

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

Filing Date: **2012-07-25** | Period of Report: **2012-07-25**  
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FILER

**ZYNGA INC**

CIK: [1439404](#) | IRS No.: **000000000** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **8-K** | Act: **34** | File No.: [001-35375](#) | Film No.: **12979255**  
SIC: **7374** Computer processing & data preparation

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

**July 25, 2012**  
**Date of Report (Date of earliest event reported)**

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**Zynga Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of  
incorporation or organization)**

**001-35375**  
**(Commission  
File No.)**

**42-1733483**  
**(I.R.S. employer  
identification number)**

**699 Eighth Street**  
**San Francisco, CA 94103**  
**(Address of principal executive offices, including zip code)**

**(855) 449-9642**  
**(Registrant' s telephone number, including area code)**

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02 Results of Operations and Financial Condition**

On July 25, 2012, Zynga Inc. (the “Company”) issued a press release announcing financial results for the quarter ended June 30, 2012. A copy of the press release is furnished as Exhibit 99.1 to this Current Report and is incorporated herein by reference.

The information furnished on this Form 8-K, including the exhibit attached, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any other filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

**Item 9.01 Financial Statements and Exhibits.**

(d) The following exhibit is filed with this report on Form 8-K:

| Exhibit<br>Number | Description   |
|-------------------|---|
| 99.1              | Press release issued by Zynga Inc. entitled “Zynga Reports Second Quarter 2012 Financial Results,” dated July 25, 2012. |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**Zynga Inc.**

Date: July 25, 2012

By: /s/ David M. Wehner

David M. Wehner  
Chief Financial Officer

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## INDEX TO EXHIBITS

**Exhibit  
Number**

**Description**

99.1 Press release, dated July 25, 2012, entitled "Zynga Reports Second Quarter 2012 Financial Results."



**Press Release**

**Zynga Reports Second Quarter 2012 Financial Results**

**- Revenues of \$332 Million, Up 19% Year-Over-Year**

**- Bookings of \$302 Million, Up 10% Year-Over-Year**

**SAN FRANCISCO, Calif. - July 25, 2012** - Zynga Inc. (NASDAQ: ZNGA), the world's leading provider of social game services, today announced financial results for the second quarter ended June 30, 2012.

*Q2 Revenue of \$332 million, up 19% year-over-year; six months year-to-date revenue of \$653 million, up 25% year-over-year*

*Q2 Bookings of \$302 million, up 10% year-over-year; six months year-to-date bookings of \$631 million, up 12% year-over-year*

*Q2 GAAP EPS of (\$0.03), down from \$0.00 in the second quarter of 2011, six months year-to-date GAAP EPS of (\$0.15), down from \$0.00 in the first half of 2011*

*Non-GAAP EPS of \$0.01, down from \$0.05 in the second quarter of 2011, six months year-to-date non-GAAP EPS of \$0.06, down from \$0.16 in the first half of 2011*

“The company achieved some significant milestones in the quarter including the launch of *Bubble Safari*, which is now the number one arcade game on Facebook, and the launch of *The Ville*, now the number two game behind *Zynga Poker*. Our advertising business continued to show strong growth with revenue up 170% year-over-year. Our games reached record audiences, achieving over 300 million monthly active users. We grew our mobile footprint five-fold in the year to 33 million daily active users making Zynga the largest mobile gaming network,” said Mark Pincus CEO and Founder, Zynga. “We also faced new short-term challenges which led to a sequential decline in bookings. Despite this, we’re optimistic about the long-term growth prospects on mobile where we have a window of opportunity to drive the same kind of social gaming revolution that we enabled on the web.”

**Financial Highlights (in thousands, except per share data)**

|                                     | Quarter ended |              | Six months ended |              |
|-------------------------------------|---------------|--------------|------------------|--------------|
|                                     | Jun 30, 2012  | Jun 30, 2011 | Jun 30, 2012     | Jun 30, 2011 |
| <b>GAAP Results</b>                 |               |              |                  |              |
| Revenue                             | \$332,493     | \$279,144    | \$653,465        | \$522,034    |
| Net income (loss)                   | (\$22,811)    | \$1,391      | (\$108,162)      | \$18,149     |
| Diluted net income (loss) per share | (\$0.03)      | \$0.00       | (\$0.15)         | \$0.00       |
| <b>Non-GAAP Results</b>             |               |              |                  |              |
| Bookings                            | \$301,588     | \$274,743    | \$630,752        | \$561,341    |
| Adjusted EBITDA                     | \$65,309      | \$65,080     | \$152,061        | \$177,343    |
| Non-GAAP net income                 | \$4,555       | \$38,166     | \$51,604         | \$113,581    |
| Non-GAAP earnings per share         | \$0.01        | \$0.05       | \$0.06           | \$0.16       |

**Business Highlights**

Daily active users (DAUs) increased from 59 million in the second quarter of 2011 to 72 million in the second quarter of 2012, up 23% year-over-year.

Monthly active users (MAUs) increased from 228 million in the second quarter of 2011 to 306 million in the second quarter of 2012, up 34% year-over-year.

Monthly unique users (MUUs) increased from 151 million in the second quarter of 2011 to 192 million in the second quarter of 2012, up 27% year-over-year.

Average daily bookings per average DAU (ABPU) decreased from \$0.051 in the second quarter of 2011 to \$0.046 in the second quarter of 2012, down 10% year-over-year.

Monthly Unique Payers (MUPs) increased from 3.5 million in the first quarter of 2012 to 4.1 million in the second quarter of 2012, up 16% sequentially.

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Zynga launched six games during the second quarter of 2012, including three titles on web-based platforms: *Bubble Safari* and *Ruby Blast*, our second and third games in the arcade category, and *The Ville*, our next-generation “house and people” game; and three titles on mobile platforms: *Zombie Swipeout*, *Zynga Slots*, our third game in the casino category, and *Matching With Friends*, an original *With Friends* title.

As of June 30, 2012, Zynga held seven of the top ten games on Facebook, based on DAUs reported by AppData, including some of our most established titles, *Zynga Poker*, *FarmVille* and *CityVille*, and one of our newest games, *Bubble Safari*, launched in the second quarter of 2012.

During our Zynga Unleashed event held in June, we announced the Zynga With Friends network, a unified experience that will connect all players on any platform, from Facebook to iOS and Android to Zynga.com. Zynga With Friends will roll out a social lobby that will include features and services such as zFriends, live Social Stream, chat, as well as Zynga’s newly launched multi-player feature on Zynga.com. In addition, we unveiled planned new web and mobile games across new genres, including *Zynga Elite Slots* in the casino genre. We also announced several new, next generation games in the popular “Ville” genre, including two upcoming games, *ChefVille* and *FarmVille 2*.

## **Second Quarter 2012 Financial Summary**

**Revenue:** Revenue was \$332.5 million for the second quarter of 2012, an increase of 19% compared to the second quarter of 2011 and an increase of 4% compared to the first quarter of 2012. Online game revenue was \$291.5 million, an increase of 10% compared to the second quarter of 2011 and a decrease of \$1.2 million compared to the first quarter of 2012. Advertising revenue was \$40.9 million, an increase of 170% compared to the second quarter of 2011 and an increase of 45% compared to the first quarter of 2012.

**Bookings:** Bookings were \$301.6 million for the second quarter of 2012, an increase of 10% compared to the second quarter of 2011 and a decrease of 8% compared to the first quarter of 2012.

**Net income (loss):** Net loss was \$22.8 million for the second quarter of 2012 compared to net income of \$1.4 million for the second quarter of 2011. Net loss for the second quarter of 2012 included \$95.5 million of stock-based expense compared to \$33.1 million of stock-based expense included in the second quarter of 2011.

**Non-GAAP net income:** Non-GAAP net income was \$4.6 million for the second quarter of 2012, a decrease of 88% compared to the second quarter of 2011 and a decrease of 90% compared to the first quarter of 2012.

**Adjusted EBITDA:** Adjusted EBITDA was \$65.3 million for the second quarter of 2012 compared to \$65.1 million for the second quarter of 2011 and \$86.8 million in the first quarter of 2012.

**EPS:** Diluted EPS was (\$0.03) for the second quarter of 2012 compared to \$0.00 for the second quarter of 2011 and (\$0.12) for the first quarter of 2012.

**Non-GAAP EPS:** Non-GAAP EPS was \$0.01 for the second quarter of 2012 compared to \$0.05 for the second quarter of 2011 and \$0.06 for the first quarter of 2012.

**Cash and cash flow:** As of June 30, 2012, cash, cash equivalents and marketable securities were \$1.6 billion, compared to \$964.5 million as of June 30, 2011 and \$1.5 billion as of March 31, 2012. Cash flow from operations was \$67.0 million for the second quarter of 2012, compared to \$74.1 million for the second quarter of 2011. Free cash flow was (\$204.4) million for the second quarter of 2012 as reported or \$29.3 million excluding the purchase of the company’s headquarters, compared to (\$0.4) million for the second quarter of 2011.

## **2012 Outlook**

We are lowering our outlook to reflect delays in launching new games, a faster decline in existing web games due in part to a more challenging environment on the Facebook web platform, and reduced expectations for *Draw Something*. As a result, our updated outlook for 2012 is as follows:

Bookings are projected to be in the range of \$1.15 billion to \$1.225 billion.



Adjusted EBITDA is projected to be in the range of \$180 million to \$250 million.

Stock-based expense is projected to be in the range of \$410 million to \$430 million.

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Capital expenditures are projected to be in the range of \$370 million to \$380 million, which includes the purchase of our corporate headquarters building in April 2012.

Our effective tax rate for non-GAAP net income is projected to be in the range of 50% to 60%.

Non-GAAP weighted-average diluted shares outstanding are projected to be approximately 845 million shares in the fourth quarter of 2012.

Full year 2012 non-GAAP EPS is projected to be in the range of \$0.04 to \$0.09.

### **Conference Call Details:**

Zynga will host a conference call today, July 25, 2012, at 2:00 pm Pacific Time (5:00 pm Eastern Time) to discuss financial results. A live webcast of the conference call and supplemental slides will be accessible from the Investor Relations page of our website at <http://investor.zynga.com> and a replay will be archived and accessible at the same website after the call.

### **About Zynga Inc.**

Zynga Inc. (NASDAQ: ZNGA) is the world's leading provider of social game services with more than 305 million monthly active users playing its games, which include *FarmVille*, *Words With Friends*, *Matching With Friends*, *Scramble With Friends*, *The Ville*, *Bubble Safari*, *Ruby Blast*, *Draw Something*, *Zynga Slingo*, *CastleVille*, *CityVille*, *Hidden Chronicles*, *Zynga Poker*, *Zynga Bingo*, *Zynga Slots*, *Empires & Allies*, *The Pioneer Trail*, and *Mafia Wars*. Zynga's games are available on a number of global platforms, including Facebook, [Zynga.com](http://Zynga.com), Google+, Tencent, Apple iOS and Google Android. Through [Zynga.org](http://Zynga.org), Zynga players have raised more than \$10 million for world social causes. Zynga is headquartered in San Francisco, Calif.

### **Forward-Looking Statements**

This press release contains forward-looking statements relating to, among other things, our outlook for full year 2012 bookings, adjusted EBITDA, stock-based expense, capital expenditures, effective tax rate for non-GAAP net income, non-GAAP weighted-average diluted shares, and non-GAAP EPS; our launch of new games, features and technologies; building and expanding the Zynga platform and the Zynga With Friends Network, and our future operational plans, prospects and opportunities to expand our business. Forward-looking statements often include words such as "outlook," "projected," "will," "anticipate," "believe," "expect," and statements in the future tense are generally forward-looking statements. The achievement or success of the matters covered by such forward-looking statements involves risks, uncertainties and assumptions. Our actual results could differ materially from those predicted or implied, and reported results should not be considered as an indication of our future performance. Factors that could cause or contribute to such differences include, but are not limited to, our relationship with Facebook or changes in the Facebook platform, our ability to launch new games in a timely manner and monetize these games, our ability to control expenses, competition, changing interests of players, intellectual property disputes or other litigation, asset impairment charges, our ability to anticipate and address technical challenges that may arise, acquisitions by us and changes in corporate strategy or management.

More information about factors that could affect our operating results is included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our registration statement on Form S-1, as amended, filed with the Securities and Exchange Commission on March 23, 2012 and our Quarterly Report on Form 10-Q for the three months ended March 31, 2012, copies of which may be obtained by visiting our Investor Relations web site at <http://investor.zynga.com> or the SEC's web site at [www.sec.gov](http://www.sec.gov). Undue reliance should not be placed on the forward-looking statements in this release, which are based on information available to us on the date hereof. We assume no obligation to update such statements. The results we report in our Quarterly Report on Form 10-Q for the three months ended June 30, 2012 could differ from the preliminary results we have announced in this press release.

DAU, MAU, MUU, MUP and ABPU figures presented in this press release represent the average for each period presented. The figures presented in this press release represent the quarterly average of the three months within each quarter presented.

MUPs represent the aggregate number of unique players who made a payment at least once during the applicable month through a payment method for which we can quantify the number of unique payers. MUPs do not include payers who use certain payment methods for which we cannot quantify the number of unique payers. If a player made a payment in our games on two separate

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platforms (e.g. Facebook and Google+) in a month, the player would be counted as two unique payers in that month. Average MUP data in this press release includes MUPs from our top mobile games; certain smaller titles do not provide unique payer data.

### **Non-GAAP Financial Measures:**

We have provided in this release non-GAAP financial information including bookings, adjusted EBITDA, free cash flow, non-GAAP net income and non-GAAP EPS, as a supplement to the consolidated financial statements, which are prepared in accordance with generally accepted accounting principles (“GAAP”). Management uses these non-GAAP financial measures internally in analyzing our financial results to assess operational performance and liquidity. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared in accordance with GAAP. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. We believe these non-GAAP financial measures are useful to investors because they allow for greater transparency with respect to key financial metrics we use in making operating decisions and because our investors and analysts use them to help assess the health of our business. We have provided reconciliations between our historical non-GAAP financial measures to the most directly comparable GAAP financial measures. However, we have not provided reconciliation of bookings outlook to revenue, adjusted EBITDA outlook to net income (loss), non-GAAP effective tax rate outlook to GAAP effective tax rate or non-GAAP EPS outlook to GAAP EPS because certain reconciling items necessary to accurately project revenue (including the projected mix of virtual goods sold in our games, and the projected estimated average lives of durable virtual goods for our games) are not in our control and cannot be reasonably projected due to variability from period to period caused by changes in player behavior and other factors. As revenue and/or net income for the applicable future period is a necessary input to determine all of these comparable GAAP figures, we are not able to provide these reconciliations.

Some limitations of bookings, adjusted EBITDA, non-GAAP net income, free cash flow and non-GAAP EPS are:

*Adjusted EBITDA and non-GAAP net income do not include the impact of stock-based expense;*

*Bookings, adjusted EBITDA and non-GAAP net income do not reflect that we defer and recognize revenue over the estimated average life of virtual goods or as virtual goods are consumed;*

*Adjusted EBITDA does not reflect income tax expense;*

*Adjusted EBITDA does not include other income and expense, which includes foreign exchange gains and losses, interest income; and the gain from the termination of our lease and purchase of our corporate headquarters building;*

*Adjusted EBITDA excludes both depreciation and amortization of intangible assets, while non-GAAP net income excludes amortization of intangible assets from acquisitions. Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;*

*Adjusted EBITDA and non-GAAP net income do not include gains and losses associated with legal settlements;*

*Non-GAAP net income does not include the gain from the termination of our lease and purchase of the Company’s corporate headquarters building;*

*Free cash flow is derived from net cash provided by operating activities less cash spent on capital expenditures, including the purchase of our corporate headquarters building, and removing the excess income tax benefits or costs associated with stock-based awards;*

*Non-GAAP EPS treats shares of convertible preferred stock as if they had converted into common stock at the beginning of the applicable period presented;*

*Non-GAAP EPS gives effect to all dilutive awards based on the treasury stock method that were excluded from the GAAP diluted earnings per share calculation; and*

*Other companies, including companies in our industry, may calculate bookings, adjusted EBITDA, non-GAAP net income and non-GAAP EPS differently or not at all, which will reduce their usefulness as a comparative measure.*

Because of these limitations, you should consider bookings, adjusted EBITDA, non-GAAP net income, free cash flow and non-GAAP EPS along with other financial performance measures, including revenue, net income and our financial results presented in accordance with GAAP. See the GAAP to non-GAAP reconciliations below for further details.

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**ZYNGA INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, unaudited)

|   | June 30,<br>2012   | December 31,<br>2011 |
|---|--------------------|----------------------|
| <b>Assets</b>                               |                    |                      |
| Current assets:                             |                    |                      |
| Cash and cash equivalents                   | \$435,980          | \$1,582,343          |
| Marketable securities                       | 780,964            | 225,165              |
| Accounts receivable                         | 115,910            | 135,633              |
| Income tax receivable                       | 6,503              | 18,583               |
| Deferred tax assets                         | 29,608             | 23,515               |
| Restricted cash                             | 28,593             | 3,846                |
| Other current assets                        | 52,714             | 34,824               |
| Total current assets                        | 1,450,272          | 2,023,909            |
| Long-term marketable securities             | 426,243            | 110,098              |
| Goodwill                                    | 202,010            | 91,765               |
| Other intangible assets, net                | 139,135            | 32,112               |
| Property and equipment, net                 | 499,426            | 246,740              |
| Restricted cash                             | -                  | 4,082                |
| Other long-term assets                      | 7,657              | 7,940                |
| Total assets                                | <u>\$2,724,743</u> | <u>\$2,516,646</u>   |
| Current liabilities:                        |                    |                      |
| Accounts payable                            | \$35,218           | \$44,020             |
| Other current liabilities                   | 164,565            | 167,271              |
| Current deferred revenue                    | 447,790            | 457,394              |
| Total current liabilities                   | 647,573            | 668,685              |
| Long-term debt                              | 100,000            | -                    |
| Deferred revenue                            | 10,142             | 23,251               |
| Deferred tax liabilities                    | 55,162             | 13,950               |
| Other non-current liabilities               | 48,866             | 61,221               |
| Total liabilities                           | 861,743            | 767,107              |
| Stockholders' equity:                       |                    |                      |
| Common stock and additional paid in capital | 2,648,400          | 2,426,168            |
| Treasury stock                              | (283,258 )         | (282,897 )           |
| Accumulated other comprehensive income      | 114                | 362                  |
| Accumulated deficit                         | (502,256 )         | (394,094 )           |
| Total stockholders' equity                  | 1,863,000          | 1,749,539            |
| Total liabilities and stockholders' equity  | <u>\$2,724,743</u> | <u>\$2,516,646</u>   |

**ZYNGA INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data, unaudited)

|  | Three Months Ended |                 | Six Months Ended   |                 |
|--|--------------------|-----------------|--------------------|-----------------|
|  | June 30,           |                 | June 30,           |                 |
|  | 2012               | 2011            | 2012               | 2011            |
| <b>Revenue:</b>  |                    |                 |                    |                 |
| Online game  | \$291,548          | \$263,974       | \$584,328          | \$493,872       |
| Advertising  | 40,945             | 15,170          | 69,137             | 28,162          |
| Total revenue  | <u>332,493</u>     | <u>279,144</u>  | <u>653,465</u>     | <u>522,034</u>  |
| <b>Costs and expenses:</b>   |                    |                 |                    |                 |
| Cost of revenue  | 94,841             | 78,076          | 184,963            | 145,738         |
| Research and development   | 171,316            | 95,747          | 358,192            | 167,507         |
| Sales and marketing  | 56,055             | 38,098          | 112,892            | 78,254          |
| General and administrative   | 48,730             | 54,218          | 121,445            | 81,328          |
| Total costs and expenses   | 370,942            | 266,139         | 777,492            | 472,827         |
| Income (loss) from operations  | (38,449)           | 13,005          | (124,027)          | 49,207          |
| Interest income  | 1,084              | 443             | 2,375              | 961             |
| Other income (expense), net  | 21,250             | 200             | 20,108             | (536 )          |
| Income (loss) before income taxes  | (16,115 )          | 13,648          | (101,544)          | 49,632          |
| Provision for income taxes   | (6,696 )           | (12,257 )       | (6,618 )           | (31,483 )       |
| Net income (loss)  | <u>\$(22,811 )</u> | <u>\$1,391</u>  | <u>\$(108,162)</u> | <u>\$18,149</u> |
| Net income attributable to participating securities  | -                  | 1,391           | -                  | 18,149          |
| Net income (loss) attributable to common stockholders  | <u>\$(22,811 )</u> | <u>\$-</u>      | <u>\$(108,162)</u> | <u>\$-</u>      |
| <b>Net income (loss) per share attributable to common stockholders:</b>  |                    |                 |                    |                 |
| Basic  | <u>\$(0.03 )</u>   | <u>\$0.00</u>   | <u>\$(0.15 )</u>   | <u>\$0.00</u>   |
| Diluted (1)  | <u>\$(0.03 )</u>   | <u>\$0.00</u>   | <u>\$(0.15 )</u>   | <u>\$0.00</u>   |
| <b>Weighted-average common shares used to compute net income (loss) per share attributable to common stockholders:</b> |                    |                 |                    |                 |
| Basic  | <u>730,510</u>     | <u>262,661</u>  | <u>718,554</u>     | <u>260,414</u>  |
| Diluted  | <u>730,510</u>     | <u>262,661</u>  | <u>718,554</u>     | <u>260,414</u>  |
| <b>Stock-based expense included in the above line items:</b>   |                    |                 |                    |                 |
| Cost of revenue  | \$3,200            | \$536           | \$10,018           | \$1,087         |
| Research and development   | 65,246             | 14,608          | 143,392            | 23,941          |
| Sales and marketing  | 12,218             | 5,331           | 25,133             | 7,771           |
| General and administrative   | 14,792             | 12,636          | 50,764             | 14,818          |
| Total stock-based expense  | <u>\$95,456</u>    | <u>\$33,111</u> | <u>\$229,307</u>   | <u>\$47,617</u> |

- (1) For periods when we have net income, diluted earnings per share results cannot be recalculated using the numbers above due to reallocation of net income as required by the two-class method. Refer to the Net income (loss) per share footnote in the Company's filings for further details.



**ZYNGA INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands, unaudited)

|  | Three Months Ended |                  | Six Months Ended   |                  |
|--|--------------------|------------------|--------------------|------------------|
|  | June 30,           |                  | June 30,           |                  |
|  | 2012               | 2011             | 2012               | 2011             |
| <b>Operating activities</b>  |                    |                  |                    |                  |
| Net income (loss)  | \$(22,811 )        | \$1,391          | \$(108,162 )       | \$\$18,149       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                    |                  |                    |                  |
| Depreciation and amortization  | 39,207             | 23,365           | 68,605             | 41,212           |
| Stock-based expense  | 95,456             | 33,111           | 229,307            | 47,617           |
| Gains from sales of investments, assets and other, net                                   | (410 )             | –                | (398 )             | –                |
| Gain on termination of lease and purchase of building, net                               | (19,886 )          | –                | (19,886 )          | –                |
| Tax benefits from stock-based awards   | 5,210              | –                | 5,210              | –                |
| Excess tax benefits from stock-based awards  | (5,210 )           | –                | (5,210 )           | –                |
| Accretion and amortization on marketable securities                                      | 4,293              | 658              | 7,129              | 1,526            |
| Deferred income taxes  | (6,254 )           | –                | (7,540 )           | –                |
| Changes in operating assets and liabilities:   |                    |                  |                    |                  |
| Accounts receivable, net   | 30,371             | 34               | 24,754             | (21,757 )        |
| Income tax receivable  | (73 )              | 6,011            | 14,169             | 20,672           |
| Other assets   | (4,727 )           | (34,441 )        | (9,545 )           | (30,095 )        |
| Accounts payable   | (9,106 )           | 21,927           | (9,389 )           | 27,001           |
| Deferred revenue   | (30,905 )          | (4,401 )         | (22,713 )          | 39,307           |
| Other liabilities  | (8,131 )           | 26,406           | (20,490 )          | 34,086           |
| Net cash provided by operating activities  | <u>67,024</u>      | <u>74,061</u>    | <u>145,841</u>     | <u>177,718</u>   |
| <b>Investing activities</b>  |                    |                  |                    |                  |
| Purchases of marketable securities   | (273,374)          | (218,413)        | (1,238,115)        | (490,831)        |
| Sales of marketable securities   | 63,351             | 635              | 80,098             | 2,136            |
| Maturities of marketable securities  | 157,950            | 322,012          | 274,076            | 607,711          |
| Purchase of corporate headquarters building  | (233,700)          | –                | (233,700 )         | –                |
| Acquisition of property and equipment  | (42,921 )          | (74,493 )        | (77,915 )          | (124,715)        |
| Acquisition of purchased technology and other intangible assets                          | (54 )              | (2,069 )         | (3,193 )           | (3,709 )         |
| Business acquisitions, net of cash acquired  | (10,600 )          | (8,110 )         | (192,764 )         | (18,548 )        |
| Changes in restricted cash   | 231,488            | 537              | 6,536              | (7,483 )         |
| Proceeds from sales of investments, assets and other, net                                | 975                | (583 )           | 937                | (583 )           |
| Net cash provided by (used in) investing activities                                      | <u>(106,885)</u>   | <u>19,516</u>    | <u>(1,384,040)</u> | <u>(36,022 )</u> |
| <b>Financing activities</b>  |                    |                  |                    |                  |
| Proceeds from issuance of debt, net of issuance costs                                    | 99,780             | –                | 99,780             | –                |
| Taxes paid related to net share settlement of ZSUs                                       | (1,590 )           | –                | (25,090 )          | –                |
| Repurchases of common stock  | –                  | (20,000 )        | –                  | (281,270)        |
| Exercise of stock options and warrants   | 11,496             | 524              | 12,029             | 1,729            |
| Excess tax benefits from stock-based awards  | 5,210              | –                | 5,210              | –                |
| Net proceeds from issuance of preferred stock  | –                  | (14 )            | –                  | 485,300          |
| Net cash provided by (used in) financing activities                                      | <u>114,896</u>     | <u>(19,490 )</u> | <u>91,929</u>      | <u>205,759</u>   |
| Effect of exchange rate changes on cash and cash equivalents                             | (129 )             | 6                | (93 )              | 27               |
| Net increase (decrease) in cash and cash equivalents                                     | 74,906             | 74,093           | (1,146,363)        | 347,482          |

|  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
| Cash and cash equivalents, beginning of period | <u>361,074</u>   | <u>461,220</u>   | <u>1,582,343</u> | <u>187,831</u>   |
| Cash and cash equivalents, end of period       | <u>\$435,980</u> | <u>\$535,313</u> | <u>\$435,980</u> | <u>\$535,313</u> |

**ZYNGA INC.**  
**RECONCILIATION OF GAAP TO NON-GAAP RESULTS**  
(In thousands, except per share data, unaudited)

|  | Three months ended        |                         | Six months ended          |                         |
|--|---------------------------|-------------------------|---------------------------|-------------------------|
|  | June 30, 2012             |                         | June 30, 2012             |                         |
|  | 2012                      | 2011                    | 2012                      | 2011                    |
| <b>Reconciliation of Revenue to Bookings</b>                                     |                           |                         |                           |                         |
| Revenue  | \$332,493                 | \$279,144               | \$653,465                 | \$522,034               |
| Change in deferred revenue   | (30,905 )                 | (4,401 )                | (22,713 )                 | 39,307                  |
| <b>Bookings</b>  | <b><u>\$301,588</u></b>   | <b><u>\$274,743</u></b> | <b><u>\$630,752</u></b>   | <b><u>\$561,341</u></b> |
| <b>Reconciliation of Net income (loss) to Adjusted EBITDA</b>                    |                           |                         |                           |                         |
| Net income (loss)  | \$(22,811 )               | \$1,391                 | \$(108,162)               | \$18,149                |
| Provision for income taxes   | 6,696                     | 12,257                  | 6,618                     | 31,483                  |
| Other income (expense), net  | (21,250 )                 | (200 )                  | (20,108 )                 | 536                     |
| Interest income  | (1,084 )                  | (443 )                  | (2,375 )                  | (961 )                  |
| Legal settlement   | -                         | -                       | 889                       | -                       |
| Depreciation and amortization  | 39,207                    | 23,365                  | 68,605                    | 41,212                  |
| Stock-based expense  | 95,456                    | 33,111                  | 229,307                   | 47,617                  |
| Change in deferred revenue   | (30,905 )                 | (4,401 )                | (22,713 )                 | 39,307                  |
| <b>Adjusted EBITDA</b>   | <b><u>\$65,309</u></b>    | <b><u>\$65,080</u></b>  | <b><u>\$152,061</u></b>   | <b><u>\$177,343</u></b> |
| <b>Reconciliation of Net income (loss) to Non-GAAP net income</b>                |                           |                         |                           |                         |
| Net income (loss)  | \$(22,811 )               | \$1,391                 | \$(108,162)               | \$18,149                |
| Stock-based expense  | 95,456                    | 33,111                  | 229,307                   | 47,617                  |
| Amortization of intangible assets from acquisitions                              | 14,537                    | 6,375                   | 21,488                    | 12,258                  |
| Change in deferred revenue   | (30,905 )                 | (4,401 )                | (22,713 )                 | 39,307                  |
| Legal settlements  | -                         | -                       | 889                       | -                       |
| Gain on termination of lease and purchase of building                            | (19,886 )                 | -                       | (19,886 )                 | -                       |
| Tax effect of non-GAAP adjustments to net income (loss)                          | (31,836 )                 | 1,690                   | (49,319 )                 | (3,750 )                |
| <b>Non-GAAP net income</b>   | <b><u>\$4,555</u></b>     | <b><u>\$38,166</u></b>  | <b><u>\$51,604</u></b>    | <b><u>\$113,581</u></b> |
| <b>Reconciliation of GAAP diluted shares to Non-GAAP diluted shares</b>          |                           |                         |                           |                         |
| GAAP diluted shares  | 730,510                   | 262,661                 | 718,554                   | 260,414                 |
| Add back: assumed preferred stock conversion (1)                                 | -                         | 303,566                 | -                         | 299,019                 |
| Add back: other dilutive equity awards (2)                                       | 101,368                   | 162,356                 | 119,329                   | 158,472                 |
| <b>Non-GAAP diluted shares</b>   | <b><u>831,878</u></b>     | <b><u>728,583</u></b>   | <b><u>837,883</u></b>     | <b><u>717,905</u></b>   |
| <b>Non-GAAP net income per share:</b>  | <b><u>\$0.01</u></b>      | <b><u>\$0.05</u></b>    | <b><u>\$0.06</u></b>      | <b><u>\$0.16</u></b>    |
| <b>Reconciliation of cash provided by operating activities to free cash flow</b> |                           |                         |                           |                         |
| Net cash provided by operating activities  | \$67,024                  | \$74,061                | \$145,841                 | \$177,718               |
| Purchase of corporate headquarters building                                      | (233,700)                 | -                       | (233,700)                 | -                       |
| Acquisition of property and equipment  | (42,921 )                 | (74,493 )               | (77,915 )                 | (124,715)               |
| Excess tax benefits from stock-based awards                                      | 5,210                     | -                       | 5,210                     | -                       |
| <b>Free cash flow</b>  | <b><u>\$(204,387)</u></b> | <b><u>\$(432 )</u></b>  | <b><u>\$(160,564)</u></b> | <b><u>\$53,003</u></b>  |

- (1) Gives effect to the conversion of convertible preferred stock into common stock as though the conversion had occurred at the beginning of the period.
- (2) Gives effect to all dilutive awards based on the treasury stock method.