Basic net income (loss) per share	$(0.05)	$(0.05)	$(0.05)	$0.00	$0.00	$0.00
DILUTED:						
Net income (loss) attributable to common stockholders	$(36,203)	$(4,564)	$(970)	$2,607	$377	$68
Reallocation of net income (loss) as a result of conversion of Class C shares to Class A shares	(970)	—	—	68	—	—
Reallocation of net income (loss) as a result of conversion of Class B shares to Class A shares	(4,564)	—	—	377	—	—
Reallocation of net income (loss) to Class B and Class C shares				—	27	(1)
Net income (loss) attributable to common stockholders-diluted	$(41,737)	$(4,564)	$(970)	$3,052	$404	$67
Weighted-average common shares outstanding-basic	765,403	96,488	20,517	786,768	113,831	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	96,488	—	—	113,831	—	—
Weighted-average effect of dilutive securities:						
Stock options and employee stock purchase plan	—	—	—	11,994	10,446	—
ZSUs	—	—	—	6,922	63	—
Weighted-average common shares outstanding-diluted	882,408	96,488	20,517	940,032	124,340	20,517
Diluted net income (loss) per share	$(0.05)	$(0.05)	$(0.05)	$0.00	$0.00	$0.00

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	Nine Months Ended September 30,					
	2016			2015		
	Class A	Class B	Class C	Class A	Class B	Class C
	(unaudited)					
BASIC:						
Net income (loss) attributable to common stockholders	$(62,306)	$(8,731)	$(1,704)	$(59,922)	$(8,806)	$(1,584)
Weighted-average common shares outstanding	750,038	105,101	20,517	775,926	114,026	20,517
Basic net income (loss) per share	$(0.08)	$(0.08)	$(0.08)	$(0.08)	$(0.08)	$(0.08)
DILUTED:						
Net income (loss) attributable to common stockholders	$(62,306)	$(8,731)	$(1,704)	$(59,922)	$(8,806)	$(1,584)
Reallocation of net income (loss) as a result of conversion of Class C shares to Class A shares	(1,704)	—	—	(1,584)	—	—
Reallocation of net income (loss) as a result of conversion of Class B shares to Class A shares	(8,731)	—	—	(8,806)	—	—
Net income (loss) attributable to common stockholders-diluted	$(72,741)	$(8,731)	$(1,704)	$(70,312)	$(8,806)	$(1,584)
Weighted-average common shares outstanding-basic	750,038	105,101	20,517	775,926	114,026	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	105,101	—	—	114,026	—	—
Weighted-average common shares outstanding-diluted	875,656	105,101	20,517	910,469	114,026	20,517
Diluted net income (loss) per share	$(0.08)	$(0.08)	$(0.08)	$(0.08)	$(0.08)	$(0.08)

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

Nine Months Ended September 30,

	Three Months Ended September 30,			
	2016	2015	2016	2015
Stock options and employee stock purchase plan	29,814	9,308	25,817	30,974
Restricted shares	3,344	7,791	4,165	9,102
ZSUs	62,587	40,445	62,850	64,056
Total	95,745	57,544	92,832	104,132

12. Commitments and Contingencies

Lease Commitments

We have entered into operating leases for facilities. As of September 30, 2016, future minimum lease payments related to these leases are as follows (in thousands):

Year ending December 31:	
2016	$783
2017	5,510
2018	4,089
2019	3,479
2020	1,924
2021 and thereafter	910
	$16,695

Other Purchase Commitments

We have entered into several contracts for hosting of data systems and licensed intellectual property. Future minimum purchase commitments that have initial or remaining non-cancelable terms as of September 30, 2016, are as follows (in thousands):

Year ending December 31:	
2016	$11,651
2017	20,126
2018	2,305
2019	881
2020 and thereafter	276
	$35,239

Credit Facility

In June 2013, we amended our existing revolving credit agreement which we originally executed in July 2011, reducing our maximum available credit from $1.0 billion to $200 million, and extending the term through June 2018. Per the terms of our amended agreement, we paid additional up-front fees of $0.3 million to be amortized over the remaining extended term of the loan. The interest rate for the amended credit facility is determined based on a formula using certain market rates, as described in the amended credit agreement. Additionally, our minimum quarterly commitment fee was reduced from $0.6 million per quarter to $0.1 million per quarter based on the portion of the credit facility that is not drawn down. The agreement requires us to comply with certain covenants, including maintaining a minimum capitalization ratio, and maintaining a minimum cash balance. As of September 30, 2016, we had not drawn down any amounts under the credit facility and were in compliance with these covenants.

On November 2, 2016, we voluntarily terminated our revolving credit agreement.

Legal Matters

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 complaint further states that "Zynga is named as a defendant herein solely because it is a party to agreements underlying and relating to the Secondary Offering." The plaintiff seeks to represent a class of certain of the Company's shareholders who were subject to the lock-up agreements and who were not permitted to sell shares in an April 2012 secondary offering. On January 17, 2014, the plaintiff filed an amended complaint. On March 6, 2014, the defendants filed motions to dismiss the amended complaint and a motion to stay discovery while the motions to dismiss were pending. On November 14, 2014, the court denied the motion to dismiss brought by Zynga and the directors and granted the motion to dismiss brought by the underwriters who had been named as defendants.

On June 24, 2015, certain of the defendants filed a motion for relief from the court's November 14, 2014 decision denying the defendants' motion to dismiss the complaint. Briefing on the motion for relief from the court's November 14, 2014 decision is complete. A hearing date has not been set. On August 19, 2015 the parties agreed to voluntarily dismiss three individual director defendants from the case.

Plaintiff filed a motion for class certification on July 13, 2015, and, after briefing was completed, the court held a hearing on plaintiff's motion on November 20, 2015. On December 30, 2015, the court granted plaintiff's motion for class certification. On July 27, 2016, the Court entered a scheduling order setting a trial date of October 9, 2017.

A mediation session was conducted on September 20, 2016. The parties reached an agreement in principle to settle Lee v. Pincus, et al. as to all defendants for $10.0 million. The settlement, which is subject to negotiation and execution of a final settlement document, notice to the class and court approval, would be funded entirely by insurance and lead to the dismissal of all claims against the defendants. Accordingly, and also because no claim for damages is asserted against Zynga in the Lee action, Zynga is not considered the obligor in the matter, and there would be no impact to Zynga's financial statements if the final settlement is consistent with the current agreement. Given its preliminary nature, it remains possible that the settlement in principle may not result in a final settlement, and that the assessment of the possibility of loss or adverse effect on our financial condition, if any, could therefore change in the near term.

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 in that consolidated California state action. On March 21, 2013, the court endorsed a stipulation among the parties staying the action pending the ruling on the motion to dismiss in the federal securities class action described above. On March 24, 2014, the court endorsed a stipulation among the parties staying the action pending a ruling on a motion to dismiss the First Amended Complaint in the federal securities class action. On April 24, 2015, the court endorsed a stipulation among the parties staying the action until the Delaware Chancery Court ruled on the defendants' motion to stay or dismiss. On May 2, 2016, the court endorsed a stipulation among the parties staying the action until final resolution of plaintiff's appeal in the Delaware derivative action (discussed below).

Beginning on August 16, 2012, four stockholder derivative actions were filed in the United States District Court for the Northern District of California. On December 3, 2012, the court consolidated these four actions as In re Zynga Inc. Derivative Litigation, Lead Case No. 12-CV-4327-JSW. On March 11, 2013, the court endorsed a stipulation among the parties staying the action pending the ruling on the motion to dismiss in the federal securities class action described above. On March 21, 2014, the court issued an order continuing the stay pending a ruling on a motion to dismiss the First Amended Complaint in the federal securities class action. On April 27, 2015, the court endorsed a stipulation among the parties staying the action until the Delaware Chancery Court ruled on the defendants' motion to stay or dismiss. On April 27, 2016, the court endorsed a stipulation among the parties staying the action until final resolution of plaintiff's appeal in the Delaware derivative action (discussed below).

On April 4, 2014, a derivative action was filed in the Court of Chancery of the State of Delaware captioned Sandys v. Pincus, et al. Case No. 9512-CB. On December 9, 2014, the defendants filed a motion to stay or dismiss the action. The Court held a hearing on defendants' motion on November 17, 2015, and on February 29, 2016, the Court granted nominal defendant Zynga's motion to dismiss. On March 29, 2016, plaintiff filed a notice of appeal of the Court's order dismissing the action. Briefing is complete and oral argument on plaintiff's appeal was held on October 19, 2016. The Delaware Supreme Court has yet to rule on plaintiff's appeal.

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

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

13. Geographical Information

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

Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
United States	$126,412	$131,542	$375,595	$379,103
All other countries [1]	56,012	64,195	175,285	199,845
Total revenue	$182,424	$195,737	$550,880	$578,948

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

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

Property and equipment, net

	September 30, 2016	December 31, 2015
United States	$ 266,949	$ 269,721
All other countries	2,336	3,500
Total property and equipment, net	$ 269,285	$ 273,221

14. Subsequent Events

Share Repurchase Program

In November 2016, a share repurchase program was authorized for up to $200 million of our outstanding Class A common stock that remains in effect through the end of October 2018. The timing and amount of any stock repurchases will be determined based on market conditions, share price and other factors. The 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 or other sources of funding as the Company may determine to be appropriate. Share repurchases under these authorizations may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, purchases through 10b5-1 plans or by any combination of such methods. Repurchases of our Class A common stock in the open market could result in increased volatility in our stock price. There is no guarantee that we will do any share repurchases under the program or otherwise in the future.

Termination of Credit Agreement

On November 2, 2016, the Company voluntarily terminated its Amended and Restated Revolving Credit Agreement, dated as of June 20, 2013, as amended on July 1, 2015 (as amended, the "Credit Agreement") among the Company, the lenders party thereto and Morgan Stanley Senior Funding, Inc., as the administrative agent. Prior to its termination, the Credit Agreement provided the Company with a revolving line of credit which is described under the heading "Credit Facility" in Note 12. No principal was outstanding as of the date of termination, and since its inception in 2011 and subsequent amendment in 2013, no borrowings have been made under the credit facility.

The Credit Agreement was terminated because it no longer served the Company's needs and allows the Company to save costs otherwise incurred in connection with maintaining the line of credit.

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

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

Overview

We are a leading social game developer with approximately 66 million average MAUs for the three months ended September 30, 2016. We have launched some of the most successful social games in the industry. Our games are accessible on mobile platforms, Facebook and other social networks and Zynga.com. Our games are generally available for free, and we generate revenue through the in-game sale of virtual goods and advertising services.

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

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

The games that constitute our top games vary over time, but historically the top three revenue-generating games in any period contributed the majority of our revenue. Our top three games accounted for 53%, 60% and 54% of our online game revenue in 2015, 2014 and 2013, respectively.

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 services. Revenue growth will depend largely on our ability to attract and retain players and more effectively monetize our player base through the sale of virtual goods and advertising. We intend to do this through the launch of new games, enhancements to current games and expansion into new markets and distribution platforms.

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

In 2016, our business continued generating a higher percentage of bookings through mobile platforms than through the Facebook platform. For the three months ended September 30, 2016 and 2015 we estimate that 80% and 64% of our revenue, respectively, was generated through mobile platforms, while 17% and 32% of our revenue, respectively, was generated through the Facebook platform. For the three months ended September 30, 2016 and 2015, we estimate that we generated 83% and 69% of our bookings, respectively, from mobile platforms while 15% and 28% of our bookings, respectively, were generated from the Facebook platform. We have had to estimate this information because certain payment methods we accept and certain advertising networks do not allow us to determine the platform used.

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

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

Key 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 Non-GAAP Financial Metrics

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Reconciliation of Revenue to Bookings:				
Revenue	$ 182,424	$ 195,737	$ 550,880	$ 578,948
Change in deferred revenue	14,299	(19,758)	2,121	(61,097)
Bookings	$ 196,723	$ 175,979	$ 553,001	$ 517,851

Limitations of Bookings

Some limitations of bookings are:

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

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

Key Operating Metrics

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

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

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

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

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

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

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

The table below shows average DAUs, MAUs, MUUs, MUPs and ABPU for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(users and payers in millions)			
Average DAUs	18	19	19	22
Average MAUs	66	75	65	86
Average MUUs (1)	57	51	54	60
Average MUPs (1)	1.3	0.9	1.1	1.0
ABPU	$0.116	$0.100	$ 0.109	$ 0.089

(1) For the three and nine months ended September 30, 2016, MUUs and MUPS exclude Daily Celebrity Crossword and Vegas Diamond Slots. For the three and six months ended June 30, 2016, MUUs and MUPs exclude Black Diamond Casino, Vegas Diamond Slots, Yummy Gummy and Crazy Kitchen. For the three and nine months ended September 30, 2015, MUPs and MUUs exclude CSR Racing, CSR Classics and Clumsy Ninja. These games are excluded to avoid potential double counting of MUUs and MUPs as our systems are unable to distinguish whether a player of these games is also a player of other Zynga games.

Average DAUs, MAUs and MUUs declined when comparing the three months ended September 30, 2016 and 2015. These declines in average DAUs, MAUs and MUUs were due to declines in users for our existing games such as CSR Racing, Looney Tunes Dash!, FarmVille 2 and FarmVille: Harvest Swap which were not offset by the contribution from newer titles such as CSR Racing 2 and FarmVille: Tropic Escape. Average MUPs increased in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to the launch of CSR Racing 2 in the third quarter of 2016, while ABPU increased in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to an increase in total bookings and decline in average DAUs. Future growth in audience and engagement will depend on our ability to retain current players, attract new players, launch new games and expand into new market and distribution platforms.

Other Metrics

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

	For the Three Months Ended:				
	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
Average monthly unique payer bookings (in thousands) (1)	$48,303	$39,531	$41,742	$38,444	$40,780
Average MUPs (in millions) (2)	1.3	0.9	1.0	0.8	0.9
Monthly unique payer bookings per MUP (3)	$37	$43	$44	$47	$47

(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 unique payer bookings from advertising. For the three months ended September 30, 2016, bookings from Daily Celebrity Crossword and Vegas Diamond Slots are excluded. For the three months ended March 31, 2016 and June 30, 2016 bookings from Black Diamond Casino, Vegas Diamond Slots, Yummy Gummy and Crazy Kitchen are excluded. For the three months ended September 30, 2015 and December 31, 2015, bookings from CSR Racing, CSR Classics and Clumsy Ninja are excluded.

(2) For the three months ended September 30, 2016, MUPs exclude Daily Celebrity Crossword and Vegas Diamond Slots. For the three months ended March 31, 2016 and June 30, 2016, MUPs exclude Black Diamond Casino, Vegas Diamond Slots, Yummy Gummy and Crazy Kitchen. For the three months ended September 30, 2015 and December 31, 2015, MUPs exclude CSR Racing, CSR Classics and Clumsy Ninja.

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

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

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

Recent Developments

- Acquisition of PuzzleSocial. In the third quarter of 2016, we acquired PuzzleSocial, a provider of mobile crossword puzzle games, for purchase consideration of approximately $20.4 million, which consisted of cash paid of $20.0 million and contingent consideration with a fair value of $0.4 million. We acquired PuzzleSocial as their crossword puzzle game complements our existing Words With Friends franchise with a similar audience of word game players.
- Game Launches. In August 2016, we launched FarmVille: Tropic Escape for mobile platforms.
- Changes in Executive Team. In the third quarter of 2016, we hired Matthew Bromberg as our Chief Operating Officer and Gerard Griffin as our Chief Financial Officer.

Factors Affecting Our Performance

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

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

Game monetization. We generate most of our bookings and revenue from the sale of virtual goods in our games. The degree to which our players choose to pay for virtual goods in our games is driven by our ability to create content and virtual goods that enhance the game-play experience. Our bookings, revenue and overall financial performance are affected by the number of players and the effectiveness of our monetization of players through the sale of virtual goods and advertising. For example, ABPU increased from $0.100 in the three months ended September 30, 2015 to $0.116 in the three months ended September 30, 2016 due to higher decline in DAU of non-paying players (compared to paying players) who do not contribute to online game bookings. In addition, mobile and international players have historically monetized at a lower level than web and U.S. players, respectively. The percentage of paying mobile and international players may increase or decrease based on a number of factors, including growth in mobile games as a percentage of total game audience and our overall international players, localization of content and the availability of payment options.

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

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

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

In the first quarter of 2016, we acquired Zindagi, a provider of social games in the Match-3 category, to accelerate our ability to execute against new opportunities in Slots and other game genres and in the third quarter of 2016, we acquired PuzzleSocial, a provider of mobile crossword puzzle games.

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

Hiring and retaining key personnel. Our ability to compete and grow depends in large part on the efforts and talents of our employees. In addition to employee attrition, we have also implemented, and continue to implement, certain cost reduction initiatives to better align our operating expenses with our revenue, including reducing our headcount and consolidating certain facilities.

Results of Operations

Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Revenue by type:						
Online game	$ 134,254	$ 151,168	(11)%	$ 407,134	$ 461,292	(12)%
Advertising and other	48,170	44,569	8 %	143,746	117,656	22 %
Total revenue	$ 182,424	$ 195,737	(7)%	$ 550,880	$ 578,948	(5)%

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Total revenue decreased $13.3 million in the third quarter of 2016, as compared to the same period of the prior year, while bookings increased $20.7 million in the third quarter of 2016, compared to the same period of the prior year. ABPU increased from $0.100 in the third quarter of 2015 to $0.116 in the third quarter of 2016 and average MUPs increased from 0.9 million in the third quarter of 2015 to 1.3 million in the third quarter of 2016, while average DAUs decreased from 19 million in the third quarter of 2015 to 18 million in the third quarter of 2016.

Online game revenue decreased $16.9 million in the third quarter of 2016 as compared to the same period of the prior year. This decrease was primarily attributable to decreases in revenue from FarmVille 2, FarmVille 2: Country Escape and Hit it Rich! Slots in the amounts of $17.4 million, $10.2 million and $7.2 million, respectively, due to the overall decay rate in bookings and audience metrics in these games. The overall decrease in online game revenue was offset by increases in revenue from Empires & Allies, Black Diamond Slots and CSR Racing 2 in the amounts of $6.8

million, $6.3 million and $5.5 million, respectively. Online game revenue increased for Black Diamond Slots and CSR Racing 2 as these games were launched in September 2015 and June 2016, respectively. Online game revenue increased for Empires & Allies as a result of higher amortization of prior period deferred revenue. As we recognize revenue from the sale of durable virtual goods ratably over the estimated playing period of paying players, revenue for Empires & Allies includes amortization of higher deferred revenue resulting from its launch in May 2015. All other games accounted for the remaining net decrease of $0.7 million.

The decrease in online game revenue in the third quarter of 2016 was offset by changes in estimated average life of durable virtual goods. During the three months ended September 30, 2016, changes in our estimated average life of durable virtual goods for various games resulted in an increase in revenue and income from operations of $0.5 million, which is the result of adjusting the remaining recognition period of deferred revenue generated in prior periods at the time of a change in estimate. For the same period in the prior year, changes in our estimated average life of durable virtual goods resulted in an increase in revenue and income from operations of $7.4 million. We also recognized $0.2 million of revenue and income from operations in the three months ended September 30, 2016 due to changes in our estimated average life of durable virtual goods for games that have been discontinued as there is no further service obligation after the closure of these games. These changes in estimates did not impact our reported earnings per share for the third quarter of 2016 and resulted in a $0.01 per share impact on our reported earnings per share for the quarter of 2015.

International revenue as a percentage of total revenue was 31% in the third quarter of 2016 and 33% in the third quarter of 2015.

In the three months ended September 30, 2016, Zynga Poker, Wizard of Oz Slots, Hit It Rich! Slots and FarmVille 2 were our top revenue-generating games and comprised 19%, 12%, 12% and 11%, respectively, of our online game revenue for the period. In the three months ended September 30, 2015, FarmVille 2, Zynga Poker, Hit It Rich! Slots, FarmVille 2: Country Escape and Wizard of Oz Slots were our top revenue-generating games and comprised 21%, 17%, 16%, 14% and 12%, respectively, of our online game revenue for the period. No other game generated more than 10% of online game revenue during either of these periods.

Consumable virtual goods accounted for 48% of online game revenue in the third quarter of 2016 and 47% of online game revenue in the third quarter of 2015. Durable virtual goods accounted for 52% of online game revenue in the third quarter of 2016 and 53% of online game revenue in the third quarter of 2015. The estimated weighted average life of durable virtual goods was 9 months in the third quarter of 2016 compared to 10 months in the third quarter of 2015.

Advertising and other revenue increased $3.6 million in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 due to a $2.2 million increase in in-game display ads as a result of better optimization and performance on mobile platforms driving higher effective cost per thousand impressions (“eCPM”). The increases in in-game display ads were driven by the Company’s transition from web to mobile, as mobile revenue as a percentage of total revenue grew from 64% in the third quarter of 2015 to 80% in the third quarter of 2016 and mobile bookings as a percentage of total bookings grew from 69% in the third quarter of 2015 to 83% in the third quarter of 2016. The increase was also attributed to a $1.4 million increase in in-game offers, engagement ads and other advertising revenue.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Total revenue decreased $28.1 million in the nine months ended September 30, 2016, as compared to the same period of the prior year, while bookings increased $35.2 million in the nine months ended September 30, 2016, compared to the same period of the prior year. ABPU increased from $0.089 in the nine months ended September 30, 2015 to $0.109 in the nine months ended September 30, 2016 and average MUPs increased from 1.0 million in the nine months ended September 30, 2015 to 1.1 million in the nine months ended September 30, 2016, while average DAUs decreased from 22 million in the nine months ended September 30, 2015 to 19 million in the nine months ended September 30, 2016.

Online game revenue decreased $54.2 million in the nine months ended September 30, 2016 as compared to the same period of the prior year. This decrease was primarily attributable to decreases in revenue from FarmVille 2, FarmVille 2: Country Escape and Hit it Rich! Slots in the amounts of $40.6 million, $39.9 million and $18.1 million, respectively, due to the overall decay rate in bookings and audience metrics in these games. The overall decrease in online game revenue was offset by increases in revenue from Empires & Allies, Wizard of Oz Slots and Black Diamond Slots in the amounts of $33.0 million, $18.3 million and $11.5 million, respectively. Online game revenue increased for Empires & Allies and Black Diamond Slots as these games were launched in May 2015 and September 2015, respectively, while online game revenue increased for Wizard of Oz Slots as a result of growth in bookings and audience metrics in this game. All other games accounted for the remaining net decrease of $18.4 million.

The decrease in online game revenue in the nine months ended September 30, 2016, was offset by changes in estimated average life of durable virtual goods. During the nine months ended September 30, 2016, changes in our estimated average life of durable virtual goods for various games resulted in an increase in revenue and income from operations of $0.5 million, which is the result of adjusting the remaining recognition period of deferred revenue generated in prior periods at the time of a change in estimate. For the same period in the prior year, changes in our estimated average life of durable virtual goods resulted in an increase in revenue and income from operations of $8.2 million. We also recognized $3.8 million of revenue and income from operations in the nine months ended September 30, 2016 due to changes in our estimated average life of durable virtual goods for games that have been discontinued as there is no further service obligation after the closure of these games. For the same period in the prior year, we recognized $9.9 million for games that have been discontinued. For the nine months ended September 30, 2016 and 2015, these changes in estimates resulted in a $0.01 and a $0.02 per share impact on our reported earnings per share, respectively.

International revenue as a percentage of total revenue was 32% in the nine months ended September 30, 2016 and 35% in the nine months ended September 30, 2015.

In the nine months ended September 30, 2016, Zynga Poker, Wizard of Oz Slots, Hit It Rich! Slots and FarmVille 2 were our top revenue-generating games and comprised 19%, 14%, 13% and 12%, respectively, of our online game revenue for the period. In the nine months ended September 30, 2015 FarmVille 2, Zynga Poker, FarmVille 2: Country Escape and Hit it Rich! Slots were our top revenue-generating games and comprised 20%, 18%, 15% and 15%, respectively, of our online game revenue for the period. No other game generated more than 10% of online game revenue during either of these periods.

Consumable virtual goods accounted for 48% of online game revenue in the nine months ended September 30, 2016 and 44% of online game revenue in the nine months ended September 30, 2015. Durable virtual goods accounted for 52% of online game revenue in the nine months ended September 30, 2016 and 56% of online game revenue in the nine months ended September 30, 2015. The estimated weighted average life of durable virtual goods was 9 months in the nine months ended September 30, 2016 compared to 11 months in the nine months ended September 30, 2015.

Advertising and other revenue increased $26.1 million in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 due to a $25.0 million increase in in-game display ads as a result of better optimization and performance on mobile platforms driving higher eCPM. The increases in in-game display ads were driven by the Company's transition from web to mobile, as mobile revenue as a percentage of total revenue grew from 62% in the nine months ended September 30, 2015 to 76% in the nine months ended September 30, 2016 and mobile bookings as a percentage of total bookings grew from 66% in the nine months ended September 30, 2015 to 79% in the nine months ended September 30, 2016. The increase was also attributed to a $3.1 million increase in in-game offers, engagement ads and other advertising revenue, which was offset by a $2.0 million decrease in in-game sponsorships.

Cost of revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Cost of revenue	$ 62,675	$ 57,187	10 %	$ 175,917	$ 172,588	2 %

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Cost of revenue increased $5.5 million in the third quarter of 2016 as compared to the same period of the prior year. The increase was primarily attributable to a $9.3 million increase in payment processing fees from bookings generated from mobile payment processors and a $2.3 million increase in royalty expense for licensed intellectual property, offset by a $4.7 million decrease in hosting costs due to data center migration and a $1.3 million decrease in depreciation expense due to the consolidation of data center facilities and the related disposition of certain data center assets in prior periods.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Cost of revenue increased $3.3 million in the nine months ended September 30, 2016 compared to the same period of the prior year. The increase was primarily attributable to an $18.4 million increase in payment processing fees from bookings generated from mobile payment processors and a $4.1 million increase in royalty expense for licensed intellectual property, offset by an $11.6 million decrease in depreciation expense due to the consolidation of data center facilities and the related disposition of certain data center assets in prior periods, a $4.5 million decrease in hosting costs due to data center migration and a $2.4 million decrease in headcount-related expense.

Research and development

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Research and development	$ 73,913	$ 78,416	(6)%	$ 227,883	$ 276,832	(18)%

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Research and development expenses decreased $4.5 million in the third quarter of 2016 as compared to the same period of the prior year. The decrease was primarily attributable to a $5.8 million benefit recorded for the change in estimated fair value of the contingent consideration liability for Rising Tide in the third quarter of 2016 and a $3.6 million decrease in stock-based expense, offset by a $5.3 million increase in headcount-related expense.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Research and development expenses decreased $48.9 million in the nine months ended September 30, 2016 as compared to the same period of the prior year. The decrease was primarily attributable to an $18.2 million benefit for the change in estimate fair value of the contingent consideration liability for Rising Tide and Zindagi in the nine months ended September 30, 2016 and $9.4 million less expense in 2016 to reflect the change in estimated fair value of the contingent consideration liability of Spooky Cool Labs LLC (the liability for Spooky Cool Labs LLC was settled in full in the first quarter of 2015), a $9.6 million decrease in restructuring expense, a $7.4 million decrease in stock-based expense and a $4.4 million decrease in headcount-related expense.

Sales and marketing

Three Months Ended September 30,