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

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**Form 10-K**

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(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

Commission file number: 001-33368

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**Glu Mobile Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

91-2143667  
(IRS Employer  
Identification No.)

500 Howard Street Suite 300  
San Francisco, California  
(Address of Principal Executive Offices)

94105  
(Zip Code)

(415) 800-6100

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.0001 per share	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of Class)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 Regulation S-T (§ 232.405 of this chapter 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing price of such stock on such date as reported by The NASDAQ Global Market, was approximately \$142,196,240. Shares of common stock held by each executive officer and director of the registrant and by each person who owns 10% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the registrant's common stock as of March 1, 2014 was 80,534,124.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for registrant's 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year ended December 31, 2013 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## Forward-Looking Statements

The information in this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. For example, words such as “may,” “will,” “should,” “estimates,” “predicts,” “potential,” “continue,” “strategy,” “believes,” “anticipates,” “plans,” “expects,” “intends” and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this report, particularly in the section titled “Risk Factors,” and the risks discussed in our other Securities and Exchange Commission (“SEC”) filings. We undertake no obligation to update the forward-looking statements after the date of this report, except as required by law.

## PART I

### Item 1. Business

#### General

Glu Mobile develops and publishes a portfolio of action/adventure and casual games designed to appeal to a broad cross section of the users of smartphones and tablet devices who download and make purchases within our games through direct-to-consumer digital storefronts, such as the Apple App Store, Google Play Store, Amazon Appstore, and others. We create games based on our own brands, including *Big Time Gangsta*, *Blood & Glory*, *Contract Killer*, *Contract Killer: Zombies*, *Deer Hunter*, *Eternity Warriors*, *Frontline Commando*, *Gun Bros*, *Heroes of Destiny*, *Motocross Meltdown*, *Samurai vs. Zombies Defense* and *Stardom*, as well as third-party licensed brands. We are headquartered in San Francisco, California, with a major office outside Seattle, and international locations in Canada, China, India and Russia.

We were incorporated in Nevada in May 2001 as Cyent Studios, Inc. and changed our name to Sorrent, Inc. later that year. In November 2001, we incorporated a wholly owned subsidiary in California, and, in December 2001, we merged the Nevada corporation into this California subsidiary to form Sorrent, Inc., a California corporation. In May 2005, we changed our name to Glu Mobile Inc. In March 2007, we completed our initial public offering and our common stock is traded on the NASDAQ Global Market under the symbol “GLUU.” Except where the context requires otherwise, in this Annual Report on Form 10-K, references to “Company,” “Glu,” “Glu Mobile,” “we,” “us” and “our” refer to Glu Mobile Inc., and where appropriate, its subsidiaries.

#### Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports, and amendments to these reports, required of public companies with the SEC. The public can read and copy the materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549 and can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We make available free of charge on the Investor Relations section of our corporate website all of the reports we file with the SEC as soon as reasonably practicable after they are filed. Our internet website is located at [www.glu.com](http://www.glu.com) and our Investor Relations website is located at [www.glu.com/investors](http://www.glu.com/investors). The information on our website is not incorporated into this report, unless otherwise expressly stated. **Copies of our Annual Report on Form 10-K for the year ended December 31, 2013 may also be obtained, without charge, by contacting Investor Relations, Glu Mobile Inc., 500 Howard Street, Suite 300, San Francisco, California 94105 or by calling 415-800-6100.**

#### Business Developments and Strategy

Since January 1, 2013, we have taken the following actions to support our business:

- We continued to focus our efforts on developing and publishing games for smartphones and tablet devices, such as Apple’s iPhone and iPad and mobile devices utilizing Google’s Android operating system, such as Samsung’s Galaxy product line and Amazon’s Kindle Fire. Our significant achievements related to these efforts include the following:
  - We generated \$100.3 million in smartphone revenues in 2013, a 5.5% increase from the \$95.0 million in smartphone revenues we generated in 2012.
  - Smartphone revenues comprised 95.0% of our total revenues in 2013 compared with 87.9% of our total revenues in 2012.

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- In December 2013, we had approximately 6.4 million daily active users and 56.3 million monthly active users of our games on our primary distribution platforms, including Apple's App Store, the Google Play Store, Amazon's Appstore and the Mac App Store. This is a significant increase from December 2012 in which we had 3.5 million daily active users and 34.8 million monthly active users of our games on our primary distribution platforms.
- As of December 31, 2013, we had approximately 606.3 million cumulative installs of our smartphone games on our primary distribution platforms noted in the preceding bullet, including approximately 79.6 million installs during the fourth quarter of 2013.
- We continued to execute on our strategy to become the leading developer and publisher of free-to-play games for smartphones, tablets and other platforms. Free-to-play games are games that a player can download and play for free, but which allow players to access a variety of additional content and features for a fee and to engage with various advertisements and offers that generate revenues for us. We globally released 16 free-to-play games during 2013.
- We increased the revenues that we generate from titles based on our own intellectual property, deriving 93.3% of our total revenues in 2013 from original intellectual property titles compared with 83.5% in 2012. Some of the successful original intellectual property titles that we launched in 2013 were *Deer Hunter 2014*, *Eternity Warriors 3*, *Frontline Commando: D-Day*, *Samurai vs. Zombies Defense 2* and *Stardom: Hollywood*, each of which was a sequel or brand extension of our existing original intellectual property. We also launched several new original intellectual property titles, including *Heroes of Destiny*. We intend to continue to base the substantial majority of our games upon our own intellectual property, which we believe will continue to increase our margins and enhance our long-term value.
- Although our primary focus is creating and distributing free-to-play games based on our own intellectual property, we have sought to expand and diversify our business through the following initiatives:
  - In February 2013, we announced the creation of our Glu Publishing business, which seeks to enter into strategic relationships with third-party developers, primarily in Asian and Eastern European markets, to publish their titles through our network of distribution channels.
  - We have entered into a strategic relationship with MGM Interactive Inc. pursuant to which we globally launched a game in January 2014 based on MGM's *Robocop* motion picture, and intend to globally release a game based on MGM's *Hercules* motion picture in the second half of 2014. In addition, in July 2013, we issued a warrant to MGM exercisable to purchase up to 3,333,333 shares of our common stock at an exercise price of \$3.00 per share. A portion of the warrant vests and becomes exercisable each time we globally release a game based on a mutually agreed MGM intellectual property.
  - In November 2013, we entered into an agreement with Kim Kardashian on the development of a celebrity lifestyle game that we expect to release in late Spring 2014, which will include her likeness and voice.
- We continued transitioning towards becoming primarily a games-as-a-service company in which the majority of our future games will only be playable online. As part of these efforts, in September 2013, we globally launched *Deer Hunter 2014*, our first game supported by our games-as-a-service technology platform; *Deer Hunter 2014* set new company download, daily active user and revenue records. In January 2014, we globally launched *Eternity Warriors 3* and *Motocross Meltdown*, our first titles that are only playable online.
- We have implemented a number of measures designed to strengthen our operations and presence in Asia, including opening offices in Korea and Japan and entering into a strategic relationship with Colopl, Inc. to co-produce and publish a new game designed with market-specific content for Japanese players. Our focus on Asia helped us increase our revenues derived from our Asia-Pacific (APAC) region by \$5.8 million, from \$22.9 million in 2012 to \$28.7 million in 2013.
- We continue to seek opportunities to expand into adjacent or emerging platforms. As part of these efforts, in December 2013, we launched *Deer Hunter 2014* on Facebook, and in November 2013, we announced that we developed *Spellista*, the first title developed exclusively for Google Glass.
- In September 2013, we closed an underwritten public offering of 7,245,000 shares of common stock led by Canaccord Genuity Inc. in which we received net proceeds of approximately \$14.0 million, after deducting underwriter discounts and other offering expenses.

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The mobile games market continued to undergo significant changes in 2013. There has been, and we believe that there will continue to be, an increase in the number of smartphones sold as consumers continue to migrate from traditional feature phones to these next-generation devices. In addition, Apple, Amazon, Microsoft, Samsung and a number of other manufacturers continue to introduce new and more powerful tablet devices that enable mobile game developers to create titles that are optimized for larger screen sizes and designed to take advantage of tablets' advanced capabilities and functionality. Furthermore, during the fourth quarter of 2012, Apple introduced a smaller version of its tablet, the iPad mini, which has spurred additional consumer adoption of tablets. We believe that the worldwide proliferation of smartphones and tablets will continue for the foreseeable future.

We continued to execute on our strategy of becoming the leading developer and publisher of free-to-play games for smartphones, tablets and other advanced platforms. In order for us to achieve this goal, we must develop and publish mobile games that are widely accepted and commercially successful on digital storefronts that distribute games for these devices and platforms. These include Apple's App Store and Mac App Store, the Google Play Store and Amazon's Appstore. Accordingly, we have concentrated our product development efforts exclusively towards developing new titles for smartphones, tablets and advanced platforms, and intend to continue to devote minimal resources in future periods towards selling and supporting games for feature phones.

We have succeeded in generating a large number of downloads of our games. This is in part because our games can be downloaded and played for free, which enables us to build a significantly larger customer base more quickly than we could if we charged users an up-front fee for downloading our games, which was our previous feature phone business model. In addition, we believe that our games consistently have high production values, are visually appealing and have engaging core gameplay. These characteristics have typically resulted in highly positive consumer reviews and enhanced our reputation for publishing compelling free-to-play games. We also believe that we have been a consistently good partner of both Apple and Google, which has contributed to the majority of our games being featured on their storefronts when they are commercially released.

However, for us to continue to execute on our strategy, we must continue to improve our monetization of our players. We believe that deep monetization is one of the primary areas in which we must be proficient to succeed in the mobile gaming industry. Accordingly, we have implemented a number of measures designed to improve our game monetization. These include hiring a number of new personnel with monetization expertise and including deeper "meta game" functionality in our games, by which we mean increasing the player's ability to continue to create content or otherwise invest in the game outside the core gameplay loop, which we believe should result in increased player retention. In addition, part of our strategy is to continue transitioning towards becoming primarily a games-as-a-service company, in which the majority of our future games will only be playable online. This will enable us to deliver a number of additional features in our games, such as tournaments, live events and more frequent content updates, which we believe will contribute to better monetization in our games. We plan to continue to invest in our games-as-a-service technology platform and hire additional monetization, live operations, server technology, user experience and product management personnel to support our transition to becoming primarily a games-as-a-service company.

## **Our Products**

We develop and publish a portfolio of primarily action/adventure games designed to appeal to a broad cross section of the users of smartphones and tablet devices. We believe that we are the market leader in free-to-play action/adventure mobile gaming, and intend to focus on developing games in this genre during 2014. In addition, we also develop and publish casual games, most of which recently have been developed by our Blammo studio in Toronto. Although we have licensed, and intend to continue to selectively license, third-party brands, we have since 2010 concentrated on developing games based on our own intellectual property, which include *Big Time Gangsta*, *Blood & Glory*, *Contract Killer*, *Contract Killer: Zombies*, *Deer Hunter*, *Eternity Warriors*, *Frontline Commando*, *Gun Bros*, *Heroes of Destiny*, *Motocross Meltdown*, *Samurai vs. Zombies Defense* and *Stardom*.

Although users can download and play our free-to-play games free of charge, they can purchase virtual currency to buy various virtual items to enhance their gameplay experience – we refer to these as "in-app purchases" or "micro-transactions." Some of the benefits that players receive from their in-app purchases include:

- *Play Longer Through Better Equipment* – We generally design our games to become significantly more challenging as the player advances through the game. For a game like *Frontline Commando: D-Day*, players can use their virtual currency to purchase more powerful weapons, stronger armor and healing med kits to increase their odds of continued survival.
- *Play Longer Through Energy Replenishment* – We design some of our games, such as *Deer Hunter 2014*, to have short playing sessions, the duration of which are limited by the energy available for each session. Players of *Deer Hunter 2014* can use their virtual currency to purchase items that will replenish their energy and enable them to extend their game play session.
- *Accelerate Game Progress* – Although some players are content to slowly "grind" their way through progressing in a game, other users are willing to purchase items to accelerate their progression. For example, *Heroes of Destiny* enables players to spend their virtual currency to upgrade their weapons and armor and have tasks, such as the leveling up of their heroes, instantly completed, thus allowing the user to accelerate his or her progress in the game.

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- *Customization* – Our games generally enable consumers to express themselves by customizing their character or the world the character inhabits. For example, *Stardom: Hollywood* allows users to personalize their characters’ appearance, clothing and living environment, as well as purchase special items available for a limited time, such as for holidays.

We sell virtual currency to consumers at various prices ranging from \$0.99 to \$99.99 (adjusted for local currencies for sales to players in foreign countries), which is consistent with storefront pricing guidelines, with the significant majority of player purchases occurring at the lower price points. The digital storefronts generally share with us 70% of the consumers’ payments for virtual currency; we do not have any special agreement or arrangement with respect to pricing or terms with any of the digital storefronts. Consumers may also acquire virtual currency through game play or by completing offers, as described below.

In addition to in-app purchases of virtual currency, we also monetize our games through offers and in-game advertising. Offers enable users to acquire virtual currency without paying cash but by instead taking specified actions, such as downloading another application, watching a short video, subscribing to a service or completing a survey. We work with third parties to provide these offers to end users of our free-to-play games, and we receive a payment from the third-party offer provider based on consumers responding to these offers. We also work with third-party advertising aggregators who embed advertising, such as banner ads, in our games; the aggregators typically pay us based on the number of impressions, which is the number of times an advertisement is shown to a player. In addition, from time to time we work directly with other application developers to include advertising for their applications in our games, and the developers pay us based on either the number of impressions in our games or the number of users who download the developer’s application.

We have generally designed our games to incorporate social features that enhance the user’s game play experience, and we intend to continue to introduce more social, community-based features into many of our new titles by leveraging our games-as-a-service technology platform. For example, *Eternity Warriors 3* includes live chat functionality and enables users to create alliances with other players, *Gun Bros 2* enables players across Apple’s iOS and Mac OS platforms to compete against each other in real-time, synchronous combat, and *Stardom: Hollywood* allows users to incorporate their friends into the game by filming movies and going on dates with them. Many of our games also leverage technologies such as Apple’s Game Center or Facebook Connect, which enables players to compare their high scores and achievements with their friends and against the global leaderboard.

Our smartphone games historically have had “thick clients” due to their high production values and, in some cases, 3-D graphics. A thick client game means that our games have a large file size, often 100 megabytes or more, that resides on the player’s device. Because of the inherent limitations of the digital platforms and telecommunications networks, which, at best, only allow applications that are less than 100 megabytes to be downloaded over a carrier’s wireless network, users generally must download one of our games either via a wireless Internet (wifi) connection or initially to their computer and then load the game to their device.

The table below sets forth each of the first party and third party titles that we released in 2013, as well as the title’s launch date and genre. First party titles are those created by our internal development studios, while third party titles are games created by other companies that we publish through our Glu Publishing business.

<b>Title</b>	<b>Release Date</b>	<b>Genre</b>	<b>First or Third Party Title</b>
<i>Dragon Storm</i>	February 2013	Action-Adventure	First Party
<i>Stardom: Hollywood</i>	February 2013	Casual	First Party
<i>Gun Bros 2</i>	February 2013	Action-Adventure	First Party
<i>Small City</i>	February 2013	Casual	First Party
<i>Samurai vs Zombies Defense 2</i>	March 2013	Action-Adventure	First Party
<i>Heroes of Destiny</i>	March 2013	Action-Adventure	First Party
<i>Frontline Commando: D-Day</i>	March 2013	Action-Adventure	First Party
<i>Tons of Guns</i>	July 2013	Action-Adventure	First Party
<i>Black Gate: Inferno</i>	July 2013	Action-Adventure	Third Party
<i>Zombies Ate My Friends</i>	July 2013	Casual	First Party
<i>Odyssey: Age of Gods</i>	July 2013	Action-Adventure	Third Party
<i>Deer Hunter 2014</i>	September 2013	Action-Adventure	First Party
<i>Gang Lords</i>	September 2013	Action-Adventure	First Party
<i>Gun Zombie 2</i>	December 2013	Action-Adventure	Third Party
<i>Mech Battle Arena</i>	December 2013	Action-Adventure	Third Party
<i>Eternity Warriors 3</i>	December 2013	Action-Adventure	First Party

All of the first-party games that we released in 2013 were based on our own intellectual property, and we expect this to be the case for the substantial majority of the games that we release in 2014. In 2013, 2012, and 2011, games based on our own intellectual property accounted for approximately 93.3%, 83.5% and 53.1% of our revenues, respectively.

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For games based on licensed brands, we share with the licensor a portion of our revenues. The average royalty rate that we paid on games based on licensed intellectual property was approximately 44.8% in 2013, 34.9% in 2012 and 30.1% in 2011. However, the individual royalty rates that we pay can be significantly above or below the average based on a variety of factors, such as the strength of the licensed brand, our development and porting obligations, and the platforms for which we are permitted to distribute the licensed content.

Although since 2010 we have focused our efforts on developing free-to-play games, we also continue to sell some premium games, which consumers download for a fee. Our premium games are generally our feature phone titles that are based on licensed intellectual property, though we do on occasion sell premium games for smartphones, such as *Call of Duty Black Ops Zombies*, and we generally do not continue to update premium games after the initial launch. We typically sell our premium games at prices ranging between \$0.99 and \$6.99, which is consistent with storefront pricing guidelines. For our premium smartphone games, we generally receive 70% of the consumers' payments from the digital storefront owner, as we do with sales of virtual currency. For our feature phone business, end users typically purchase our games from their wireless carrier and are charged on their monthly phone bill. Carriers normally share with us 40% to 65% of their subscribers' payments for our games.

## **Sales, Marketing and Distribution**

We market, sell and distribute our games primarily through direct-to-consumer digital storefronts, such as Apple's App Store, the Google Play Store and Amazon's Appstore. In addition to publishing our smartphone games on direct-to-consumer digital storefronts, we also publish some of our titles on other platforms, such as the Mac App Store and facebook. The significant majority of our smartphone revenues have historically been derived from Apple's iOS platform, which accounted for 59.6% and 56.0% of our total revenues in 2013 and 2012, respectively. We generated the majority of these iOS-related revenues from the Apple App Store, which represented 50.1% and 41.3% of our total revenues in 2013 and 2012, respectively, with the significant majority of such revenues derived from in-app purchases. We generated the balance of our iOS-related revenues from offers and advertisements in games distributed on the Apple App Store and, to a far lesser extent, sales of premium games. In addition, we generated approximately 30.5% and 27.3% of our total revenues in 2013 and 2012, respectively, from the Android platform. We generated the majority of our Android-related revenues from in-app purchases and sales of premium games made through the Google Play Store, which represented 19.2% and 20.3% of our total revenues in 2013 and 2012, respectively. We also work with third parties, including Tapjoy, from which we generated 4.7% and 10.7% of our total revenues in 2013 and 2012, respectively, to provide incented offers to our players. Our revenues from Tapjoy declined significantly after Apple informed us early in the fourth quarter of 2012 that we could no longer include links to Tapjoy's HTML5 website in our games. No other customer or digital storefront accounted for more than 10% of our total revenues in 2013 or 2012.

Because of the fragmentation inherent in the Android platform, we need to "port" – or convert into separate versions – our games for a significant percentage of the more than 1,000 Android-based devices that are currently commercially available, many of which have different technical requirements. Since the number and variety of Android-based smartphones and tablets shipped worldwide continues to grow, we must maintain and enhance our porting capabilities, which require, and will likely continue to require, us to invest considerable resources in this area.

As part of our efforts to successfully market our games on the direct-to-consumer digital storefronts, we attempt to educate the storefront owners about our title roadmap and seek to have our games featured or otherwise prominently placed within the storefront. We believe that the featuring or prominent placement of our games facilitates organic user discovery and is likely to result in our games achieving a greater degree of commercial success. We believe that a number of factors may influence the featuring or placement of a game, including:

- the perceived attractiveness of the title or brand;
- the level of critical or commercial success of the game or of other games previously introduced by a publisher;
- incorporation of the storefront owner's latest technology in the publisher's title;
- how strong the consumer experience is on all of the devices that discover titles using any given digital storefront;
- the publisher's relationship with the applicable storefront owner and future pipeline of quality titles for it; and
- the current market share of the publisher.

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In addition to our efforts to secure prominent featuring or placement for our games, we have also undertaken a number of marketing initiatives designed to acquire customers and increase downloads of our games and increase sales of virtual currency, including:

- undertaking extensive outreach efforts with video game websites and related media outlets, such as providing reviewers with access to our games prior to launch;
- paying third parties to advertise or incentivize consumers to download our games through offers or recommendations;
- using “push” notifications to alert users of sales on virtual currency or items in our games;
- cross-promoting our games through banner advertisements in our other games, as well as advertising our games in our competitors’ games; and
- using social networking websites, such as Facebook and Twitter, to build a base of fans and followers to whom we can quickly and easily provide information about our games.

We also distribute our games through OEM arrangements, in which we receive revenues from various handset and other manufacturers to develop titles that are customized to run on their particular device. These arrangements represent a small portion of our total revenues.

For our feature phone business, we market and sell our games primarily through wireless carriers via placement in the “deck” of games and other applications that the carriers choose to make available to their customers. End users download our feature phone games to their handsets, and typically their carrier bills them a one-time fee or monthly subscription fee, depending on the end user’s desired payment arrangement and the carrier’s offerings. Our carrier distribution agreements establish the portion of revenues that the carrier will retain. Wireless carriers generally control the price charged to end users either by approving or establishing the price of the games charged to their subscribers. Some of our carrier agreements also restrict our ability to change established prices. We currently have agreements with numerous wireless carriers. No wireless carrier represented 10% or more of our revenues in 2013, 2012 or 2011.

In addition, we operate our third-party publishing business under which we distribute third party titles, primarily from developers in Asian and Eastern European markets, through our distribution channels.

### **Development Studios**

We have six global studios that create and develop our games. These studios are based in Redwood City, California; Bellevue, Washington; Toronto, Canada; Beijing, China; Moscow, Russia and Hyderabad, India. These development studios are supported by central services personnel in our San Francisco, California headquarters who provide expertise with respect to areas such as game design, monetization, production, user experience, data analytics and live operations. Our President of Studios has primary responsibility for overseeing game development and monetization efforts across all of our first party titles.

Our game development process involves a significant amount of creativity, particularly with respect to developing original intellectual property franchises or games in which we license intellectual property from motion pictures or brands that are not based on games from other media. In addition, even where we license intellectual property based on console or Internet games, our developers must create games that are inspired by the game play of the original. In each of these cases, creative and technical studio expertise is necessary to design games that appeal to end users and work well on mobile phones and tablets with their inherent limitations, such as small screen sizes and control buttons.

Our development personnel are located in five different countries across three continents, which results in certain inherent complexities. To address these issues, we have instituted our Glu University training program. Glu University is designed to increase interaction among our studio teams, including having international studio team members regularly spend time in our San Francisco headquarters. The goal of this program is to ensure that we increase the uniformity, quality and commercial success of our games.

### **Product Development**

We have developed proprietary technologies and product development processes that are designed to enable us to rapidly and cost effectively develop and publish games that meet the expectations and preferences of consumers and the needs of our distributors. These technologies and processes include:

- core development platforms;
- porting tools and processes;
- broad development capabilities;
- limited application hosting;

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- provisioning and billing capabilities; and
- merchandising, monetization tools and marketing platform.

Since the markets for our products are characterized by rapid technological change, particularly in the technical capabilities of mobile phones and tablets, and changing end-user preferences, continuous investment is required to innovate and publish new games, regularly update our games, and modify existing games for distribution on new platforms. We have instituted a number of measures that are designed to both increase the speed with which we bring our game concepts to market, and earlier in the product development cycle identify and terminate game concepts that are unlikely to be commercially successful. For example, we typically publish our games in limited markets for several months prior to worldwide launch to identify bugs and refine gameplay and monetization before publishing the game globally. We have historically published the majority of our games internally, and have, in certain cases, retained a third-party to support our development activities. We also use third-party development tools to create many of our games, including a game development engine licensed from Unity Technologies to create most of our newest games.

We also rely on our own servers and third-party infrastructure to operate our games and to maintain and provide our analytics data. In particular, a significant portion of game traffic is hosted by Amazon Web Services, which provides us server redundancy by using multiple locations on various distinct power grids, and we expect to continue utilizing Amazon for a significant portion of our hosting services for the foreseeable future.

Research and development expenses were \$46.9 million, \$54.3 million and \$39.1 million for 2013, 2012 and 2011, respectively.

### **Seasonality**

Many new smartphones and tablets are released in or shortly before the fourth calendar quarter to coincide with the holiday shopping season. Because many end users download our games soon after they purchase or receive their new devices, we generally experience seasonal sales increases based on the holiday selling period. Although we believe that the majority of this holiday impact occurs during the fourth quarter, some of this seasonality also occurs for us in our first calendar quarter due to some lag between device purchases and game purchases. However, the impact of this seasonality on our operating results is to some degree affected by our title release schedule. In addition, companies' advertising budgets are generally highest during the fourth quarter and decline significantly in the first quarter of the following year, which affects the revenues we derive from advertisements and offers in our games. Conversely, our marketing expenses also increase in the fourth quarter, since demand for marketing is higher during the holiday season and this increased demand drives up marketing costs.

### **Competition**

Developing, distributing and selling mobile games is a highly competitive business, characterized by frequent product introductions and rapidly emerging new platforms, technologies and storefronts. For end users, we compete primarily on the basis of game quality, brand and customer reviews. We compete for promotional and digital storefront placement based on these factors, as well as our relationship with the storefront owner, historical performance, perception of sales potential and relationships with licensors of brands and other intellectual property. For content and brand licensors, we compete based on royalty and other economic terms, perceptions of development quality, porting abilities, speed of execution, distribution breadth and relationships with storefront owners. We also compete for experienced and talented employees.

We compete with a continually increasing number of companies, including DeNA, Gameloft, GREE, GungHo Online Entertainment, Nexon and Zynga and many well-funded private companies, including Kabam, King.com, Rovio, Storm 8/Team Lava and Supercell. We also compete for consumer spending with large companies, such as Activision, Disney, Electronic Arts (EA Mobile), Take-Two Interactive and Warner Brothers, whose games for smartphones and tablets are primarily premium rather than free-to-play. In addition, given the open nature of the development and distribution for smartphones and tablets, we also compete or will compete with a vast number of small companies and individuals who are able to create and launch games and other content for these devices using relatively limited resources and with relatively limited start-up time or expertise. As an example of the competition that we face, it has been estimated that more than one million applications, including more than 190,000 active games, were available on Apple's U.S. App Store as of February 28, 2014. The proliferation of titles in these open developer channels makes it difficult for us to differentiate ourselves from other developers and to compete for end users who purchase content for their devices without substantially increasing marketing or development costs.

Some of our competitors and our potential competitors have one or more advantages over us, either globally or in particular geographic markets, which include:

- significantly greater financial resources;

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- greater experience with the free-to-play games and games-as-a-service business models and more effective game monetization;
- stronger brand and consumer recognition regionally or worldwide;
- greater experience and effectiveness integrating community features into their games and increasing the revenues derived from their users;
- the capacity to leverage their marketing expenditures across a broader portfolio of mobile and non-mobile products;
- larger installed customer bases from their existing mobile games;
- larger installed customer bases from related platforms, such as console gaming or social networking websites, to which they can market and sell mobile games;
- more substantial intellectual property of their own from which they can develop games without having to pay royalties;
- lower labor and development costs and better overall economies of scale;
- greater platform-specific focus, experience and expertise; and
- broader global distribution and presence.

## **Intellectual Property**

Our intellectual property is an essential element of our business. We use a combination of trademark, copyright, trade secret and other intellectual property laws, confidentiality agreements and license agreements to protect our intellectual property. Our employees and independent contractors are required to sign agreements acknowledging that all inventions, trade secrets, works of authorship, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership that they may claim in those works. Despite our precautions, it may be possible for third parties to obtain and use without our consent intellectual property that we own or license. Unauthorized use of our intellectual property by third parties, including piracy, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. In addition, some of our competitors have in the past released games that are nearly identical to successful games released by their competitors in an effort to confuse the market and divert users from the competitor's game to the copycat game. To the extent that these tactics are employed with respect to any of our games, it could reduce our revenues.

Our trademarks that have been registered with the U.S. Patent and Trademark Office include Glu, our 2-D 'g' character logo, our 3-D 'g' character logo and several of our game titles, including *Big Time Gangsta*, *Blood & Glory*, *Bug Village*, *Contract Killer*, *Deer Hunter*, *Eternity Warriors*, *Frontline Commando* and *Gun Bros*. In addition, we have trademark applications pending with the U.S. Patent and Trademark Office for many of our game titles. For certain titles we do not yet have, and do not intend to seek, trademark registration. We also own, or have applied to own, one or more registered trademarks in certain foreign countries, depending on the relevance of each brand to other markets. Registrations of both U.S. and foreign trademarks are renewable every ten years.

We also use third-party development tools to create many of our games, including a game development engine licensed from Unity Technologies to create most of our newest games.

From time to time, we encounter disputes over rights and obligations concerning intellectual property. If we do not prevail in these disputes, we may lose some or all of our intellectual property protection, be enjoined from further sales of our games or other applications determined to infringe the rights of others, and/or be forced to pay substantial royalties to a third party, any of which would have a material adverse effect on our business, financial condition and results of operations.

## **Government Regulation**

We are subject to various federal, state and international laws and regulations that affect our business, including those relating to the privacy and security of customer and employee personal information and those relating to the Internet, behavioral tracking, mobile applications, advertising and marketing activities, sweepstakes and contests, and gambling. Additional laws in all of these areas are likely to be passed in the future, which could result in significant limitations on or changes to the ways in which we can collect, use, host, store or transmit the personal information and data of our customers or employees, communicate with our customers, and deliver products and services, or may significantly increase our compliance costs. As our business expands to include new uses or collection of data that are subject to privacy or security regulations, our compliance requirements and costs will increase and we may be subject to increased regulatory scrutiny.

## Financial Information about Segments and Geographic Areas

We manage our operations and allocate resources as a single reporting segment. Financial information about our segment and geographic areas is incorporated into this section by reference to Note 11 of Notes to Consolidated Financial Statements contained in Item 8 of this report. In addition, financial information regarding our operations, assets and liabilities, including our total net revenue and net loss for the years ended December 31, 2011, 2012 and 2013 and our total assets as of December 31, 2012 and 2013, is included in our Consolidated Financial Statements contained in Item 8 of this report.

## Employees

As of February 28, 2014, we had 545 employees, of which 260 were based in the United States and Canada, 143 were based in Europe and 142 were based in Asia. Our employees in China are represented by a labor union. We have not experienced any employment-related work stoppages and consider relations with our employees to be good. We believe that our future success depends in part on our continued ability to hire, assimilate and retain qualified employees.

## Executive Officers

The following table shows Glu's executive officers as of March 1, 2014 and their areas of responsibility. Their biographies follow the table.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Niccolo M. de Masi	33	President, Chief Executive Officer and Director
Eric R. Ludwig	44	Executive Vice President and Chief Financial Officer
Chris Akhavan	31	President of Publishing
Matthew P. Ricchetti	42	President of Studios
Scott J. Leichtner	43	Vice President, General Counsel and Corporate Secretary

*Niccolo M. de Masi* has served as our President and Chief Executive Officer and as one of our directors since January 2010. Prior to joining Glu, Mr. de Masi was the Chief Executive Officer and President of Hands-On Mobile, a mobile technology company and developer and publisher of mobile entertainment, from October 2009 to December 2009, and previously served as the President of Hands-On Mobile from March 2008 to October 2009. Prior to joining Hands-On Mobile, Mr. de Masi was the Chief Executive Officer of Monsternob Group PLC, a mobile entertainment company, from June 2006 to February 2007. Mr. de Masi joined Monsternob in 2004 and, prior to becoming its Chief Executive Officer, held positions as its Managing Director and as its Chief Operating Officer, where he was responsible for formulating and implementing Monsternob's growth and product strategy. Prior to joining Monsternob, Mr. de Masi worked in a variety of corporate finance and operational roles within the technology, media and telecommunications (TMT) sector, beginning his career with JP Morgan on both the TMT debt capital markets and mergers and acquisitions teams in London. He has also worked as a physicist with Siemens Solar and within the Strategic Planning and Development divisions of Technicolor. Mr. de Masi holds an M.A. degree in Physics and an MSci. degree in Electronic Engineering—both from Cambridge University.

*Eric R. Ludwig* has served as our Executive Vice President and Chief Financial Officer since October 2011 and has served as our Chief Financial Officer since August 2008. Mr. Ludwig previously held the position of Senior Vice President, Chief Financial Officer and Chief Administrative Officer from September 2010 to October 2011. Prior to becoming our Chief Financial Officer, Mr. Ludwig served as our Vice President, Finance, Interim Chief Financial Officer from May 2008 to August 2008, served as our Vice President, Finance from April 2005 to May 2008 and served as our Director of Finance from January 2005 to April 2005. In addition, Mr. Ludwig has served as our Assistant Secretary since July 2006. Prior to joining us, from January 1996 to January 2005, Mr. Ludwig held various positions at Instill Corporation, an on-demand supply chain software company, most recently as Chief Financial Officer, Vice President, Finance and Corporate Secretary. Prior to Instill, Mr. Ludwig was Corporate Controller at Camstar Systems, Inc., an enterprise manufacturing execution and quality systems software company, from May 1994 to January 1996. He also worked at Price Waterhouse L.L.P. from May 1989 to May 1994. Mr. Ludwig holds a B.S. in Commerce from Santa Clara University and is a Certified Public Accountant (inactive).

*Chris Akhavan* has served as our President of Publishing since April 2013. Before joining us, from January 2010 to April 2013, Mr. Akhavan served in several management positions at Tapjoy, Inc., a provider of incentivized offers, most recently as Senior Vice President, Partnerships. From April 2009 to January 2010, Mr. Akhavan was a Manager, Publisher Network at RockYou!, a social gaming company, and from October 2007 to November 2008, he served as a Strategic Partner Manager at VideoEgg (now SAY Media), an advertising inventory and platform provider. Mr. Akhavan holds a B.A. in Economics from the University of California at Santa Cruz.

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*Matthew P. Ricchetti* has served as our President of Studios since October 2012. Before joining us, Mr. Ricchetti was employed by Kabam, a free-to-play games company, from June 2010 to October 2012, holding various roles and most recently as its Vice President of Mobile. From May 2009 through June 2010, Mr. Ricchetti was a Senior Game Designer and Product Manager at Zynga, Inc., a social games company. From September 2004 to May 2009, Mr. Ricchetti was a Designer and Producer at Electronic Arts, Inc., a digital interactive entertainment company. Mr. Ricchetti holds a B.A. in Religious Studies and East Asian Studies from Brown University.

*Scott J. Leichtner* has served as our Vice President, General Counsel and Corporate Secretary since September 2010. Mr. Leichtner joined Glu in June 2009 as our Senior Corporate Counsel. Prior to joining us, Mr. Leichtner was a corporate attorney at Fenwick & West LLP, a law firm focused on serving technology clients, from October 1997 to May 2009. Mr. Leichtner holds an A.B. in Political Science from Duke University and a J.D. from the University of Michigan.

## **Item 1A. Risk Factors**

*Our business is subject to many risks and uncertainties, which may affect our future financial performance. If any of the events or circumstances described below occurs, our business and financial performance could be harmed, our actual results could differ materially from our expectations and the market value of our stock could decline. The risks and uncertainties discussed below are not the only ones we face. There may be additional risks and uncertainties not currently known to us or that we currently do not believe are material that may harm our business and financial performance. Because of the risks and uncertainties discussed below, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.*

### ***We have a history of net losses, may incur substantial net losses in the future and may not achieve profitability.***

We have incurred significant losses since inception, including a net loss of \$21.1 million in 2011, a net loss of \$20.5 million in 2012 and a net loss of \$19.9 million in 2013. As of December 31, 2013, we had an accumulated deficit of \$252.2 million. We expect our costs in 2014 to increase in absolute dollars over 2013 levels as we implement additional initiatives designed to increase revenues, such as developing games with greater complexity and higher production values, making investments related to our continued transition to becoming a games-as-a-service company, increasing the amount we spend in acquiring new players and otherwise marketing our new titles (which costs are expected to increase over last year, particularly since advertising costs in our industry have generally been rising), and paying upfront license fees or minimum guarantees to secure licenses to third party intellectual property, including in connection with our Glu Publishing business. If our revenues do not increase to offset these additional expenses, if we experience unexpected increases in operating expenses or if we are required to take additional charges related to impairments or restructurings, we will continue to incur losses and will not become profitable. If we are unable to significantly increase our revenues or reduce our expenses, it will continue to negatively affect our operating results and our ability to achieve and sustain profitability.

### ***We have a relatively new and evolving business model.***

In early 2010, we changed our business model to focus on becoming a leading publisher of “free-to-play” games for smartphones, tablets and other next-generation platforms. Free-to-play games are games that a player can download and play for free, but which allow players to access a variety of additional content and features for a fee and to engage with various advertisements and offers that generate revenues for us. We launched our first free-to-play titles in the fourth quarter of 2010, so we have a relatively short history operating under this business model. This limits the experience upon which we can draw when making operating decisions. In addition, part of our strategy is to continue transitioning towards becoming a games-as-a-service company in which the majority of our future free-to-play games will only be playable online, and we may not be successful in executing on this transition. Our efforts to develop free-to-play games and transition towards becoming a games-as-a-service company may prove unsuccessful or, even if successful, it may take more time than we anticipate to achieve significant revenues because, among other reasons:

- we may have difficulty optimizing the monetization of our games due to our relatively limited experience creating games that include micro-transaction capabilities, advertising and offers, as well as our limited experience in offering the features that are often associated with free-to-play games published by games-as-a-service companies, such as tournaments, live events and more frequent content updates;
- we intend to continue to develop the majority of our games based upon our own intellectual property, rather than well-known licensed brands, and we may encounter difficulties in generating sufficient consumer interest in and downloads of our games, particularly since we have had relatively limited success generating significant revenues from games based on our own intellectual property;
- many well-funded public and private companies have released, or plan to release, free-to-play games, including those provided under the games-as-a-service model, and this competition will make it more difficult for us to differentiate our games and derive significant revenues from them;

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- free-to-play games, including those delivered as a service, have a relatively limited history, and it is unclear how popular this style of game will become or remain or its revenue potential;
- our free-to-play strategy assumes that a large number of players will download our games because they are free and that we will then be able to effectively monetize the games; however, players may not widely download our games for a variety of reasons, including poor consumer reviews or other negative publicity, ineffective or insufficient marketing efforts, lack of sufficient community features, lack of prominent storefront featuring and the relatively large file size of some of our games—our thick-client games often utilize a significant amount of the available memory on a user’s device, and due to the inherent limitations of the smartphone platforms and telecommunications networks, which at best only allow applications that are less than 100 megabytes to be downloaded over a carrier’s wireless network, players must download one of our thick-client games either via a wireless Internet (wifi) connection or initially to their computer and then side-loaded to their device;
- even if our games are widely downloaded, we may fail to retain users or optimize the monetization of these games for a variety of reasons, including poor game design or quality, lack of community features, gameplay issues such as game unavailability, long load times or an unexpected termination of the game due to data server or other technical issues, or our failure to effectively respond and adapt to changing user preferences through game updates;
- we may have difficulty hiring the additional monetization, live operations, server technology, user experience and product management personnel that we require to support our continued transition to becoming a games-as-a-service company, or may face difficulties in developing our games-as-a-service technology platform and incorporating it into our products;
- we will depend on the proper and continued functioning of our own servers and third-party infrastructure to operate our connected games that are delivered as a service;
- the billing and provisioning capabilities of some smartphones and tablets are currently not optimized to enable users to purchase games or make in-app purchases, which make it difficult for users of these smartphones and tablets to purchase our games or make in-app purchases and could reduce our addressable market, at least in the short term; and
- the Federal Trade Commission has indicated that it intends to review issues related to in-app purchases, particularly with respect to games that are marketed primarily to minors (for example, the FTC reached a settlement with Apple in January 2014 on this issue), and the commission might issue rules significantly restricting or even prohibiting in-app purchases or name us as a defendant in a future class-action lawsuit.

If we do not achieve a sufficient return on our investment with respect to our free-to-play business model, it will negatively affect our operating results and may require us to formulate a new business strategy.

***We rely on a very small portion of our total players for nearly all of our revenues that we derive from in-app purchases.***

Since our free-to-play games can be downloaded and played for free, we have succeeded in generating a significant number of game installations and significant user-base growth. However, we rely on a very small portion of our total users for nearly all of our smartphone revenues derived from in-app purchases (as opposed to advertisements and incentivized offers). Since the launch of our first free-to-play titles in the fourth quarter of 2010, the percentage of unique paying users for our largest revenue-generating free-to-play games has been less than 1%; however, in the initial period following the launch of a game, the percentage may be higher, and the percentage of unique paying users is generally lower for our less successful titles. To significantly increase our revenues, we must either increase the number of users who make in-app purchases or increase the amount that our paying players spend in our games. We have to date encountered difficulties with game monetization (for example, developing a sufficient quantity and variety of virtual goods to enable a relatively large scale of in-app purchases by an individual user). We might not succeed in our efforts to increase the monetization rates of our users, particularly if we are unsuccessful in our transition to becoming a games-as-a-service company. If we are unable to convert non-paying players into paying players or if the average amount of revenues that we generate from our users does not increase or declines, our business may not grow, our financial results will suffer, and our stock price may decline.

***We derive the majority of our revenues from Apple's App Store and the Google Play Store, and if we are unable to maintain a good relationship with each of Apple and Google or if either of these storefronts were unavailable for any prolonged period of time, our business will suffer.***

The majority of our smartphone revenues have historically been derived from Apple's iOS platform, which accounted for 59.6% of our total revenues in 2013 compared with 56.0% of our total revenues in 2012. We generated the majority of these iOS-related revenues from the Apple App Store, which represented 50.1% and 41.3% of our total revenues in 2013 and 2012, respectively, with the significant majority of such revenues derived from in-app purchases. We generated the balance of our iOS-related revenues from offers and advertisements in games distributed on the Apple App Store and, to a far lesser extent, sales of premium games. In addition, we derived approximately 30.5% and 27.3% of our total revenues in 2013 and 2012, respectively, from the Android platform. We generated the majority of our Android-related revenues from in-app purchases and sales premium games made through the Google Play Store, which represented 19.2% and 20.3% of our total revenues for 2013 and 2012, respectively. We believe that we have good relationships with each of Apple and Google, which has contributed to the majority of our games released in 2013 being featured on their storefronts when they were commercially released. If we do not continue to receive prominent featuring, users may find it more difficult to discover our games and we may not generate significant revenues from them. We may also be required to spend significantly more on marketing campaigns to generate substantial revenues on these platforms. In addition, currently neither Apple nor Google charges a publisher when it features one of their apps. If either Apple or Google were to charge publishers to feature an app, it could cause our marketing expenses to increase considerably. Accordingly, any change or deterioration in our relationship with Apple or Google could materially harm our business and likely cause our stock price to decline.

We also rely on the continued functioning of the Apple App Store and the Google Play Store. In the past these digital storefronts have been unavailable for short periods of time or experienced issues with their in-app purchasing functionality. If either of these events recurs on a prolonged basis or other similar issues arise that impact our ability to generate revenues from these storefronts, it would have a material adverse effect on our revenues and operating results. In addition, if these storefront operators fail to provide high levels of service, our end users' ability to access our games may be interrupted or end users may not receive the virtual currency or goods for which they have paid, which may adversely affect our brand.

***The operators of digital storefronts on which we publish our free-to-play games in many cases have the unilateral ability to change and interpret the terms of our and others' contracts with them.***

We distribute our free-to-play games through direct-to-consumer digital storefronts, for which the distribution terms and conditions are often "click through" agreements that we are not able to negotiate with the storefront operator. For example, we are subject to each of Apple's and Google's standard click-through terms and conditions for application developers, which govern the promotion, distribution and operation of apps, including our games, on their storefronts. Each of Apple and Google can unilaterally change its standard terms and conditions with no prior notice to us. In addition, the agreement terms can be vague and subject to changing interpretations by the storefront operator. Further, these storefront operators typically have the right to prohibit a developer from distributing its applications on its storefront if the developer violates its standard terms and conditions. For example, in the second quarter of 2011, Apple began prohibiting certain types of virtual currency-incented advertising offers in games sold on the Apple App Store. These offers accounted for approximately one-third of our smartphone revenues during the three months ended June 30, 2011, and our inability to subsequently use such offers negatively impacted our smartphone revenues thereafter. In addition, Apple informed us early in the fourth quarter of 2012 that we could no longer include links to Tapjoy's HTML5 website in our games, which has since negatively impacted our ability to generate revenue through incented offers and will likely continue to negatively impact our revenues in future periods. Most recently, in the first quarter of 2014, Facebook prohibited HasOffers, whose software development kit we incorporate into our games to track advertising metrics, from participating in Facebook's mobile measurement program because Facebook asserted that HasOffers had violated its agreement with Facebook. As a result, we are in the process of removing HasOffers' software development kit from our games and replacing them with a new vendor. While we do not expect that this change will adversely impact our revenues or operations, any similar changes or prohibitions in the future could negatively impact our revenues or otherwise materially harm our business, and we may not receive significant or any advance warning of such change. If Apple or Google or any other storefront operator determines that we or one of our key vendors are violating its standard terms and conditions, by a new interpretation or otherwise or prohibits us from distributing our games on its storefront, it would materially harm our business and likely cause our stock price to significantly decline.

***The markets in which we operate are highly competitive, and many of our competitors have significantly greater resources than we do.***

Developing, distributing and selling mobile games is a highly competitive business, characterized by frequent product introductions and rapidly emerging new platforms, technologies and storefronts. For end users, we compete primarily on the basis of game quality, brand and customer reviews. We compete for promotional and storefront placement based on these factors, as well as our relationship with the digital storefront owner, historical performance, perception of sales potential and relationships with licensors of brands and other intellectual property. For content and brand licensors, we compete based on royalty and other economic terms, perceptions of development quality, porting abilities, speed of execution, distribution breadth and relationships with storefront owners or carriers. We also compete for experienced and talented employees.

We compete with a continually increasing number of companies, including DeNA, Gameloft, GREE, GungHo Online Entertainment, Nexon and Zynga and many well-funded private companies, including Kabam, King.com, Rovio, Storm 8/Team Lava and Supercell. We also compete for consumer spending with large companies, such as Activision, Disney, Electronic Arts (EA Mobile), Take-Two Interactive and Warner Brothers, whose games for smartphones and tablets are primarily premium rather than free-to-play. In addition, given the open nature of the development and distribution for smartphones and tablets, we also compete or will compete with a vast number of small companies and individuals who are able to create and launch games and other content for these devices using relatively limited resources and with relatively limited start-up time or expertise. As an example of the competition that we face, it has been estimated that more than one million applications, including more than 190,000 active games, were available on Apple's U.S. App Store as of February 28, 2014. The proliferation of titles in these open developer channels makes it difficult for us to differentiate ourselves from other developers and to compete for end users without substantially increasing our marketing expenses and development costs.



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Some of our competitors and our potential competitors have one or more advantages over us, either globally or in particular geographic markets, which include:

- significantly greater financial resources;
- greater experience with the free-to-play games and games-as-a-service business models and more effective game monetization;
- stronger brand and consumer recognition regionally or worldwide;
- greater experience and effectiveness integrating community features into their games, operating as a games-as-a-service company and increasing the revenues derived from their users;
- the capacity to leverage their marketing expenditures across a broader portfolio of mobile and non-mobile products;
- larger installed customer bases from their existing mobile games;
- larger installed customer bases from related platforms, such as console gaming or social networking websites, to which they can market and sell mobile games;
- more substantial intellectual property of their own from which they can develop games without having to pay royalties;
- lower labor and development costs and better overall economies of scale;
- greater platform-specific focus, experience and expertise; and
- broader global distribution and presence.

If we are unable to compete effectively or we are not as successful as our competitors in our target markets, our sales could decline, our margins could decline and we could lose market share, any of which would materially harm our business, operating results and financial condition.

***Our financial results could vary significantly from quarter to quarter and are difficult to predict, which in turn could cause volatility in our stock price.***

Our revenues and operating results could vary significantly from quarter to quarter due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. In addition, we may not be able to accurately predict our future revenues or results of operations. We base our current and future expense levels on our internal operating plans and sales forecasts, and our operating costs are to a large extent fixed. As a result, we may not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in revenues, and even a small shortfall could disproportionately and adversely affect financial results for that quarter.

In addition to other risk factors discussed in this section, factors that may contribute to the variability of our quarterly results include:

- our ability to increase the number of our paying players and the amount that each paying player spends in our games;
- the popularity and monetization rates of our new games released during the quarter and the ability of games released in prior periods to sustain their popularity and monetization rates;
- the number and timing of new games released by us and our competitors, particularly those games that may represent a significant portion of revenues in a quarter, which timing can be impacted by internal development delays, shifts in product strategy and how quickly digital storefront operators review and approve our games for commercial release;

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- changes in the prominence of storefront featuring for our games and those of our competitors;
- fluctuations in the size and rate of growth of overall consumer demand for smartphones, tablets, games and related content;
- changes in the mix of revenues derived from first party titles versus third party titles;
- changes in the amount of money we spend marketing our titles in a particular quarter, including the average amount we pay to acquire each new user, as well as changes in the timing of these marketing expenses within the quarter;
- decisions by us to incur additional expenses, such as increases in research and development, or unanticipated increases in vendor-related costs, such as hosting fees;
- the timing of successful mobile device launches;
- the seasonality of our industry;
- changes in accounting rules, such as those governing recognition of revenue, including the period of time over which we recognize revenue for in-app purchases of virtual currency and goods within certain of our games;
- fluctuations in the fair market value of the contingent consideration issued to the Blammo non-employee shareholders, as the fair value of the contingent consideration will be measured during each reporting period until the end of the earn-out period in March 2015;
- the amount and timing of charges related to any future impairments of goodwill, intangible assets, prepaid royalties and guarantees; for example, in 2011, we impaired \$531,000 of certain prepaid royalties and royalty guarantees, in 2012 we impaired \$3.6 million of our goodwill related to our APAC reporting unit, and in 2013 we impaired \$435,000 related to contractual minimum guarantee commitments in our third-party publishing business; and
- macro-economic fluctuations in the United States and global economies, including those that impact discretionary consumer spending.

***Consumer tastes are continually changing and are often unpredictable, and we compete for consumer discretionary spending against other forms of entertainment; if we fail to develop and publish new mobile games that achieve market acceptance, our revenues would suffer.***

Our business depends on developing and publishing mobile games that consumers will download and spend time and money playing. We must continue to invest significant resources in research and development, analytics and marketing to introduce new games and continue to update our successful free-to-play games, and we often must make decisions about these matters well in advance of product release to timely implement them. Our success depends, in part, on unpredictable and volatile factors beyond our control, including consumer preferences, competing games, new mobile platforms and the availability of other entertainment activities. If our games do not meet consumer expectations, or they are not brought to market in a timely and effective manner, our business, operating results and financial condition would be harmed. Even if our games are successfully introduced and initially adopted, a failure to continue to update them with compelling content or a subsequent shift in the entertainment preferences of consumers could cause a decline in our games' popularity that could materially reduce our revenues and harm our business, operating results and financial condition. Furthermore, we compete for the discretionary spending of consumers, who face a vast array of entertainment choices, including games played on personal computers and consoles, television, movies, sports and the Internet. If we are unable to sustain sufficient interest in our games compared to other forms of entertainment, our business and financial results would be seriously harmed.

***If we do not successfully establish and maintain awareness of our brand and games, if we incur excessive expenses promoting and maintaining our brand or our games or if our games contains defects or objectionable content, our operating results and financial condition could be harmed.***

We believe that establishing and maintaining our brand is critical to establishing a direct relationship with end users who purchase our products from direct-to-consumer channels and to maintaining our existing relationships with distributors and content licensors, as well as potentially developing new such relationships. Increasing awareness of our brand and recognition of our games is particularly important in connection with our strategic focus of developing games based on our own intellectual property. Our ability to promote the Glu brand and increase recognition of our games depends on our ability to develop high-quality, engaging games. If consumers, digital storefront owners and branded content owners do not perceive our existing games as high-quality or if we introduce new games that are not favorably received by them, then we may not succeed in building brand recognition and brand loyalty in the marketplace. In addition, globalizing and extending our brand and recognition of our games is costly and involves extensive management time to execute successfully, particularly as we expand our efforts to increase awareness of our brand and games among international consumers. Although we have significantly increased our sales and marketing expenditures in connection with the launch of our games, these efforts may not succeed in increasing awareness of our brand or the new games. If we fail to increase and maintain brand awareness and consumer recognition of our games, our potential revenues could be limited, our costs could increase and our business, operating results and financial condition could suffer.

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In addition, if a game contains objectionable content, we could experience damage to our reputation and brand. The majority of our successful free-to-play games are in the action/adventure genre, and we expect that the majority of the games that we will release in 2014 will be in that category. Some of these games contain violence or other content that certain consumers may find objectionable. For example, Apple has assigned our *Frontline Commando: D-Day* game a 17-and-older rating due to its violence. In addition, Google required us to submit two versions of our *Blood & Glory* and *Contract Killer: Zombies* games, one of which did not depict blood. Despite these ratings and precautions, consumers may be offended by certain of our game content games and children to whom these games are not targeted may choose to play them without parental permission nonetheless. In addition, one of our employees or an employee of an outside developer could include hidden features in one of our games without our knowledge, which might contain profanity, graphic violence, sexually explicit or otherwise objectionable material. If consumers believe that a game we published contains objectionable content, it could harm our brand, consumers could refuse to buy it or demand a refund, and could pressure the digital storefront operators to no longer allow us to publish the game on their platforms. Similarly, if one of our games is introduced with defects or has playability issues, it could result in negative user reviews and damage our brand. These issues could be exacerbated if our customer service department does not timely and adequately address issues that our users have encountered with our games.

***We have depended on a small number of games for a significant portion of our revenues in recent fiscal periods. If these games do not continue to succeed or we do not release highly successful new games, our revenues would decline.***

In the mobile gaming industry, new games are frequently introduced, but a relatively small number of games account for a significant portion of industry sales. Similarly, a significant portion of our revenues comes from a limited number of games, although the games in that group have shifted over time. Our growth depends on our ability to consistently launch new games that generate significant revenues. For example, in the third quarter of 2012, we launched 11 new games, only two of which generated significant revenues, which, in part, contributed to our revenues declining from the second quarter of 2012. We have since that time failed to consistently release titles that generate significant revenues, which has resulted in our inability to grow our revenues on a quarterly basis. However, our *Deer Hunter 2014* title that we released late in the third quarter of 2013 accounted for a significant portion of our revenues in the fourth quarter of 2013, and we expect this title to continue to represent a significant portion of our revenues in the first quarter of 2014. We expect revenues from *Deer Hunter 2014* to gradually decline over time in a manner similar to our other titles, and we must continue to launch new games that generate significant revenues to continue to grow revenues in the future. Developing and launching our games and providing future content updates requires us to invest significant time and resources with no guarantee that our efforts will result in significant revenues. If our new games are not successful or if we are not able to cost-effectively extend the lives of our successful games, our revenues could be limited and our business and operating results would suffer.

***We rely on a combination of our own servers and technology and third party infrastructure to operate our games. If we experience any system or network failures, cyber attacks or any other interruption to our games, it could reduce our sales, increase costs or result in a loss of revenues or end users of our games.***

We rely on digital storefronts and other third-party networks to deliver games to our customers and on their or other third parties' billing systems to track and account for our game downloads. We also rely on our own servers and third-party infrastructure to operate our connected games, and our reliance on such third-party infrastructure and our games-as-a-service technology platform will increase as we continue transitioning to becoming a games-as-a-service company. In particular, a significant portion of our game traffic is hosted by Amazon Web Services, which service provides server redundancy and uses multiple locations on various distinct power grids. Amazon may terminate its agreement with us upon 30 days' notice. Amazon experienced a power outage during the second quarter of 2012, which affected the playability of our games for approximately one day. While this particular event did not adversely impact our business, a similar outage of a longer duration could. In addition, the operation of our online-only games that we began releasing in the fourth quarter of 2013 will depend on the continued functionality of our games-as-a-service technology platform. As a result, we could experience unexpected technical problems with regard to the operation of our online-only games, particularly if the number of concurrent users playing our games is significantly more than we anticipate. Any technical problem with, cyber attack on, or loss of access to these third parties' or our systems, servers or other technologies, including the games-as-a-service technology platform, could result in the inability of end users to download or play our games, cause interruption to gameplay, prevent the completion of billing for a game or result in the loss of users' virtual currency or other in-app purchases, interfere with access to some aspects of our games or result in the theft of end-user personal information. For example, some users of our Android-based games have experienced issues receiving the virtual currency that they purchased and paid for. In addition, in the fourth quarter of 2013, our *Eternity Warriors 3* title was inoperable for approximately eight consecutive hours due to technical issues with our games-as-a-service platform. Further, if virtual assets are lost, or if users do not receive their purchased virtual currency, we may be required to issue refunds, we may receive negative publicity and game ratings, we may lose players of our games, and we may become subject to regulatory investigation or class action litigation, any of which would negatively affect our business. Any of these problems could harm our reputation or cause us to lose players or revenues or incur substantial repair costs and distract management from operating our business.

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***If we fail to maintain and enhance our capabilities for porting games to a broad array of mobile devices, particularly those running the Android operating system, our revenues and financial results could suffer.***

We derive the majority of our revenues from the sale of virtual goods within our games for smartphones and tablets that run Apple's iOS or Google's Android operating system. Unlike the Apple ecosystem in which Apple controls both the device (iPhone, iPod Touch and iPad) and the storefront (Apple's App Store), the Android ecosystem is highly fragmented since a large number of OEMs manufacture and sell Android-based devices that run a variety of versions of the Android operating system, and there are many Android-based storefronts in addition to the Google Play Store. For us to sell our games to the widest possible audience of Android users, we must port our games to a significant portion of the more than 1,000 Android-based devices that are commercially available, many of which have different technical requirements. Since the number of Android-based smartphones and tablets shipped worldwide is growing significantly, it is important that we maintain and enhance our porting capabilities, which could require us to invest considerable resources in this area. These additional costs could harm our business, operating results and financial condition. In addition, we must continue to increase the efficiency of our porting processes or it may take us longer to port games to an equivalent number of devices, which would negatively impact our margins. If we fail to maintain or enhance our porting capabilities, our revenues and financial results could suffer.

***We use a game development engine licensed from Unity Technologies to create many of our games. If we experience any prolonged technical issues with this engine or if we lose access to this engine for any reason, it could delay our game development efforts and cause us our financial results to fall below expectations for a quarterly or annual period, which would likely cause our stock price to decline.***

We use a game development engine licensed from Unity Technologies to create many of our games, and we expect to continue to use this engine for the foreseeable future. Because we do not own this engine, we do not control its operation or maintenance. As a result, any prolonged technical issues with this engine might not be resolved quickly, despite the fact that we have contractual service level commitments from Unity. In addition, although Unity cannot terminate our agreement absent an uncured material breach of the agreement by us, we could lose access to this engine under certain circumstances, such as a natural disaster that impacts Unity or a bankruptcy event. If we experience any prolonged issues with the operation of the Unity game development engine or if we lose access to this engine for any reason, it could delay our game development efforts and cause us to not meet revenue expectations for a quarterly or annual period, which would likely cause our stock price to decline. Further, if one of our competitors acquired Unity, the acquiring company would be less likely to renew our agreement, which could impact our game development efforts in the future, particularly with respect to sequels to games that were created on the Unity engine.

***We derive a significant portion of our revenues from advertisements and offers that are incorporated into our free-to-play games through relationships with third parties. If we lose the ability to provide these advertisements and offers for any reason, or if any events occur that negatively impact the revenues we receive from these sources, it would negatively impact our operating results.***

We derive revenues from our free-to-play games through in-app purchases, advertisements and offers. We incorporate advertisements and offers into our games by implementing third parties' software development kits. We rely on these third parties to provide us with a sufficient inventory of advertisements and offers to meet the demand of our user base. If we exhaust the available inventory of these third parties, it will negatively impact our revenues. If our relationship with any of these third parties terminates for any reason, or if the commercial terms of our relationships do not continue to be renewed on favorable terms, we would need to locate and implement other third party solutions, which could negatively impact our revenues, at least in the short term. Furthermore, the revenues that we derive from advertisements and offers is subject to seasonality, as companies' advertising budgets are generally highest during the fourth quarter and decline significantly in the first quarter of the following year, which negatively impacts our revenues in the first quarter (and conversely significantly increases our marketing expenses in the fourth quarter).

In addition, the actions of the storefront operators can also negatively impact the revenues that we generate from advertisements and offers. For example, in the second quarter of 2011, Apple began prohibiting certain types of virtual currency-incented advertising offers in games sold on the Apple App Store. These offers accounted for approximately one-third of our revenues during the three months ended September 30, 2011, and our inability to use such offers has negatively impacted our revenues. In addition, in the third quarter of 2012, Apple made changes to its terms and conditions that could, depending on how Apple interprets them, negatively impact the revenues we generate from third-party advertising service providers. Any similar changes in the future that impact our revenues that we generate from advertisements and offers could materially harm our business .

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***We have begun publishing, and intend to continue to publish games developed by third parties which will expose us to a number of potential operational and legal risks.***

We have recently formed Glu Publishing, which is focused on entering into relationships with developers of games, primarily in Asian and Eastern European markets, where Glu will localize and globally publish those games. Our Glu Publishing business will expose us to a number of potential operational and legal risks. For example, we may be required to provide third party developers with upfront license fees or non-recoupable minimum guarantees in order to obtain the rights to publish their games, and we may need to spend significant money marketing these games after they have been commercially launched. If the games are not commercially successful because they do not appeal to a Western audience, because of our limited experience in publishing other developers' games or for any other reason, it will negatively impact our operating results. Further, in the third quarter of 2013, we were required to take an impair charge of \$435,000 related to certain minimum guarantee commitments. In addition, if any of the third party developers with which we work have created their games by infringing another party's intellectual property or otherwise violating their rights, or if these games violate applicable laws and regulations, such as with respect to data collection and privacy, we would be exposed to potential legal risks by publishing these games.

***Our business and growth may suffer if we are unable to hire and retain key personnel.***

Our future success will depend, to a significant extent, on our ability to retain and motivate our key personnel, namely our management team, particularly Niccolo de Masi, our President and Chief Executive Officer, as well as experienced game development personnel. In addition, to grow our business, execute on our business strategy and replace departing employees, we must identify, hire and retain qualified personnel, particularly additional monetization, live operations, server technology, user experience and product management personnel to support our continued transition to becoming a games-as-a-service company. Competition for qualified management, game development and other staff is intense. Attracting and retaining qualified personnel may be particularly difficult for us if our stock price remains relatively depressed, since individuals may elect to seek employment with other companies that they believe have better long-term prospects. Competitors have in the past and may in the future attempt to recruit our employees, and our management and key employees are not bound by agreements that could prevent them from terminating their employment at any time. As we continue to develop expertise in free-to-play mobile gaming, operating a games-as-a-service company and monetization in particular, our competitors may increasingly seek to recruit our employees, particularly from our development studios. In addition, we do not maintain a key-person life insurance policy on any of our officers. Our business and growth may suffer if we are unable to hire and retain key personnel.

***We may need to raise additional capital or borrow funds to grow our business, and we may not be able to raise capital or borrow funds on terms acceptable to us or at all.***

As of December 31, 2013, we had \$28.5 million of cash and cash equivalents. If our cash and cash equivalents and cash inflows are insufficient to meet our cash requirements or if we wish to strengthen our balance sheet, we will need to seek additional capital, and we may be unable to do so on terms that are acceptable to us or at all. Equity financings would dilute our existing stockholders, particularly given our current stock price, and the holders of new securities may receive rights, preferences or privileges that are senior to those of existing stockholders. Alternatively, we may wish to enter into a credit facility or other debt arrangement, and we may be unable to procure one on terms that are acceptable to us, particularly in light of the current credit market conditions. If we require new sources of financing but they are insufficient or unavailable, we would be required to modify our operating plans to align them with available resources, which would harm our ability to grow our business.

***Our reported financial results could be adversely affected by changes in financial accounting standards or by the application of existing or future accounting standards to our business as it evolves.***

Our reported financial results are impacted by the accounting policies promulgated by the SEC and accounting standards bodies and the methods, estimates and judgments that we use in applying our accounting policies. Due to recent economic events, the frequency of accounting policy changes may accelerate, including conversion to unified international accounting standards. Policies affecting revenue recognition have affected, and could further significantly affect, the way we account for revenue. For example, the accounting for revenue derived from smartphone platforms and free-to-play games, particularly with regard to revenues generated from online digital storefronts, is still evolving and, in some cases, uncertain. In particular, we were required to file an amendment to our Annual Report on Form 10-K for the year ended December 31, 2012 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 to restate or revise the financial statements contained in those reports (including for the year ended December 31, 2011) because we did not correctly apply the applicable revenue recognition accounting guidance relating to our smartphone revenues. While we believe that we are now correctly accounting for our smartphone revenues, this is an area that continues to involve significant discussion among accounting professionals and which is not completely settled. It is possible that the relative application, interpretation and weighting of the factors that relate to whether we should be considered the principal in the sales transaction of games sold through digital storefronts may evolve, and we may in the future conclude that our new accounting policy for smartphone revenue, as reflected in the restated financial statements, is incorrect, which could result in another restatement of affected financial statements. In addition, we currently defer revenues related to virtual goods and currency over the average playing period of paying users, which approximates the estimated weighted average useful life of the transaction. While we believe our estimates are reasonable based on available game player information, we may revise such estimates in the future as our games' operation periods change. Any adjustments arising from changes in the estimates of the lives of these virtual items would be applied prospectively on the basis that such changes are caused by new information indicating a change in the game player behavior patterns of our paying users. Any changes in our estimates of useful lives of these virtual items may result in our revenues being recognized on a basis different from prior periods' and may cause our operating results to fluctuate. As we enhance, expand and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for our smartphone revenues, could have a significant adverse effect on our reported results although not necessarily on our cash flows.

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

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial statements. In connection with the restatement of our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, management, including our Chief Executive Officer and Chief Financial Officer, reassessed the effectiveness of our internal control over financial reporting as of December 31, 2012. Based on this reassessment using the guidelines established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992, management had concluded that we did not maintain effective internal control over financial reporting as of December 31, 2012 because of a material weakness related to the application of revenue accounting guidance to our smartphone revenues for sales through digital storefronts. This control deficiency resulted in the misstatement of our revenues and cost of revenues, including gross margin percentages, and the related balance sheet accounts and financial disclosures for the years ended December 31, 2011 and 2012 (and the restatement of unaudited interim condensed consolidated financial statements for the quarters ended March 31, June 30, and September 30 for such years). Although we have remediated this material weakness, if we are otherwise unable to maintain adequate internal controls for financial reporting, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls as required pursuant to the Sarbanes-Oxley Act, it could result in another material misstatement of our financial statements that would require a restatement, investor confidence in the accuracy and timeliness of our financial reports may be impacted or the market price of our common stock could be negatively impacted.

***Our acquisition activities may disrupt our ongoing business, may involve increased expenses and may present risks not contemplated at the time of the transactions.***

We have acquired, and may continue to acquire, companies, products and technologies that complement our strategic direction. Acquisitions involve significant risks and uncertainties, including:

- diversion of management time and a shift of focus from operating the businesses to issues related to integration and administration;
- inability to successfully integrate the acquired technology and operations into our business and maintain uniform standards, controls, policies and procedures;
- challenges retaining the key employees, customers and other business partners of the acquired business;
- inability to realize synergies expected to result from an acquisition;
- an impairment of acquired goodwill and other intangible assets in future periods would result in a charge to earnings in the period in which the write-down occurs;
- the internal control environment of an acquired entity may not be consistent with our standards and may require significant time and resources to improve;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries; and
- liability for activities of the acquired companies before the acquisition, including violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities.

In addition, if we issue equity securities as consideration in an acquisition, as we did for our acquisitions of Griptonite, Inc., Blammo Games Inc. and GameSpy Industries, Inc., our current stockholders' percentage ownership and earnings per share would be diluted. For example, our Blammo acquisition agreement provides that the former Blammo shareholders may earn up to 3,312,937 shares of our common stock if Blammo achieves certain net revenue targets during the years ending March 31, 2013, March 31, 2014 and March 31, 2015; Blammo earned 742,036 shares of a possible 909,091 shares for the year ended March 31, 2013. Because acquisitions are inherently risky, our transactions may not be successful and may, in some cases, harm our operating results or financial condition.

***Changes in foreign exchange rates and limitations on the convertibility of foreign currencies could adversely affect our business and operating results.***

We currently transact business in more than 90 countries in more than 28 different currencies, with Pounds Sterling, Euros and Chinese Renminbi being the primary international currencies in which we transact business. Conducting business in currencies other than U.S. Dollars subjects us to fluctuations in currency exchange rates that could have a negative impact on our reported operating results. We experienced significant fluctuations in currency exchange rates in 2012 and 2013 and expect to experience continued significant fluctuations in the future. We incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency, and an increasing percentage of our international revenue is from customers who pay us in currencies other than the U.S. dollar. Fluctuations in the exchange rates between the U.S. dollar and those other currencies could result in the dollar equivalent of these expenses being higher and/or the dollar equivalent of the foreign-denominated revenue being lower than would be the case if exchange rates were stable. This could negatively impact our operating results. To date, we have not engaged in exchange rate hedging activities, and we do not expect to do so in the foreseeable future.

We face additional risk if a currency is not freely or actively traded. Some currencies, such as the Chinese Renminbi in which our Chinese operations principally transact business, are subject to limitations on conversion into other currencies, which can limit our ability to react to rapid foreign currency devaluations and to repatriate funds to the United States should we require additional working capital.

***We face added business, political, regulatory, operational, financial and economic risks as a result of our international operations and distribution, any of which could increase our costs and adversely affect our operating results.***

International sales represented approximately 53.9%, 46.6%, and 50.3% of our revenues in 2013, 2012, and 2011, respectively. To target international markets, we develop games that are customized for consumers in those markets. We have international offices located in a number of foreign countries including Canada, China, India, Japan, Korea and Russia. We expect to maintain our international presence, and we expect international sales will continue to be an important component of our revenues, particularly in APAC markets. Risks affecting our international operations include:

- our ability to develop games that appeal to the tastes and preferences of consumers in international markets;
- difficulties developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- multiple and conflicting laws and regulations, including complications due to unexpected changes in these laws and regulations;
- our ability to develop, customize and localize games that appeal to the tastes and preferences of consumers in international markets;
- competition from local game developers that have significant market share in certain foreign markets and a better understanding of local consumer preferences;
- potential violations of the Foreign Corrupt Practices Act and local laws prohibiting improper payments to government officials or representatives of commercial partners;
- regulations that could potentially affect the content of our products and their distribution, particularly in China;
- foreign exchange controls that might prevent us from repatriating income earned in countries outside the United States, particularly China;
- potential adverse foreign tax consequences, since due to our international operations, we must pay income tax in numerous foreign jurisdictions with complex and evolving tax laws;
- political, economic and social instability, including the current hostilities in the Ukraine that could potentially negatively impact us given that we have a development studio in Moscow;
- restrictions on the export or import of technology;

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- trade and tariff restrictions and variations in tariffs, quotas, taxes and other market barriers; and
- difficulties in enforcing intellectual property rights in certain countries.

These risks could harm our international operations, which, in turn, could materially and adversely affect our business, operating results and financial condition.

***If we fail to deliver our games at the same time as new mobile devices are commercially introduced, our revenues may suffer.***

Our business depends, in part, on the commercial introduction of new mobile devices with enhanced features, including larger, higher resolution color screens, improved audio quality, and greater processing power, memory, battery life and storage. For example, the introduction of new and more powerful versions of Apple's iPhone and iPad and devices based on Google's Android operating system, have helped drive the growth of the mobile games market. In addition, consumers generally purchase the majority of content, such as our games, for a new device within a few months of purchasing it. We do not control the timing of these device launches. Some manufacturers give us access to their mobile devices prior to commercial release. If one or more major manufacturers were to stop providing us access to new device models prior to commercial release, we might be unable to introduce games that are compatible with the new device when the device is first commercially released, and we might be unable to make compatible games for a substantial period following the device release. If we do not adequately build into our title plan the demand for games for a particular mobile device or experience game launch delays, we miss the opportunity to sell games when new mobile devices are shipped or our end users upgrade to a new mobile device, our revenues would likely decline and our business, operating results and financial condition would likely suffer.

***Our business is subject to increasing governmental regulation. If we do not successfully respond to these regulations, our business may suffer.***

We are subject to a number of domestic and foreign laws and regulations that affect our business. Not only are these laws constantly evolving, which could result in their being interpreted in ways that could harm our business, but legislation is also continually being introduced that may affect both the content of our products and their distribution. In the United States, for example, numerous federal and state laws have been introduced which attempt to restrict the content or distribution of games. Legislation has been adopted in several states, and proposed at the federal level, that prohibits the sale of certain games to minors. If such legislation is adopted, it could harm our business by limiting the games we are able to offer to our customers or by limiting the size of the potential market for our games. We may also be required to modify certain games or alter our marketing strategies to comply with new and possibly inconsistent regulations, which could be costly or delay the release of our games. For example, the United Kingdom's Office of Fair Trading issued new principles in January 2014 relating to in-app purchases in free-to-play games that are directed towards children 16 and under, which principles become effective in April 2014. The Federal Trade Commission has also indicated that it intends to review issues related to in-app purchases, particularly with respect to games that are marketed primarily to minors; the Federal Trade Commission recently reached a settlement agreement with Apple on this subject. If the Federal Trade Commission issues rules significantly restricting or even prohibiting in-app purchases, it would significantly impact our business strategy. In addition, two self-regulatory bodies in the United States (the Entertainment Software Rating Board) and the European Union (Pan European Game Information) provide consumers with rating information on various products such as entertainment software similar to our products based on the content (for example, violence, sexually explicit content, language). Furthermore, the Chinese government has adopted measures designed to eliminate violent or obscene content in games. In response to these measures, some Chinese telecommunications operators have suspended billing their customers for certain mobile gaming platform services, including those services that do not contain offensive or unauthorized content, which could negatively impact our revenues in China. Any one or more of these factors could harm our business by limiting the products we are able to offer to our customers, by limiting the size of the potential market for our products, or by requiring costly additional differentiation between products for different territories to address varying regulations.

Furthermore, the growth and development of free-to-play gaming and the sale of virtual goods may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours. We anticipate that scrutiny and regulation of our industry will increase and that we will be required to devote legal and other resources to addressing such regulation. For example, existing laws or new laws regarding the regulation of currency and banking institutions may be interpreted to cover virtual currency or goods. If that were to occur we may be required to seek licenses, authorizations or approvals from relevant regulators, the granting of which may depend on us meeting certain capital and other requirements and we may be subject to additional regulation and oversight, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the United States or elsewhere regarding these activities may dampen the growth of free-to-play gaming and impair our business.

We sometimes offer our players various types of sweepstakes, giveaways and promotional opportunities, and in October 2012, we entered into a strategic relationship with Probability PLC to offer a suite of Glu-branded mobile slot games in the United Kingdom and Italy, two of which are currently offered in the United Kingdom. We might continue to explore opportunities with respect to real money gambling. We are subject to laws in a number of jurisdictions concerning the operation and offering of such activities and games, many of which are still evolving and could be interpreted in ways that could harm our business. Any court ruling or other governmental action that imposes liability on providers of online services could result in criminal or civil liability and could harm our business.

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In addition, because our services are available worldwide, certain foreign jurisdictions and others may claim that we are required to comply with their laws, including in jurisdictions where we have no local entity, employees or infrastructure.

***The laws and regulations concerning data privacy and data security are continually evolving, and our actual or perceived failure to comply with these laws and regulations could harm our business.***

We are subject to federal, state and foreign laws regarding privacy and the protection of the information that we collect regarding our users, which laws are currently in a state of flux and likely to remain so for the foreseeable future. The U.S. government, including the Federal Trade Commission and the Department of Commerce, is continuing to review the need for greater regulation over collecting information concerning consumer behavior on the Internet and on mobile devices. For example, in December 2012, the Federal Trade Commission adopted amendments to the Children’s Online Privacy Protection Act to strengthen privacy protections for children under age 13, which amendments became effective in July 2013. In addition, the European Union has proposed reforms to its existing data protection legal framework. Various government and consumer agencies have also called for new regulation and changes in industry practices. For example, in February 2012, the California Attorney General announced a deal with Amazon, Apple, Google, Hewlett-Packard, Microsoft and Research in Motion to strengthen privacy protection for users that download third-party apps to smartphones and tablet devices. Additionally, in January 2014, the Federal Trade Commission announced a settlement with Apple related to in-app purchases made by minors. In response to developments in the interpretation and understanding of regulations such as these and guidance and inquiries from the California Attorney General, we released updates to our *My Dragon* and *Deer Hunter Reloaded* games and made changes to our games in development to make our privacy policy readily accessible to players of these games as required by the California Online Privacy Protection Act. If we do not follow existing laws and regulations, as well as the rules of the smartphone platform operators, with respect to privacy-related matters, or if consumers raise any concerns about our privacy practices, even if unfounded, it could damage our reputation and operating results.

All of our games are subject to our privacy policy and our terms of service located on our corporate website. If we fail to comply with our posted privacy policy, terms of service or privacy-related laws and regulations, including with respect to the information we collect from users of our games, it could result in proceedings against us by governmental authorities or others, which could harm our business. In addition, interpreting and applying data protection laws to the mobile gaming industry is often unclear. These laws may be interpreted and applied in conflicting ways from state to state, country to country, or region to region, and in a manner that is not consistent with our current data protection practices. Complying with these varying requirements could cause us to incur additional costs and change our business practices. Further, if we fail to adequately protect our users’ privacy and data, it could result in a loss of player confidence in our services and ultimately in a loss of users, which could adversely affect our business.

In the area of information security and data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as the 2002 amendment to California’s Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to implement. Costs to comply with these laws may increase as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities. The security measures we have in place to protect our data and the personal information of our employees, customers and partners could be breached due to cyber-attacks initiated by third party hackers, employee error or malfeasance, or otherwise. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any breach or unauthorized access could materially interfere with our operations or our ability to offer our services or result in significant legal and financial exposure, damage to our reputation and a loss of confidence in the security of our data, which could have an adverse effect on our business and operating results.

***Our stock price has fluctuated and declined significantly since our initial public offering in March 2007, and may continue to fluctuate, may not rise and may decline further.***

The trading price of our common stock has fluctuated in the past and is expected to continue to fluctuate in the future, as a result of a number of factors, many of which are outside our control, such as changes in the operating performance and stock market valuations of other technology companies generally, or those in our industry in particular, such as Electronic Arts and Zynga.

In addition, The NASDAQ Global Market on which our common stock is listed has recently and in the past experienced extreme price and volume fluctuations that have affected the market prices of many companies, some of which appear to be unrelated or disproportionate to their operating performance. These broad market fluctuations could adversely affect the market price of our common stock. In the past, following periods of volatility in the market price of a particular company’s securities, securities class action litigation has often been brought against that company. Securities class action litigation against us could result in substantial costs and divert our management’s attention and resources.

***If we do not adequately protect our intellectual property rights, it may be possible for third parties to obtain and improperly use our intellectual property and our business and operating results may be harmed.***

Our intellectual property is essential to our business. We rely on a combination of patent, copyright, trademark, trade secret and other intellectual property laws and contractual restrictions on disclosure to protect our intellectual property rights. To date, we have filed only two patent applications, so we will not be able to protect the vast majority of our technologies from independent invention by third parties. Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology and games, and some parties have distributed “jail broken” versions of our games where all of the content has been unlocked and made available for free. Further, some of our competitors have released games that are nearly identical to successful games released by their competitors in an effort to confuse the market and divert users from the competitor’s game to the copycat game. To the extent that these tactics are employed with respect to any of our games, it could reduce our revenues that we generate from these games. Monitoring unauthorized use of our games is difficult and costly, and we cannot be certain that the steps we have taken will prevent piracy and other unauthorized distribution and use of our technology and games, particularly in certain international jurisdictions, such as China, where the laws may not protect our intellectual property rights as fully as in the United States. In the future, we may have to litigate to enforce our intellectual property rights, which could result in substantial costs and divert our management’s attention and our resources.

In addition, although we require our third-party developers to sign agreements not to disclose or improperly use our trade secrets and acknowledging that all inventions, trade secrets, works of authorship, developments and other processes generated by them on our behalf are our property and to assign to us any ownership they may have in those works, it may still be possible for third parties to obtain and improperly use our intellectual properties without our consent. This could harm our brand, business, operating results and financial condition.

***We may become involved in intellectual property disputes, which may disrupt our business and require us to pay significant damage awards.***

Third parties may sue us for intellectual property infringement, or initiate proceedings to invalidate our intellectual property, which, if successful, could disrupt our business, cause us to pay significant damage awards or require us to pay licensing fees. For example, on April 16, 2013, Lodsys Group, LLC, a Texas limited liability company (“Lodsys”), filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that we were infringing two of Lodsys’ patents, and seeking unspecified damages, including treble damages for willful infringement, interest, attorneys’ fees and such other costs as the Court may deem just and proper; we settled this matter in December 2013. If there is a successful claim against us in the future, we might be enjoined from using our intellectual property or licensed intellectual property that we use in our business, we might incur significant licensing fees and we might be forced to develop alternative technologies. If we fail or are unable to develop non-infringing technology or games or to license the infringed or similar technology or games on a timely basis, we may be forced to withdraw games from the market or prevented from introducing new games. We might also incur substantial expenses in defending against third-party claims, regardless of their merit.

In addition, we use open source software in some of our games and expect to continue to use open source software in the future. We may face claims from companies that incorporate open source software into their products, claiming ownership of, or demanding release of, the source code, the open source software and/or derivative works that were developed using such software, or otherwise seeking to enforce the terms of the applicable open source license. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our games, any of which would have a negative effect on our business and operating results.

***We may become a party to litigation and regulatory inquiries, which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operation and cash flows.***

We may become subject to various legal proceedings, claims and regulatory inquiries that arise out of the ordinary conduct of our business and are not yet resolved and additional claims and inquiries may arise in the future. In addition, events may give occur that give rise to a potential risk of litigation. The number and significance of regulatory inquiries have increased as our business has evolved. Any proceedings, claims or inquiries initiated by or against us, whether successful or not, may be time consuming; result in costly litigation, damage awards, consent decrees, injunctive relief or increased costs of business; require us to change our business practices or products, require significant amounts of management time, result in diversion of significant operations resources or otherwise harm of business and future financial results.

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***Unanticipated changes in our income tax rates or exposure to additional tax liabilities may affect our future financial results.***

Our future effective income tax rates may be favorably or unfavorably affected by unanticipated changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or their interpretation. Determining our worldwide provision for income taxes requires significant judgments. The estimation process and applicable laws are inherently uncertain, and our estimates are not binding on tax authorities. Our effective tax rate could also be adversely affected by a variety of factors, many of which are beyond our control. Recent and contemplated changes to U.S. tax laws, including limitations on a taxpayer's ability to claim and utilize foreign tax credits and defer certain tax deductions until earnings outside of the U.S. are repatriated to the U.S., could impact the tax treatment of our foreign earnings. Further, the taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine that the manner in which we operate our business is not consistent with the manner in which we report our income to the jurisdictions, which could increase our worldwide effective tax rate and harm our financial position and results of operations. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine if our provision for income taxes is adequate. These continuous examinations may result in unforeseen tax-related liabilities, which may harm our future financial results.

We must charge, collect and/or pay taxes other than income taxes, such as payroll, value-added, sales and use, net worth, property and goods and services taxes, in both the U.S. and foreign jurisdiction. If tax authorities assert that we have taxable nexus in a jurisdiction, they may seek to impose past as well as future tax liability and/or penalties. Any such impositions could also cause significant administrative burdens and decrease our future sales. Moreover, state and federal legislatures have been considering various initiatives that could change our tax position regarding sales and use taxes.

Finally, as we change our international operations, adopt new products and new distribution models, implement changes to our operating structure or undertake intercompany transactions in light of changing tax laws, our tax expense could increase.

***Our facilities are located near known earthquake fault zones, and the occurrence of an earthquake or other natural disaster could damage our facilities and equipment, which could require us to curtail or cease operations.***

Our principal offices are located in the San Francisco Bay Area, an area known for earthquakes. We are also vulnerable to damage from other types of disasters, including power loss, fires, explosions, floods, communications failures, terrorist attacks and similar events. If any natural or other disaster were to occur, our ability to operate our business could be impaired.

***Some provisions in our certificate of incorporation and bylaws may deter third parties from seeking to acquire us.***

Our certificate of incorporation and bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors, including the following:

- our board of directors is classified into three classes of directors with staggered three-year terms;
- only our chairman of the board, our lead independent director, our chief executive officer, our president or a majority of our board of directors is authorized to call a special meeting of stockholders;
- our stockholders are able to take action only at a meeting of stockholders and not by written consent;
- only our board of directors and not our stockholders is able to fill vacancies on our board of directors;
- our certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before a meeting of stockholders.

**Item 1B. Unresolved Staff Comments**

None.

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## Item 2. Properties

Our principal locations, their purposes, the approximate square footage of the facilities at these locations and the expiration dates for the leases on facilities at those locations as of December 31, 2013 are shown in the table below.

<u>Location</u>	<u>Purpose</u>	<u>Approximate Square Feet</u>	<u>Principal Lease Expiration Date</u>
San Francisco, California	Corporate headquarters	29,000	March 2018
Beijing, China	Asia-Pacific corporate offices and development studio	15,800	November 2015
Hyderabad, India	Research and development center	8,425	July 2016
Bellevue, Washington	Development studio	17,600	September 2020
Moscow, Russia	Development studio	16,025	June 2017
Toronto, Canada	Development studio	6,375	January 2018

We believe our space is adequate for our current needs and that suitable additional or substitute space will be available to accommodate the foreseeable expansion of our operations. See Note 7 to the financial statements in Item 8 of this report for more information about our lease commitments.

## Item 3. Legal Proceedings

In April 2013, Lodsys Group, LLC, a Texas limited liability company (“Lodsys”), filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that we have been infringing two of Lodsys’ patents, and sought unspecified damages, including treble damages for willful infringement, interest, attorneys’ fees and such other costs as the Court may deem just and proper. On June 19, 2013, we filed an answer to Lodsys’s complaint (i) denying all of Lodsys’s claims, (ii) setting forth certain affirmative defenses to Lodsys’s claims and (iii) asserting counterclaims that we do not infringe the Lodsys patents and that the Lodsys patents are invalid. In December 2013, without admitting infringement or liability, we entered into a patent sub-license agreement and a settlement agreement with Lodsys to settle the dispute for an immaterial amount. In January 2014, the Court dismissed the complaint against us with prejudice.

From time to time, we are subject to various claims, complaints and legal actions in the normal course of business. We are not currently party to any pending litigation, the outcome of which will have a material adverse effect on our operations, financial position or liquidity. However, the ultimate outcome of any litigation is uncertain and, regardless of outcome, litigation can have an adverse impact on us because of defense costs, potential negative publicity, diversion of management resources and other factors.

## Item 4. Mine Safety Disclosures

Not applicable.

## PART II

## Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

### Market Information for Common Stock

Our common stock has been listed on The NASDAQ Global Market under the symbol “GLUU” since our initial public offering in March 2007. The following table sets forth, for the periods indicated, the high and low intra-day prices for our common stock as reported on The NASDAQ Global Market. The closing price of our common stock on February 28, 2014 was \$5.03.

	<u>High</u>	<u>Low</u>
<b>Year ended December 31, 2012</b>		
First quarter	\$ 5.18	\$ 2.67
Second quarter	\$ 5.65	\$ 3.85
Third quarter	\$ 5.90	\$ 4.19
Fourth quarter	\$ 4.74	\$ 1.99
<b>Year ended December 31, 2013</b>		
First quarter	\$ 3.86	\$ 2.00
Second quarter	\$ 3.25	\$ 2.10
Third quarter	\$ 2.91	\$ 2.10
Fourth quarter	\$ 4.14	\$ 2.50

Our stock price has fluctuated and declined significantly since our initial public offering. Please see the Risk Factor – “Our stock price has fluctuated and declined significantly since our initial public offering in March 2007, and may continue to fluctuate, may not rise and may decline further” – in Item 1A of this report.

**Stock Price Performance Graph**

The following graph shows a comparison from December 31, 2008 through December 31, 2013 of the cumulative total return for an investment of \$100 (and the reinvestment of dividends) in our common stock, the NASDAQ Composite Index and the NASDAQ Telecommunications Index. Such returns are based on historical results and are not intended to suggest future performance.



The information under the heading “Stock Price Performance Graph” shall not be deemed “soliciting material” or to be “filed” for purposes of Section 18 of the Exchange Act of 1934, and shall not be incorporated by reference into any registration statement or other document filed by us with the SEC, whether made before or after the date of this report, regardless of any general incorporation language in such filing, except as expressly set forth by specific reference in such filing.

**Equity Compensation Plan Information**

The following table sets forth certain information, as of December 31, 2013, concerning securities authorized for issuance under all of our equity compensation plans: our 2001 Second Amended and Restated Stock Option Plan (the “2001 Plan”), which terminated when we adopted the 2007 Equity Incentive Plan (the “2007 Plan”), 2007 Employee Stock Purchase Plan (the “ESPP”) and 2008 Equity Inducement Plan (the “Inducement Plan”). The ESPP contains an “evergreen” provision, pursuant to which on January 1st of each year we automatically add 1% of our shares of common stock outstanding on the preceding December 31st to the shares reserved for issuance under the ESPP; this evergreen provision expires after the scheduled increase on January 1, 2015. In addition, pursuant to a “pour over” provision in our 2007 Plan, options that are cancelled, expired or terminated under the 2001 Plan are added to the number of shares reserved for issuance under our 2007 Plan.

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u> (a)	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (\$)</u> (b)	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</u> (c)
Equity compensation plans approved by security holders	10,825,705	\$ 3.14	5,417,967(1)
Equity compensation plans not approved by security holders	2,152,059(2)	2.37	396,763(3)
<b>Total</b>	<b>12,977,764</b>	<b>\$ 2.98</b>	<b>5,814,730(4)</b>

- (1) Represents 4,494,042 shares available for issuance under our the 2007 Plan, which plan permits the grant of incentive and non-qualified stock options, stock appreciation rights, restricted stock, stock awards and restricted stock units; and 923,925 shares available for issuance under the ESPP.
- (2) Represents outstanding options under the Inducement Plan.

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- (3) Represents shares available for issuance under the Inducement Plan, under which we may only grant non-qualified stock options and restricted stock units.
- (4) Excludes 784,454 shares available for issuance under the ESPP, which were added to the share reserve on January 1, 2014 pursuant to the evergreen provision described above.
- (5) The weighted average exercise price does not take into account the shares subject to outstanding restricted stock units, which have no exercise price.

In March 2008, in connection with our acquisition of Superscape Group plc, our Board of Directors adopted the Inducement Plan to augment the shares available under our then existing 2007 Plan. We have not sought stockholder approval for the Inducement Plan. As such, awards under the Inducement Plan are granted in accordance with NASDAQ Listing Rule 5635(c)(4) and only to persons not previously an employee or director, or following a bona fide period of non-employment, as an inducement material to such individuals entering into employment with us. The Inducement Plan, which has a ten-year term, did not require the approval of our stockholders. We initially reserved 600,000 shares of our common stock for issuance under the Inducement Plan. On December 28, 2009, the Compensation Committee of our Board of Directors increased the number of shares reserved for issuance under the Inducement Plan by 819,245 shares. We used all of the 1,250,000 shares then available for a stock option grant to Niccolo M. de Masi in connection with his appointment as our new President and Chief Executive Officer. Furthermore, in connection with the acquisitions of Griptonite, Inc. and Blammo Games Inc., the Compensation Committee increased the number of shares reserved for issuance under our Inducement Plan by 1,050,000 shares to grant stock options to certain of the new non-executive officer employees of Griptonite and Blammo. In November 2012, the Compensation Committee further increased the number of shares available for issuance by an additional 300,000 shares, all of which we used to award a stock option grant to our newly hired President of Studios. Finally, in May 2013, the Compensation Committee amended the Inducement Plan to increase the number of shares available for grant by 200,000 shares in order to issue shares to new hires, including our President of Publishing. Accordingly, as of December 31, 2013, we had reserved a total of 2,969,245 shares of our common stock for grant and issuance under the Inducement Plan since its inception, of which, 2,152,059 shares were subject to outstanding stock options and 396,763 shares remained available for issuance. The remaining 420,423 shares represent shares that were subject to previously granted stock options under the Inducement Plan that have been exercised by the option holders.

The Inducement Plan initially permitted us to grant only non-qualified stock options. However, effective November 2013, the Compensation Committee amended the Inducement Plan to permit the award of restricted stock units under the plan. We may grant non-qualified stock options under the Inducement Plan at prices less than 100% of the fair value of the shares on the date of grant, at the discretion of our Board of Directors. The fair value of our common stock is determined by the last sale price of our stock on The NASDAQ Global Market on the date of determination. If any option granted under the Inducement Plan expires or terminates for any reason without being exercised in full, the unexercised shares will be available for grant under the Inducement Plan. All outstanding awards are subject to adjustment for any future stock dividends, splits, combinations, or other changes in capitalization as described in the Inducement Plan. If we were acquired and the acquiring corporation did not assume or replace the awards granted under the Inducement Plan, or if we were to liquidate or dissolve, all outstanding awards will expire on such terms as our Board of Directors determines.

### ***Stockholders***

As of March 6, 2014, we had approximately 55 record holders of our common stock and thousands of additional beneficial holders.

### ***Dividend Policy***

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any future determination related to our dividend policy will be made at the discretion of our Board of Directors.

### ***Recent Sales of Unregistered Securities***

None.

### ***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

None.

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**Item 6. Selected Financial Data**

The following selected consolidated financial data should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” Item 8, “Financial Statements and Supplementary Data,” and other financial data included elsewhere in this report. Our historical results of operations are not necessarily indicative of results of operations to be expected for any future period.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share amounts)				
<b>Consolidated Statements of Operations Data:</b>					
Revenues	\$ 105,613	\$ 108,183	\$ 74,025	\$ 66,804	\$ 79,344
Cost of revenues:					
Platform commissions, royalties and other	32,371	29,630	20,229	19,102	21,829
Impairment of prepaid royalties and guarantees	435	—	531	663	6,591
Amortization of intangible assets	4,238	3,783	5,447	4,226	7,092
Total cost of revenues	<u>37,044</u>	<u>33,413</u>	<u>26,207</u>	<u>23,991</u>	<u>35,512</u>
Gross profit	<u>68,569</u>	<u>74,770</u>	<u>47,818</u>	<u>42,813</u>	<u>43,832</u>
Operating expenses(1):					
Research and development	46,877	54,275	39,073	25,180	25,975
Sales and marketing	26,120	20,893	14,607	12,140	14,402
General and administrative	15,550	14,744	14,002	13,108	16,271
Amortization of intangible assets	1,336	1,980	825	205	215
Restructuring charge	1,448	1,371	545	3,629	1,876
Impairment of goodwill	—	3,613	—	—	—
Total operating expenses	<u>91,331</u>	<u>96,876</u>	<u>69,052</u>	<u>54,262</u>	<u>58,739</u>
Loss from operations	<u>(22,762)</u>	<u>(22,106)</u>	<u>(21,234)</u>	<u>(11,449)</u>	<u>(14,907)</u>
Interest and other income (expense), net	10	(347)	747	(1,265)	(1,127)
Loss before income taxes	<u>(22,752)</u>	<u>(22,453)</u>	<u>(20,487)</u>	<u>(12,714)</u>	<u>(16,034)</u>
Income tax benefit (provision)	2,843	1,994	(614)	(709)	(2,160)
Net loss	<u>(19,909)</u>	<u>(20,459)</u>	<u>(21,101)</u>	<u>(13,423)</u>	<u>(18,194)</u>
Net loss per share - basic and diluted	\$ (0.28)	\$ (0.32)	\$ (0.37)	\$ (0.38)	\$ (0.61)
Weighted average common shares outstanding - basic and diluted	71,453	64,318	57,518	35,439	29,853

(1) Includes stock-based compensation expense as follows:

Research and development	\$ 1,948	\$ 3,491	\$ 1,387	\$ 480	\$ 716
Sales and marketing	303	386	351	217	564
General and administrative	2,034	1,945	1,372	871	1,646

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands)				
Cash and cash equivalents and short-term investments	\$ 28,496	\$ 22,325	\$ 32,212	\$ 12,863	\$ 10,510
Total assets	87,011	74,955	85,010	45,117	57,738
Current portion of long-term debt	—	—	—	2,288	16,379
Long-term debt, less current portion	—	—	—	—	—
Total stockholder’s equity	\$ 46,697	\$ 38,887	\$ 49,173	\$ 13,885	\$ 11,693

Please see Note 1, Note 3 and Note 7 of Notes to Consolidated Financial Statements for a discussion of factors such as business combinations and any material uncertainties that may materially affect the comparability of the information reflected in selected financial data, described in Item 6 of this report.

**Item 7. 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 our consolidated financial statements and the related notes included in Item 8, “Financial Statements and Supplementary Data” of this report. In addition to our historical consolidated financial information, 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 report, particularly in Item 1A, “Risk Factors.”*

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Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") includes the following sections:

- An Overview that discusses at a high level our operating results and some of the trends that affect our business;
- Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments underlying our financial statements;
- Recent Accounting Pronouncements;
- Results of Operations, including a more detailed discussion of our revenues and expenses; and
- Liquidity and Capital Resources, which discusses key aspects of our statements of cash flows, changes in our balance sheets and our financial commitments.

### **Overview**

This overview provides a high-level discussion of our operating results and some of the trends that affect our business. We believe that an understanding of these trends is important to understand our financial results for fiscal 2013, as well as our future prospects. We do not intend this summary to be exhaustive, or to be a substitute for the detailed discussion and analysis provided elsewhere in this report, including our consolidated financial statements and accompanying notes.

### *Financial Results and Trends*

Revenues for 2013 were \$105.6 million, a 2.4% decrease compared to 2012, in which we reported revenues of \$108.2 million. The decrease in total revenues primarily resulted from a decrease in revenues that we generate from our feature phone games, as our feature phone revenues declined from \$13.1 million in 2012 to \$5.3 million in 2013. This decrease was due to the continued migration of users from feature phones to smartphone devices and our decision to concentrate our product development efforts exclusively towards developing new titles for smartphones, tablets and other next-generation platforms, such as the Mac App Store. We intend to continue to devote minimal resources towards selling games for feature phones, as we believe that the migration of users from feature phones to smartphone devices will continue during 2014 and for the foreseeable future as consumers continue to upgrade their mobile phones. The decrease in our feature phone revenues were partially offset by an increase in our smartphone revenues from \$95.0 million in 2012 to \$100.3 million in 2013. This increase was partially attributable to sales generated from our most successful title launch to date, *Deer Hunter 2014*, which we globally launched in September 2013.

The majority of our smartphone revenues have historically been derived from Apple's iOS platform, which accounted for 59.6% and 56.0% of our total revenues in 2013 and 2012, respectively. We generated the majority of these iOS-related revenues through the Apple App Store, which represented 50.1% and 41.3% of our total revenues in 2013 and 2012, respectively, with the significant majority of such revenues derived from in-app purchases. We generated the balance of our iOS-related revenues from offers and advertisements in games distributed on the Apple App Store and, to a far lesser extent, sales of premium games. In addition, we generated approximately 30.5% and 27.3% of our total revenues in 2013 and 2012, respectively from the Android platform. We generated the majority of our Android-related revenues through in-app purchases and sales of premium games made through the Google Play Store, which represented 19.2% and 20.3% of our total revenues in 2013 and 2012, respectively, with the balance of our Android-related revenues generated from other platforms that distribute apps that run the Android operating system (e.g., the Amazon App Store). We expect the total revenues that we derive from each of Apple and Google to continue to increase in 2014.

To increase our revenues, we must continue to execute on our strategy of becoming the leading developer and publisher of free-to-play games for smartphones, tablets and other next-generation platforms. Free-to-play games are games that a player can download and play for free, but which allow players to access a variety of additional content and features for a fee and to engage with various advertisements and offers that generate revenues for us. Because our games can be downloaded and played for free, we are able to more quickly build a significantly larger customer base than we could if we charged users an upfront fee for downloading our games, which was our previous feature phone business model.

However, for us to continue to execute on our strategy, we must continue to improve our monetization of our players. We believe that deep monetization is one of the primary areas in which we must be proficient to succeed in the mobile gaming industry. Accordingly, we have implemented a number of measures designed to improve our game monetization. These include hiring a number of new personnel with monetization expertise and including deeper "meta game" functionality in our games, by which we mean increasing the player's ability to continue to create content or otherwise invest in the game outside the core gameplay loop, which we believe should result in increased player retention. In addition, part of our strategy is to continue transitioning towards becoming primarily a games-as-a-service company, in which the majority of our future games will only be playable online. This will enable us to deliver a number of additional features in our games, such as tournaments, live events and more frequent content updates, which we believe will contribute to better monetization in our games. We plan to continue to invest in our games-as-a-service technology platform and hire additional monetization, live operations, server technology, user experience and product management personnel to support our transition to becoming a games-as-a-service company.

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We also intend to grow our revenues through our third party publishing initiative, Glu Publishing. Glu Publishing is focused on entering into relationships with developers of games, primarily in Asian and Eastern European markets, where Glu will localize and globally publish those games. Because we expect to pay these third party developers royalties, which may include upfront license fees or non-recoupable minimum guarantees, to obtain the rights to publish their games, our gross margins are expected to be lower on our revenues generated from our Glu Publishing initiative.

In addition, our revenues will continue to depend significantly on growth in the mobile games market and our ability to successfully compete against a continually increasing number of developers and the overall strength of the economy, particularly in the United States. Our revenues also depend on maintaining our continued good relationship with the digital storefront operators, primarily Apple and Google, each of whom could unilaterally alter their terms of service in ways that could harm our business. For example, Apple has during the last several years made changes to its app store developer agreement relating to privacy and our ability to include certain types of third-party advertising in our games. Some of these changes have in the past, and may in the future, negatively impact our smartphone revenues.

Our net loss in 2013 was \$19.9 million versus a net loss of \$20.5 million in 2012. This decrease in our net loss was primarily due to a decrease in our operating expenses of \$5.5 million, an increase in income tax benefit of \$849,000, and an increase in interest and other income of \$357,000. The decrease in operating expenses was primarily driven by a decrease of \$7.4 million in research and development expenses and a decrease of \$3.6 million in our goodwill impairment charge, which was partially offset by a \$5.2 million increase in sales and marketing expenses and an \$806,000 increase in our general and administrative expenses. These favorable factors that contributed to a decrease in our net loss were partially offset by an increase of \$3.6 million in cost of sales along with a \$2.6 million decrease in revenues. See “—Results of Operations—Comparison of the Years Ended December 31, 2013 and 2012” below for further details. Our operating results were also affected by fluctuations in foreign currency exchange rates of the currencies in which we incurred meaningful operating expenses (principally the British Pound Sterling, Euro, Chinese Renminbi, Brazilian Real and Russian Ruble), and our customers’ reporting currencies, which fluctuated significantly in 2012 and 2013.

Our ability to attain and sustain profitability depends not only on our ability to grow our revenues, but also on our ability to manage our operating expenses. The largest component of our recurring expenses is personnel costs, which consist of salaries, benefits and incentive compensation, including bonuses and stock-based compensation. We increased our spending on sales and marketing initiatives in 2013 compared to 2012 in connection with the launch and promotion of our games, and we anticipate that our sales and marketing expenditures will continue to increase in absolute dollars during 2014, particularly since advertising costs in our industry have generally been rising. We expect that the restructuring measures we implemented in the fourth quarter of 2012 and first and second quarters of 2013, which primarily consisted of headcount reductions and facility streamlining in our San Francisco headquarters and our Washington studio and the winding down of our studio in Brazil, will continue to enable us to hire additional games-as-a-service personnel with monetization expertise without substantially increasing our overall research and development expenses.

Cash and cash equivalents at December 31, 2013 totaled \$28.5 million, an increase of \$6.2 million from the \$22.3 million balance at December 31, 2012. This increase was primarily due to the \$20.6 million of aggregate proceeds we received from our September 2013 public offering of common stock, warrant exercises, option exercises, and purchases under our employee stock purchase program that occurred in 2013. These inflows were partially offset by \$9.6 million of cash used in operations and \$4.9 million of cash used in investing activities. The cash used in investing activities primarily related to the relocation of our San Francisco headquarters and our Washington development studio and the subsequent renovations of these new office locations.

### *Key Operating Metrics*

We manage our smartphone business by tracking various non-financial operating metrics that give us insight into user behavior in our free-to-play and premium smartphone games. The three metrics that we use most frequently are Daily Active Users (DAU), Monthly Active Users (MAU), and Average Revenue Per Daily Active User (ARPDau). Our methodology for calculating DAU, MAU and ARPDau may differ from the methodology used by other companies to calculate similar metrics.

DAU is the number of individuals who played a particular smartphone game on a particular day. An individual who plays two different games on the same day is counted as two active users for that day when we aggregate DAU across games. In addition, an individual who plays the same game on two different devices during the same day (e.g., an iPhone and an iPad) is also counted as two active users for each such day when we average or aggregate DAU over time. Average DAU for a particular period is the average of the DAUs for each day during that period. We use DAU as a measure of player engagement with the titles that our players have downloaded.

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MAU is the number of individuals who played a particular smartphone game in the month for which we are calculating the metric. An individual who plays two different games in the same month is counted as two active users for that month when we aggregate MAU across games. In addition, an individual who plays the same game on two different devices during the same month (e.g., an iPhone and an iPad) is also counted as two active users for each such month when we average or aggregate MAU over time. Average MAU for a particular period is the average of the MAUs for each month during that period. We use the ratio between DAU and MAU as a measure of player retention.

ARPPDAU is the total free-to-play smartphone revenue – consisting of micro-transactions, advertisements and offers – for the measurement period divided by the number of days in the measurement period divided by the DAU for the measurement period. ARPPDAU reflects game monetization. Revenues for purposes of our ARPPDAU calculation are our free-to-play revenues from micro-transactions and offers. Under our revenue recognition policy, we recognize these revenues over the estimated average playing period of a user, but our methodology for calculating our DAU does not align with our revenue recognition policy for micro-transactions and offers, under which we defer revenues. For example, if a title is introduced in the last month of a quarter, we defer a substantial portion of the micro-transaction and offer revenue to future months, but the entire DAU for the newly released title is included in the month of launch.

We calculate DAU, MAU and ARPPDAU for only our primary distribution platforms, such as Apple's App Store, the Google Play Store, Amazon's Appstore and the Mac App Store; we are not able to calculate these metrics across all of our distribution channels. In addition, the platforms that we include for purposes of this calculation have changed over time, and we expect that they will continue to change as our business evolves, but we do not expect that we will adjust prior metrics to take any such additions or deletions of distribution platforms into account. We believe that calculating these metrics for only our primary distribution platforms at a given period is generally representative of the metrics for all of our distribution platforms. Moreover, we rely on the data analytics software that we incorporate into our games to calculate and report the DAU, MAU and ARPPDAU of our games, and we make certain adjustments to the analytics data to address inconsistencies between the information as reported and our DAU and MAU calculation methodology.

The table below sets forth our aggregate DAU, MAU and ARPPDAU for all of our then-active smartphone titles for the periods specified, followed by a qualitative discussion of the changes in these metrics. Aggregate DAU and MAU include users of both our free-to-play and premium titles, whereas aggregate ARPPDAU is calculated based only on revenues from our free-to-play games. Aggregate DAU and MAU for each period presented represents the aggregate metric for the last month of the period. For example, DAU for the three months ended December 31, 2013 is aggregate daily DAU for the month of December 2013 calculated for all active smartphone free-to-play and premium titles in that month across the distribution platforms for which we calculate the metric.

	For the Three Months Ended							
	2013				2012			
	March 31	June 30	September 30	December 31	March 31	June 30	September 30	December 31
	(In thousands, except aggregate ARPPDAU)							
Aggregate DAU	3,894	2,895	4,273	6,415	3,218	3,412	3,835	3,535
Aggregate MAU	40,056	29,359	45,229	56,297	29,814	29,034	37,675	34,795
Aggregate ARPPDAU	\$ 0.06	\$ 0.08	\$ 0.05	\$ 0.06	\$ 0.07	\$ 0.08	\$ 0.06	\$ 0.07

Each of our aggregate DAU and MAU have generally increased sequentially from quarter to quarter because we have released more free-to-play games and expanded our portfolio of titles, except during the periods between the fourth quarter of 2012 and the second quarter of 2013, in which we released fewer titles.

The increase in aggregate DAU and MAU for the three months ended December 31, 2013 as compared to the prior quarter and same period of the prior year was primarily the result of increased downloads related to the launch of *Deer Hunter 2014* on September 17, 2013, our most successful title launch to date.

Our aggregate ARPPDAU has fluctuated slightly quarter to quarter, as well as from December 31, 2012 to December 31, 2013, primarily based on the ARPPDAU performance of new titles released during each quarter. Future increases in our aggregate DAU, MAU and ARPPDAU will depend on our ability to retain current players, attract new paying players, launch new games and expand into new markets and distribution platforms.

## Significant Transactions

### *September 2013 Public Offering*

In September 2013, we sold in an underwritten public offering an aggregate of 7,245,000 shares of our common stock at a public offering price of \$2.10 per share for net cash proceeds of approximately \$14.0 million after deducting underwriting discounts and other offering expenses.

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*Acquisition of GameSpy*

On August 2, 2012, we completed the acquisition of GameSpy Industries, Inc., or GameSpy, from IGN Entertainment, Inc. by issuing to IGN 600,000 shares of our common stock, of which 90,000 shares continue to be held in escrow as security pending resolution of an indemnification claim made by us under the merger agreement.

*Purchase of the Deer Hunter Brand Assets*

On April 1, 2012, we acquired from Atari, Inc. its Deer Hunter trademark and associated domain names and also took a license to the other intellectual property associated with the Deer Hunter brand for total consideration of \$5.0 million in cash.

*Acquisition of Griptonite*

On August 1, 2011, we completed the acquisition of Griptonite, Inc., or Griptonite, from Foundation 9 Entertainment, Inc., or Foundation 9, by issuing 6,106,015 shares of our common stock to Foundation 9. In addition, we may be required to issue up to an additional 5,301,919 shares or in specified circumstances pay additional cash to satisfy indemnification obligations in the case of, among other things, breaches of our representations, warranties and covenants in the merger agreement.

*Acquisition of Blammo*

On August 1, 2011, we completed the acquisition of Blammo Games Inc., or Blammo, by entering into a Share Purchase Agreement among Glu, Blammo and the owners of Blammo's outstanding share capital (the "Sellers"). Under the Share Purchase Agreement we purchased all of the Blammo share capital, and we (1) issued to the Sellers an aggregate 1,000,000 shares of our common stock and (2) agreed to issue to the Sellers up to an aggregate of an additional 3,312,937 shares of our common stock (the "Additional Shares") if Blammo achieves certain baseline and upside Net Revenue (as such term is defined in the Share Purchase Agreement) targets during the years ending March 31, 2013 (up to 909,091 Additional Shares), March 31, 2014 (up to 1,250,000 Additional Shares) and March 31, 2015 (up to 1,153,846 Additional Shares). On May 16, 2013, we issued 742,036 shares to the former Blammo shareholders based on the amount of Net Revenue that Blammo achieved for its fiscal year ended March 31, 2013.

*January 2011 Public Offering*

In January 2011, we completed a public offering in which we sold an aggregate of 8,414,635 shares of our common stock at a price to the public of \$2.05 per share for net proceeds of approximately \$15.7 million after deducting underwriting discounts and commissions and offering expenses.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles, or GAAP. These accounting principles require us to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the dates of the consolidated financial statements, the disclosure of contingencies as of the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the periods presented. Although we believe that our estimates and judgments are reasonable under the circumstances existing at the time these estimates and judgments are made, actual results may differ from those estimates, which could affect our consolidated financial statements.

We believe the following to be critical accounting policies because they are important to the portrayal of our financial condition or results of operations and they require critical management estimates and judgments about matters that are uncertain:

- revenue recognition;
- fair value;
- business combinations – purchase accounting;
- long-lived assets;
- goodwill;
- stock-based compensation; and
- income taxes.

## ***Revenue Recognition***

We generate revenues through the sale of our games on traditional feature phones and smartphones and tablets, such as Apple's iPhone and iPad and other mobile devices utilizing Google's Android operating system. Smartphone games are distributed primarily through digital storefronts, such as the Apple App Store and the Google Play Store, and feature phone games are distributed primarily through wireless carriers.

### ***Smartphone Revenue***

We distribute our games for smartphones and tablets to the end customers through digital storefronts such as Apple's App Store and the Google Play Store. Within these storefronts, users can download our free-to-play games and pay to acquire virtual currency which is redeemed in the game for virtual goods. We recognize revenue when persuasive evidence of an arrangement exists, the service has been provided to the user, the price paid by the user is fixed or determinable, and collectability is reasonably assured. Determining whether and when some of these criteria have been satisfied requires judgments that may have a significant impact on the timing and amount of revenue we report in each period. For the purpose of determining when the service has been provided to the player, we have determined that an implied obligation exists to the paying user to continue displaying the purchased virtual goods within the game over the estimated average playing period of paying players for the game, which represents our best estimate of the estimated average life of virtual goods.

We sell both consumable and durable virtual goods, and we receive reports from Digital Storefronts which breakdown the various purchases made in our games for a given time period. We review these reports and determine on a per-item basis whether the purchase was a consumable virtual good or a durable virtual good. Consumable goods are items consumed at a predetermined time or otherwise have limitations on repeated use, while durable goods are items accessible to the user over an extended period of time. Our revenues from consumable virtual goods have been immaterial since we launched our first free-to-play title in the fourth quarter of 2010. We recognize revenue from the sale of virtual currency and other virtual items ratably over the estimated average playing period of paying users, which has generally been three months. If a new game is launched and only a limited period of paying player data is available, then we also consider other qualitative factors, such as the playing patterns for paying users for other games with similar characteristics. Where we do not have the ability to differentiate revenues from durable and consumable virtual goods, all revenues are deferred ratably over the average playing period of paying users.

We compute our estimated average playing period of paying users at least once each year, and more frequently if qualitative evidence exists that would indicate a possible change in estimated average playing life, including consideration of changes in the characteristics of games. We have examined the playing patterns of paying users across a representative sample of our games including both the action-adventure and casual genres. To compute the estimated average playing period for paying users, we consider the initial purchase date as the player's starting point. We then group the daily populations of paying players (the "daily cohort") from the date of their first purchase within the game and track each daily cohort to understand the number of players from each daily cohort who played the game after the initial purchase. To determine the ending point of a paying player's life beyond the date for which observable data is available, we extrapolate the actual observed attrition rate for each daily cohort. For this extrapolation we use the actual observed attrition percentages for each daily cohort in each of the games in our sample and forecast future declines based on the continuation of the attrition trend line from the actual observed player data. We then compute a weighted average using this larger dataset (actual observed attrition + extrapolated attrition) to arrive at the weighted-average playing period of paying users for each game. We then compute a revenue-based weighted average of the estimated playing period across all of the games in the sample to arrive at the overall weighted average playing period of paying users. We apply this weighted average playing period for all paying users to all of our games because the computed weighted average playing period for each game is generally consistent across all of our games analyzed. While we believe our estimates to be reasonable based on available game player information, we may revise such estimates in the future as the games' operation periods change. Any adjustments arising from changes in the estimates of the lives of these virtual goods would be applied prospectively on the basis that such changes are caused by new information indicating a change in game player behavior patterns. Any changes in our estimates of useful lives of these virtual goods may result in revenues being recognized on a basis different from prior periods' and may cause our operating results to fluctuate.

We also have relationships with certain advertising service providers for advertisements within our smartphone games and revenue from these advertising providers is generated through impressions, click-throughs, banner ads and offers. Revenue is recognized as advertisements are delivered and reported to us, an executed contract exists, the price is fixed or determinable and collectability has been reasonably assured. Delivery generally occurs when the advertisement has been displayed or the offer has been completed by the user. The fee received for certain offer advertisements that result in the user receiving virtual currency for redemption within a game are deferred and recognized over the average playing period of paying users.

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### *Feature Phone Revenue*

Our feature phone revenues are derived primarily by licensing software products in the form of mobile games. We distribute these products primarily through mobile telecommunications service providers (“carriers”), which market the games to end users. License fees are usually billed by the carrier upon download of the game by the end user and are generally billed monthly. Revenues are recognized from our games when persuasive evidence of an arrangement exists, the game has been delivered, the fee is fixed or determinable, and the collection of the resulting receivable is probable. We consider a signed license agreement to be evidence of an arrangement with a carrier and a “clickwrap” agreement to be evidence of an arrangement with an end user. For these licenses, we define delivery as the download of the game by the end user.

### *Other Estimates and Judgments*

We estimate revenues from carriers and digital storefronts in the current period when reasonable estimates of these amounts can be made. Certain carriers and digital storefronts provide reliable interim preliminary reporting and others report sales data within a reasonable time frame following the end of each month, both of which allow us to make reasonable estimates of revenues and therefore to recognize revenues during the reporting period. Determination of the appropriate amount of revenue recognized involves judgments and estimates that we believe are reasonable, but it is possible that actual results may differ from our estimates. When we receive the final reports, to the extent not received within a reasonable time frame following the end of each month, we record any differences between estimated revenues and actual revenues in the reporting period. Historically, the revenues on the final revenue report have not differed significantly from the reported revenues for the period.

### *Principal Agent Considerations*

In accordance with the Accounting Standards Codification (ASC) 605-45, *Revenue Recognition: Principal Agent Considerations*, we evaluate our carrier and digital storefront agreements in order to determine whether or not we are acting as the principal or as an agent when selling our games, which we consider in determining if revenue should be reported gross or net. We primarily use digital storefronts for distributing our smartphone games, whereas carriers are used for distribution of our feature phone games. Key indicators that we evaluate in order to reach this determination include:

- the terms and conditions of our contracts with the carriers, and the digital storefronts;
- the party responsible for billing and collecting fees from the end-users, including the resolution of billing disputes;
- whether we are paid a fixed percentage of the arrangement’s consideration or a fixed fee for each game;
- the party which sets the pricing with the end-user, has the credit risk and provides customer support; and
- the party responsible for the fulfillment of the game and that determines the specifications of the game.

Based on the evaluation of the above indicators, we have determined that we are generally acting as a principal and are the primary obligor to end-users for smartphone games distributed through digital storefronts, and we therefore recognize revenue related to these arrangements on a gross basis. For feature phone games, we concluded that the carriers are the primary obligor and therefore we recognize revenue for the amounts due from the carriers on a net basis.

### *Fair Value Measurements*

We account for fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”). Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. We use a three tier hierarchy, which prioritizes the inputs used in measuring fair value as follows:

**Level 1** - Quoted prices in active markets for identical assets or liabilities.

**Level 2** - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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The first two are levels in the hierarchy are considered observable inputs and the last is considered unobservable. Our cash and cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. As of December 31, 2013 and December 31, 2012, we had \$28.5 million and \$22.3 million in cash and cash equivalents. The carrying value of accounts receivable and payables approximates fair value due to the short time to expected receipt of payment or cash.

Level 3 liabilities consist of acquisition-related acquisition-related liabilities for contingent consideration (i.e., earnouts) related to the acquisition of Blammo. On May 16, 2013, we issued 742,036 shares of common stock to the former Blammo shareholders based on the Net Revenue that Blammo achieved for its fiscal year ended March 31, 2013. The former Blammo shareholders have the opportunity to earn additional shares of our common stock based on future Net Revenues generated by Blammo during the fiscal years ending March 31, 2014 and March 31, 2015. See Note 3 of the Notes to Consolidated Financial Statements for further details regarding the Blammo acquisition. The expected number of shares to be issued in each year depends on the probability of Blammo achieving the Net Revenue targets set forth in the acquisition agreement, and we used a risk-neutral framework to estimate the probability of achieving these revenue targets for each year. The fair value of the contingent consideration was determined using a digital option, which captures the present value of the expected payment multiplied by the probability of reaching the revenue targets for each year. Key assumptions for the year ended December 31, 2013 included a discount rate of 35.0%, volatility of 35.0%, risk-free rates of between 0.07% and 0.19% and probability-adjusted revenue levels. Key assumptions for the year ended December 31, 2012 included a discount rate of 35.0%, volatility of 38.0%, risk-free rates of between 0.05% and 0.28% and probability-adjusted revenue levels. Probability-adjusted revenue is a significant input that is not observable in the market, which ASC 820-10-35 refers to as a Level 3 input. The fair value of these contingent liabilities recorded on our consolidated balance sheet as of December 31, 2013 and December 31, 2012 was \$427,000 and \$2.5 million, respectively.

### ***Business Combinations — Purchase Accounting***

We apply ASC 805, *Business Combinations* (“ASC 805”), which is the accounting guidance related to business combinations. The standard requires recognition of assets acquired, liabilities assumed, and contingent consideration at their fair value on the acquisition date with subsequent changes recognized in earnings; requires acquisition-related expenses and restructuring costs to be recognized separately from the business combination and expensed as incurred; requires in-process research and development to be capitalized at fair value as an indefinite-lived intangible asset until completion or abandonment; and requires that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for taxes.

We account for acquisitions of entities that include inputs and processes and have the ability to create outputs as business combinations. The purchase price of the acquisition is allocated to tangible assets, liabilities, and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. Acquisition-related expenses and restructuring costs are expensed as incurred. While we use our best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, these estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the preliminary purchase price allocation period, which may be up to one year from the business combination date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. After the preliminary purchase price allocation period, we record adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period in our operating results in the period in which the adjustments were determined.

### ***Long-Lived Assets***

We evaluate our long-lived assets, including property and equipment and intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable in accordance with ASC 360, *Property Plant & Equipment* (“ASC 360”). Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the acquired assets, significant negative industry or economic trends, and a significant decline in our stock price for a sustained period of time. We recognize impairment based on the difference between the fair value of the asset and its carrying value. Fair value is generally measured based on either quoted market prices, if applicable, or a discounted cash flow analysis.

### ***Goodwill***

In accordance with ASC 350, *Intangibles – Goodwill and Other* (“ASC 350”), we do not amortize goodwill or other intangible assets with indefinite lives but rather test them for impairment. ASC 350 requires us to perform an impairment review of our goodwill balance at least annually, which we do as of September 30 each year, and also whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. In our impairment reviews, we look at the goodwill allocated to our reporting units — the Americas, EMEA and Asia-Pacific (“APAC”).

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We evaluate qualitative factors and overall financial performance to determine whether it is necessary to perform the first step of the two-step goodwill test. This step is referred to as “Step 0.” Step 0 involves, among other qualitative factors, weighing the relative impact of factors that are specific to the reporting unit as well as industry and macroeconomic factors. After assessing those various factors, if it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity will need to proceed to the first step of the two-step goodwill impairment test. ASC 350 requires a multiple-step approach to testing goodwill for impairment for each reporting unit annually, or whenever events or changes in circumstances indicate the fair value of a reporting unit is below its carrying amount. The first step measures for impairment by applying the fair value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying the fair value-based tests to individual assets and liabilities within each reporting unit. The fair value of the reporting units is estimated using a combination of the market approach, which utilizes comparable companies’ data, and/or the income approach, which uses discounted cash flows.

We have three reporting units comprised of the (1) Americas, (2) EMEA and (3) APAC regions. As of December 31, 2013, we only had goodwill attributable to the APAC and Americas reporting units. The cash flows of these reporting units reflect the income and expenses of assets directly employed by, and liabilities related to, the operations of the reporting unit, including revenue related to local contractual relationships, but exclude revenues related to global contractual relationships such as Digital Storefronts which are owned by the U.S. and allocated directly to the Americas reporting unit. In performing our annual goodwill impairment assessment for 2013, we performed a Step 0 qualitative assessment for our Americas, EMEA, and APAC reporting units. Based on this assessment, we concluded that it was more likely than not that the fair value of each of the reporting units was greater than their carrying amounts, and, as a result, did not proceed to further impairment testing. Accordingly, we did not recognize an impairment of goodwill during 2013. In 2012, we concluded that a portion of the goodwill attributed to the APAC reporting unit was impaired and recorded a \$3.6 million impairment charge. In 2011, we did not record any goodwill impairment charges as the fair values of the reporting units exceeded their respective carrying values.

### ***Stock-Based Compensation***

We apply the fair value provisions of ASC 718, *Compensation-Stock Compensation* (“ASC 718”). ASC 718 requires the recognition of compensation expense, using a fair-value based method, for costs related to all share-based payments, including stock options. ASC 718 requires companies to estimate the fair value of share-based payment awards on the grant date using an option pricing model. The fair value of stock options and stock purchase rights granted pursuant to our equity incentive plans and 2007 Employee Stock Purchase Plan, respectively, is determined using the Black-Scholes valuation model. The determination of fair value is affected by the stock price, as well as assumptions regarding subjective and complex variables such as expected employee exercise behavior and expected stock price volatility over the expected term of the award. Generally, these assumptions are based on historical information and judgment is required to determine if historical trends may be indicators of future outcomes. Employee stock-based compensation expense is calculated based on awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment to stock-based compensation expense will be recognized at that time. Changes to the assumptions used in the Black-Scholes option valuation calculation and the forfeiture rate, as well as future equity granted or assumed through acquisitions could significantly impact the compensation expense we recognize.

We also grant restricted stock units, or RSUs, to our employees under our equity incentive plans. The cost of RSUs is determined using the fair value of our common stock based on the quoted closing price of our common stock on the date of grant. RSUs typically vest and are settled over approximately a four-year period with 25% of the shares vesting on or around the one-year anniversary of the grant date and the remaining shares vesting quarterly thereafter. Compensation cost is amortized on a straight-line basis over the requisite service period.

In 2013, 2012, and 2011, we recorded total employee non-cash stock-based compensation expense of \$4.3 million, \$5.8 million and \$3.1 million, respectively. The 2013 and 2012 compensation expense includes contingent consideration potentially issuable to Blammo employees, which is recorded as research and development expense over the term of the earn-out periods, as these employees are primarily employed in product development. We re-measure the fair value of the contingent consideration each reporting period and only record a compensation expense for the portion of the earn-out target which is likely to be achieved. The total fair value of this liability has been estimated at \$368,000 and \$2.2 million as of December 31, 2013 and 2012, respectively, of which \$171,000, \$1.5 million, and \$551,000 of stock-based compensation expense has been recorded during the years ended December 31, 2013, 2012, and 2011, respectively. In future periods, stock-based compensation expense may increase as we issue additional equity-based awards to continue to attract and retain key employees. Additionally, ASC 718 requires that we recognize compensation expense only for the portion of stock options that are expected to vest. If the actual number of forfeitures differs from that estimated by management, we may be required to record adjustments to stock-based compensation expense in future periods.

### ***Income Taxes***

We account for income taxes in accordance with ASC 740, *Income Taxes* (ASC 740). As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax benefit (provision) in each of the jurisdictions in which we operate. This process involves estimating our current income tax benefit (provision) together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet using the enacted tax rates in effect for the year in which we expect the differences to reverse.

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We record a valuation allowance to reduce our deferred tax assets to an amount that more likely than not will be realized. As of December 31, 2013 and 2012, our valuation allowance on our net deferred tax assets was \$73.8 million and \$63.7 million, respectively. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, we would need to make an adjustment to the allowance for the deferred tax asset, which would increase income in the period that determination was made.

We account for uncertain income tax positions in accordance with ASC 740-10, which clarifies the accounting for uncertainty in income taxes recognized in financial statements. ASC 740-10 prescribes a recognition threshold and measurement attribute of tax positions taken or expected to be taken on a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Our policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense.

## Results of Operations

The following sections discuss and analyze the changes in the significant line items in our statements of operations for the comparison periods identified.

### *Comparison of the Years Ended December 31, 2013 and 2012*

#### *Revenues*

	Year Ended December 31,	
	2013	2012
	(In thousands)	
Feature phone	\$ 5,319	13,135
Smartphone	100,294	95,048
Revenues	<u>\$105,613</u>	<u>\$ 108,183</u>

Our revenues decreased \$2.6 million, or 2.4%, from \$108.2 million in 2012 to \$105.6 million in 2013. This decrease was due to a \$7.8 million decrease in our feature phone revenues, which was partially offset by a \$5.2 million increase in our smartphone revenues. See “—Overview—Financial Results and Trends” above for further details regarding the decline in our revenues. Our smartphone revenues do not include approximately \$18.2 million of revenues as of December 31, 2013 relating primarily to offers and in-app-purchases that have been deferred over the weighted average useful lives of paying users. International revenues (defined as revenues generated from distributors and carriers whose principal operations are located outside the United States or, in the case of the digital storefronts, the revenues generated by end-user purchases made outside of the United States) increased by \$6.5 million, from \$50.4 million in 2012 to \$56.9 million in 2013. This was primarily related to a \$5.7 million increase in our APAC revenues, primarily related to increased revenues from Korea and China resulting from additional revenues attributable to smartphone storefronts and OEM relationships. This increase in our international revenues was partially offset by a \$9.1 million decrease in our United States revenues, primarily related to declining feature phone and incented offer revenues.

#### *Smartphone Revenues*

	Year Ended December 31,	
	2013	2012
	(In thousands)	
<b>Smartphone Revenue by Type</b>		
Micro-Transactions	\$ 79,169	\$ 67,323
Advertisements	6,638	8,674
Offers	8,336	12,054
Other	6,151	6,997
Smartphone Revenues	<u>\$ 100,294</u>	<u>\$ 95,048</u>

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Our smartphone revenues increased \$5.3 million, or 5.5%, from \$95.0 million in 2012 to \$100.3 million in 2013, which was primarily related to an \$11.8 million increase in micro-transactions (in-app purchases). This increase was partially offset by a \$3.7 million decrease in our revenues from offers which have been negatively impacted since the beginning of the second half of 2012 when we lost the ability to make certain types of offers available to our users on the Apple platform, and a \$2.0 million decrease in advertisements due to a reduction in our direct advertisement campaigns at the end of the fourth quarter of 2012. We generate smartphone revenues from micro-transactions, advertisements and offers, and we sometimes change the focus of our monetization efforts among methods within a given game over the life of the title in an attempt to maximize revenue. For example, we may elect to disable advertisements within a game if we believe doing so will encourage users to play the game longer and thus increase the chance that they will make micro-transactions or complete offers, which generally result in higher revenues for us than advertisements. We rely on a very small portion of our total users for nearly all of our smartphone revenues derived from in-app purchases. Since the launch of our first free-to-play titles in the fourth quarter of 2010, the percentage of unique paying users for our largest revenue-generating free-to-play games has been less than 1%; however, in the initial period following the launch of a game, the percentage may be higher, and the percentage of unique paying users is generally lower for our less successful titles.

### Cost of Revenues

	Year Ended December 31,	
	2013	2012
	(In thousands)	
Cost of revenues:		
Platform commissions, royalties and other	\$ 32,371	\$ 29,630
Impairment of prepaid royalties and guarantees	435	—
Amortization of intangible assets	4,238	3,783
Total cost of revenues	<u>\$ 37,044</u>	<u>\$ 33,413</u>
Revenues	<u>\$105,613</u>	<u>\$108,183</u>
Gross margin	64.9%	69.1%

Our cost of revenues increased \$3.6 million, or 10.9%, from \$33.4 million in 2012 to \$37.0 million in 2013. This increase was primarily due to a \$4.0 million increase in platform commission expense due to a higher volume of revenue transactions through the digital storefronts, a \$1.4 million increase in hosting fees to support our free-to-play titles, and a \$455,000 increase in amortization of intangible assets primarily related to 12 months of amortization for acquired intangible assets from Atari and GameSpy. In addition, we recorded a prepaid royalty impairment charge of \$435,000 for two of our third-party publishing titles, and a non-cash expense of \$427,000 for the vested portion of the warrant issued to MGM Interactive Inc. during the third quarter of 2013. These increases were partially offset by a \$3.1 million decrease in royalties associated with a decline in royalty-burdened revenues. Revenues attributable to games based upon original intellectual property increased as a percentage of revenues from 83.5% in 2012 to 93.3% in 2013, primarily due to our focus on developing free-to-play games for smartphones and tablets that are based on our own intellectual property. The average royalty rate that we paid on games based on licensed intellectual property, excluding royalty impairments, increased from 34.9% in 2012 to 44.8% in 2013, due to renewing a number of our existing licenses at higher royalty rates and higher royalty rates for distribution of certain licensed smartphone titles. Overall royalties, including impairment of prepaid royalties and guarantees, as a percentage of total revenues decreased from 5.8% in 2012 to 3.4% in 2013.

### Research and Development Expenses

	Year Ended December 31,	
	2013	2012
	(In thousands)	
Research and development expenses	\$ 46,877	\$ 54,275
Percentage of revenues	44.4%	50.2%

Our research and development expenses decreased \$7.4 million, or 13.6%, from \$54.3 million in 2012 to \$46.9 million in 2013. The decrease in research and development costs was primarily due to a \$4.8 million decrease in salaries, benefits and variable compensation resulting from the restructurings we implemented in the fourth quarter of 2012 and first half of 2013 in our Brazil, San Francisco, China, Washington and EMEA offices, as our research and development headcount decreased from 433 employees at the end of 2012 to 418 employees at the end of 2013. The decrease in research and development costs was also due to a \$1.5 million decrease in stock-based compensation expense primarily related to vesting and fair value changes of the contingent consideration issued to employees who are former Blammo shareholders, a \$875,000 decrease in outside services due to lower external developer costs incurred in 2013, and a \$633,000 decrease in temporary and consulting fees associated with outsourced quality assurance personnel. As a percentage of revenues, research and development expenses decreased from 50.2% in 2012 to 44.4% in 2013. Research and development expenses included \$1.9 million of stock-based compensation expense in 2013 and \$3.5 million in 2012. We anticipate that our research and development expenses will increase in absolute dollars during 2014 as we intend to continue hiring additional games-as-a-service personnel with monetization expertise. In addition, we may also be exposed to continued fluctuations in the fair market value of the contingent consideration issued to the Blammo employee shareholders, as the fair value of the contingent consideration will be measured during each quarter until the end of the earn-out period in March 2015.

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[Table of Contents](#)*Sales and Marketing Expenses*

	Year Ended December 31,	
	2013	2012
	(In thousands)	
Sales and marketing expenses	\$ 26,120	\$ 20,893
Percentage of revenues	24.7%	19.3%

Our sales and marketing expenses increased \$5.2 million, or 25.0%, from \$20.9 million in 2012 to \$26.1 million in 2013. The increase was primarily due to a \$5.0 million increase in marketing promotions associated with our free-to-play games and an increase of \$428,000 in allocated facility and overhead costs. Our sales and marketing headcount increased from 38 at the end of 2012 to 42 at the end of 2013. As a percentage of revenues, sales and marketing expenses increased from 19.3% in 2012 to 24.7% in 2013. Sales and marketing expenses included \$303,000 of stock-based compensation expense in 2013 and \$386,000 in 2012. We expect our sales and marketing expenditures to continue to increase in 2014 in absolute dollars in connection with the sales and marketing initiatives we intend to undertake related to the new free-to-play games that we expect to release during 2014, including games we are publishing as part of our Glu Publishing initiative.

*General and Administrative Expenses*

	Year Ended December 31,	
	2013	2012
	(In thousands)	
General and administrative expenses	\$ 15,550	\$ 14,744
Percentage of revenues	14.7%	13.6%

Our general and administrative expenses increased \$806,000, or 5.5%, from \$14.7 million in 2012 to \$15.6 million in 2013. The increase in general and administrative expenses was primarily due to a \$681,000 increase in professional services fees associated with external legal, accounting and recruiting services, and a \$379,000 increase in consulting fees associated with additional finance and human resource consultants. These increases in general and administrative expenses were partially offset by a \$503,000 decrease in sales and use taxes due to a one time VAT charge in the second quarter of 2012, and a \$160,000 decrease in the fair market value of contingent consideration issued to Blammo non-employee shareholders. As a percentage of revenues, general and administrative expenses increased from 13.6% in 2012 to 14.7% in 2013. General and administrative expenses included \$2.0 million of stock-based compensation expense in 2013 and \$1.9 million in 2012. Salaries and benefits expenses remained relatively flat, as we increased our general and administrative headcount from 66 employees at the end of 2012 to 67 employees at the end of 2013. We anticipate that our general and administrative expenses will increase in absolute dollars in 2014. In addition, we may also be exposed to continued fluctuations in the fair market value of the contingent consideration issued to the Blammo non-employee shareholders, as the fair value of the contingent consideration will be measured during each reporting period until the end of the earn-out period in March 2015.

*Other Operating Expenses*

Our restructuring charge remained consistent at \$1.4 million in 2013 and 2012. Our restructuring charges in 2013 were comprised of employee termination costs in our Brazil, San Francisco, China and EMEA offices, and facility-related costs related to streamlining of our facility in Washington and additional costs associated with vacating our Brazil office. In addition, we recorded a non-cash adjustment of \$238,000 in respect of the write-off of cumulative translation adjustment upon the substantial liquidation of our Brazilian entity, which is recognized as "Restructuring charge" on our consolidated statement of operations for 2013.

Our amortization of intangible assets decreased from \$2.0 million in 2012 to \$1.3 million in 2013, and was due to the non-compete agreements associated with our acquisition of Gryptonite in August 2011 being fully amortized in July 2013.

Our goodwill impairment charge decreased from \$3.6 million in 2012 to zero in 2013 because we did not record an impairment of goodwill in 2013.

*Interest and Other Income/(Expense), Net*

Interest and other income/(expense), net, increased from net expense of \$347,000 in 2012 to net income of \$10,000 in 2013. This increase was primarily due to foreign currency gains related to the revaluation of certain assets and liabilities including accounts payable and accounts receivable.

*Income Tax Provision*

Our income tax benefit increased from \$2.0 million in 2012 to \$2.8 million in 2013. These benefits were primarily due to the release of uncertain tax positions in certain foreign jurisdictions due to the expiration of the statute of limitations, release of valuation allowances, changes in the jurisdictions included in the anticipated effective tax rate computation and changes in pre-tax income in certain foreign entities.

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Our effective income tax rates for future periods will depend on a variety of factors, including changes in the deferred tax valuation allowance, as well as changes in our business such as intercompany transactions, any acquisitions, any changes in our international structure, any changes in the geographic location of our business functions or assets, changes in the geographic mix of our income, any changes in or termination of our agreements with tax authorities, changes in applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in our annual pre-tax income or loss. We incur certain tax expenses that do not decline proportionately with declines in our pre-tax consolidated income or loss. As a result, in absolute dollar terms, our tax expense will have a greater influence on our effective tax rate at lower levels of pre-tax income or loss than at higher levels. In addition, at lower levels of pre-tax income or loss, our effective tax rate will be more volatile. At December 31, 2013, we anticipated that the liability for uncertain tax positions, excluding interest and penalties, could decrease by approximately \$1.3 million within the next twelve months due to the expiration of certain statutes of limitation in foreign jurisdictions in which we do business.

### *Comparison of the Years Ended December 31, 2012 and 2011*

#### *Revenues*

	Year Ended December 31,	
	2012	2011
	(In thousands)	
Feature phone	\$ 13,135	\$ 31,091
Smartphone	95,048	42,934
Revenues	<u>\$ 108,183</u>	<u>\$ 74,025</u>

Our revenues increased \$34.2 million, or 46.1%, from \$74.0 million in 2011 to \$108.2 million in 2012, due to a \$52.1 million increase in smartphone revenues resulting from increased sales growth on Apple's iOS-based devices and Android-based devices related primarily to micro-transactions, offers and advertisements. This was partially offset by an \$18.0 million decline in feature phone revenues primarily due to the continued migration of users from feature phones to smartphones and our shift in our product development focus towards developing new titles for smartphone devices. Our smartphone revenues do not include approximately \$11.7 million of revenues as of December 31, 2012 relating primarily to offers and in-app-purchases that have been deferred over the weighted average useful lives of paying users. International revenues increased by \$13.1 million, from \$37.3 million in 2011 to \$50.4 million in 2012. This was primarily related to a \$12.8 million increase in our APAC revenues, primarily related to increased revenues from Korea, China and Australia resulting from additional revenues attributable to smartphone storefronts and OEM relationships.

#### *Smartphone Revenues*

	Year Ended December 31,	
	2012	2011
	(In thousands)	
<b>Smartphone Revenue by Type</b>		
Micro-Transactions	\$ 67,323	\$ 23,193
Advertisements	8,674	2,377
Offers	12,054	8,909
Other	6,997	8,455
Smartphone Revenues	<u>\$ 95,048</u>	<u>\$ 42,934</u>

Our smartphone revenues increased \$52.1 million, or 121.4%, from \$42.9 million in 2011 to \$95.0 million in 2012, which was primarily related to a \$44.1 million increase in micro-transactions, a \$6.3 million increase in advertisements and a \$3.1 million increase in offer revenues resulting from our launching 21 titles in 2012 compared to 19 titles in 2011 and our higher monetization of our users in 2012. However, our revenues from offers were negatively impacted in the second half of 2012 when we lost the ability to make certain types of offers available to our users on the Apple platform.

[Table of Contents](#)*Cost of Revenues*

	Year Ended December 31,	
	2012	2011
(In thousands)		
Cost of revenues:		
Royalties	\$ 29,630	\$ 20,229
Impairment of prepaid royalties and guarantees	—	531
Amortization of intangible assets	3,783	5,447
Total cost of revenues	\$ 33,413	\$ 26,207
Revenues	\$ 108,183	\$ 74,025
Gross margin	69.1%	64.6%

Our cost of revenues increased \$7.2 million, or 27.5%, from \$26.2 million in 2011 to \$33.4 million in 2012. This increase was primarily related to a \$12.9 million increase in platform commission expense associated with a higher volume of revenue transactions through our digital storefronts and a \$775,000 increase in hosting fees to support our free-to-play titles. These increases in cost of revenues were partially offset by a \$4.8 million decrease in royalties associated with a decline in royalty-burdened revenue and a \$1.7 million decrease in amortization of intangible assets. Revenues attributable to games based upon original intellectual property increased as a percentage of revenues from 53.1% in 2011 to 83.5% in 2012, primarily due to our focus on developing free-to-play games for smartphones and tablets that are based on our own intellectual property. The average royalty rate that we paid on games based on licensed intellectual property, excluding royalty impairments, increased from 30.1% in 2011 to 34.9% in 2012. Overall royalties, including impairment of prepaid royalties and guarantees, as a percentage of total revenues decreased from 14.8% in 2011 to 5.8% in 2012.

*Research and Development Expenses*

	Year Ended December 31,	
	2012	2011
(In thousands)		
Research and development expenses	\$ 54,275	\$ 39,073
Percentage of revenues	50.2%	52.8%

Our research and development expenses increased \$15.2 million, or 39.0%, from \$39.1 million in 2011 to \$54.3 million in 2012. The increase in research and development costs was primarily due to an \$11.9 million increase in salaries, benefits and variable compensation under our employee bonus plans due to higher average headcount during 2012 mainly resulting from the acquisitions of Griptonite and Blammo at the beginning of August 2011 and GameSpy at the beginning of August 2012 but prior to the restructuring in the fourth quarter of 2012, in which we decreased our research and development headcount. As a result of the restructuring in the fourth quarter of 2012, our research and development headcount decreased from 467 employees at the end of 2011 to 433 employees at the end of 2012. The increase in our research and development expenses was also due to a \$2.1 million increase in stock-based compensation expense, primarily resulting from vesting of the expense over the expected term and changes in the fair market values of contingent consideration issued to employees who are former shareholders of Blammo, a \$2.1 million increase in allocated facility and overhead costs associated with higher average headcount during the year and a \$1.1 million increase in temporary and consulting fees associated with the development, localization and testing of our smartphone titles. These increases were partially offset by a \$2.6 million decrease in payments made to external developers of our titles. As a percentage of revenues, research and development expenses decreased from 52.8% in 2011 to 50.2% in 2012. Research and development expenses included \$3.5 million of stock-based compensation expense in 2012 and \$1.4 million in 2011.

*Sales and Marketing Expenses*

	Year Ended December 31,	
	2012	2011
(In thousands)		
Sales and marketing expenses	\$ 20,893	\$ 14,607
Percentage of revenues	19.3%	19.7%

Our sales and marketing expenses increased \$6.3 million, or 43.0%, from \$14.6 million in 2011 to \$20.9 million in 2012. The increase was primarily due to a \$6.6 million increase in marketing promotions associated with our free-to-play games. Salaries, benefits and variable compensation costs remained relatively flat despite increasing our sales and marketing headcount from 33 in 2011 to 38 in 2012, as higher aggregate salary costs were partially offset by lower variable compensation. The increase in expenditures for variable marketing was partially offset by a \$353,000 decrease in professional and consulting fees for third party marketing firms utilized in Latin America and Asia. As a percentage of revenues, sales and marketing expenses decreased from 19.7% in 2011 to 19.3% in 2012. Sales and marketing expenses included \$386,000 of stock-based compensation expense in 2012 and \$351,000 in 2011.

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[Table of Contents](#)*General and Administrative Expenses*

	Year Ended December 31,	
	2012	2011
	(In thousands)	
General and administrative expenses	\$ 14,744	\$ 14,002
Percentage of revenues	13.6%	18.9%

Our general and administrative expenses increased \$742,000, or 5.3%, from \$14.0 million in 2011 to \$14.7 million in 2012. The increase was primarily due to a \$735,000 increase in salaries, benefits and variable compensation as headcount increased from 62 in 2011 to 66 in 2012, a \$573,000 increase in stock based compensation expense and a \$228,000 change in the fair market value of contingent consideration issued to the Blammo non-employee shareholders. The increase in our general and administrative expenses was partially offset by an \$845,000 decrease in allocated facility and overhead costs. As a percentage of revenues, general and administrative expenses decreased from 18.9% in 2011 to 13.6% in 2012. General and administrative expenses included \$1.9 million of stock-based compensation expense in 2012 and \$1.4 million in 2011.

*Other Operating Expenses*

Our restructuring charge increased from \$545,000 in 2011 to \$1.4 million in 2012. Our restructuring charges for 2012 were comprised of employee termination costs in our San Francisco, California, Washington, Sao Paulo, Brazil, China and Spain offices.

Our amortization of intangible assets increased from \$825,000 in 2011 to \$2.0 million in 2012. This increase was due to amortization expense associated with non-competition agreements capitalized at their fair value as part of the purchase accounting for both the Griptonite and Blammo acquisitions.

Our goodwill impairment charge increased from zero in 2011 to \$3.6 million in 2012 due to a decline in the estimated fair value of our APAC reporting unit attributable to an accelerated decline in the local feature phone business and the recent restructuring of our operations in the region.

*Other Income (Expense), net*

Interest and other income/(expense), net, decreased from a net income of \$747,000 in 2011 to net expense of \$347,000 in 2012. This decrease was primarily due to foreign currency losses related to the revaluation of certain assets and liabilities including accounts payable and accounts receivable.

*Income Tax Provision*

Our income tax provision changed from an expense of \$614,000 in 2011 to a benefit \$2.0 million in 2012. This change was primarily due to the release of uncertain tax positions in one foreign jurisdiction due to the expiration of the statute of limitations, release of valuation allowances, changes in the jurisdictions included in the anticipated effective tax rate computation and changes in pre-tax income in certain foreign entities. The provision for income taxes differs from the amount computed by applying the statutory U.S. federal rate principally due to the effect of our non-U.S. operations, non-deductible stock-based compensation expense, changes in the valuation allowance and increased foreign withholding taxes.

**Liquidity and Capital Resources**

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
<b>Consolidated Statement of Cash Flows Data:</b>			
Capital expenditures	\$ 2,722	\$ 2,014	\$ 2,708
Cash flows used in operating activities	(9,578)	(6,749)	(6,727)
Cash flows (used in)/provided by investing activities	(4,905)	(6,101)	7,634
Cash flows provided by financing activities	20,587	3,205	18,379

Since our inception, we have incurred recurring losses and we had an accumulated deficit of \$252.2 million as of December 31, 2013.

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***Operating Activities***

In 2013, net cash used in operating activities was \$9.6 million, compared to net cash used in operating activities of \$6.7 million in 2012. This increase in cash utilized in our business was primarily due to a net loss of \$19.9 million, an increase in accounts receivable of \$6.5 million, an increase in prepaid expenses and other current assets of \$2.7 million, a decrease in non-current liabilities of \$3.1 million and a decrease in accrued royalties of \$1.5 million. These amounts were partially offset by an increase in deferred revenues of \$6.5 million, an increase in accounts payable of \$3.3 million, an increase in accrued compensation of \$910,000, and adjustments for non-cash items, including amortization expense of \$5.6 million, stock-based compensation expense of \$4.3 million, depreciation expense of \$2.7 million, an impairment of prepaid royalties and guarantees of \$435,000 and a non-cash warrant expense of \$427,000.

In 2012, net cash used in operating activities was \$6.7 million, compared to net cash used in operating activities of \$6.7 million in 2011. The cash utilized in our business was primarily due to a net loss of \$20.5 million, a decrease in other long-term liabilities of \$3.1 million and decreases in accrued compensation of \$1.3 million and accrued royalties of \$1.1 million. These amounts were partially offset by adjustments for non-cash items, including goodwill impairment charges of \$3.6 million, amortization expense of \$5.8 million, stock-based compensation expense of \$5.8 million and depreciation expense of \$2.4 million.

In 2011, net cash used in operating activities was \$6.7 million, compared to net cash provided by operating activities of \$2.2 million in 2010. This increase in cash utilized in our business was primarily due to a net loss of \$21.1 million, a decrease in accrued royalties of \$3.4 million and a decrease in accrued restructuring charges of \$1.6 million. These amounts were partially offset by an increase in deferred revenues of \$8.1 million. In addition, we had adjustments for non-cash items, including amortization expense of \$6.3 million, stock-based compensation expense of \$3.1 million and depreciation expense of \$1.8 million.

***Investing Activities***

Our primary investing activities have consisted of purchases of property and equipment and leasehold improvements for our offices.

In 2013, we used \$4.9 million of cash for investing activities resulting primarily from deposits of \$1.7 million under our letters of credit associated with the sublease for our new San Francisco headquarters lease and our new office for our Bellevue, Washington studio, \$2.7 million of property and equipment purchases, \$253,000 of intangible asset purchases and \$200,000 of other investments.

In 2012, we used \$6.1 million of cash in investing activities related primarily to \$5.0 million used to purchase the *Deer Hunter* trademark and brand assets during the second quarter of 2012 and \$2.0 million of payments for leasehold improvements, computer, server and networking equipment and software to support our free-to-play games. These cash outflows were partially offset by \$913,000 in cash acquired in connection with our acquisition of GameSpy in the third quarter of 2012.

In 2011, cash from investing activities was \$7.6 million, which primarily consisted of \$10.3 million in cash acquired in connection with our acquisition of Griptonite. This was partially offset by \$2.7 million used in the purchase of property, plant and equipment, mainly relating to the purchases of computer, server and networking equipment to support our free-to-play games, purchases of software and the additions of leasehold improvements

***Financing Activities***

In 2013, net cash provided by financing activities was \$20.6 million due to \$14.0 million in net proceeds received from our underwritten public offering of common stock in September 2013, and \$6.6 million of proceeds received from option and warrant exercises and purchases under our employee stock purchase plan.

In 2012, net cash provided by financing activities was \$3.2 million due to proceeds received from option and warrant exercises and purchases under our employee stock purchase plan.

In 2011, net cash provided by financing activities was \$18.4 million due primarily to \$15.7 million of net proceeds received from our underwritten public offering of common stock in January 2011 and \$5.7 million of proceeds received from option and warrant exercises and purchases under our employee stock purchase plan. These inflows were partially offset by \$2.3 million that we repaid under our credit facility and a payment of \$698,000 relating to taxes that had been withheld on the December 31, 2010 promissory note payment made to the former MIG shareholders.

***Sufficiency of Current Cash and Cash Equivalents***

Our cash and cash equivalents were \$28.5 million as of December 31, 2013. Cash and cash equivalents held outside of the United States in various foreign subsidiaries were \$6.4 million as of December 31, 2013, most of which are held by our United Kingdom subsidiary. Under current tax laws and regulations, if cash and cash equivalents held outside the United States are distributed to the United States in the form of dividends or otherwise, we may be subject to additional U.S. income taxes and foreign withholding taxes. We have not provided deferred taxes on unremitted earnings attributable to foreign subsidiaries because these earnings are intended to be reinvested indefinitely.

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We expect to fund our operations, grow our business and satisfy our contractual obligations during the next 12 months primarily through our cash and cash equivalents and cash flows from operations. We believe our cash and cash equivalents and cash inflows will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, our cash requirements for the next 12 months may be greater than we anticipate due to, among other reasons, revenues that are lower than we currently anticipate, greater than expected operating expenses, particularly with respect to our research and development and sales and marketing initiatives, use of cash to pay upfront license fees or minimum guarantees related to our Glu Publishing business, use of cash to fund our foreign operations and the impact of foreign currency rate changes, unanticipated limitations or timing restrictions on our ability to access funds that are held in our non-U.S. subsidiaries or any investments or acquisitions that we may decide to pursue.

If our cash sources are insufficient to satisfy our cash requirements, we may seek to raise additional capital. However, we may be unable to do so on terms that are favorable to us or at all, particularly given current capital market and overall economic conditions.

### Contractual Obligations

The following table is a summary of our contractual obligations as of December 31, 2013:

	Payments Due by Period				
	Total	2014	2015-2017	2018-2019	Thereafter
	(In thousands)				
Operating lease obligations	\$ 15,939	\$ 3,915	\$ 10,122	\$ 1,475	\$ 427
Guaranteed royalties(1)	698	698	—	—	—
Developer commitments(2)	353	353	—	—	—
Uncertain tax position obligations, including interest and penalties(3)	1,427	537	—	—	890
Blammo earn-out (4)	436	329	107	—	—
Total contractual obligations	<u>\$ 18,853</u>	<u>\$ 5,832</u>	<u>\$ 10,229</u>	<u>\$ 1,475</u>	<u>\$ 1,317</u>

- (1) We have entered into license and publishing agreements with various owners of brands and other intellectual property to develop and publish games for mobile devices. Pursuant to some of these agreements, we are required to pay minimum royalties or license fees over the term of the agreement regardless of actual game sales. Future minimum royalty payments as of December 31, 2013 were \$698,000, which are due within the next 12 months.
- (2) We from time to time enter into contracts with various external software developers to design and develop games. We advance funds to these third-party developers, in installments, payable upon the completion of specified development milestones. Future developer commitments as of December 31, 2013 were \$353,000, which are due within the next twelve months.
- (3) As of December 31, 2013, unrecognized tax benefits and potential interest and penalties were classified within "other long-term liabilities" and "accounts payable" on our consolidated balance sheets. As of December 31, 2013, the settlement of \$890,000 of our income tax liabilities cannot be determined; however, the liabilities are not expected to become due within the next twelve months.
- (4) As of December 31, 2013, the contingent consideration issued to the former Blammo shareholders had a fair value of \$436,000. The fair value is based on the present value of probability-adjusted revenues related to the Blammo earnout for the years ending March 31, 2014 and 2015.

### Off-Balance Sheet Arrangements

At December 31, 2013, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K, that are not already disclosed in this report.

### Inflation

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we might not be able to fully offset these higher costs through price increases. Our inability or failure to do so could harm our business, operating results and financial condition.

### Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-2, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance requires the presentation of the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The guidance is effective for fiscal years beginning after December 15, 2012. During the year ended December 31, 2013, we adopted this guidance and reclassified the accumulated translation adjustment related to its Brazilian subsidiary out of accumulated other comprehensive income to restructuring charge in our consolidated statement of operations upon the substantially complete liquidation of the entity.

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In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. This accounting guidance will not have a material impact on our consolidated financial statements once adopted.

**Item 7A. *Quantitative and Qualitative Disclosures about Market Risk***

***Interest Rate and Credit Risk***

Our exposure to interest rate risk relates primarily to our investment portfolio and the potential losses arising from changes in interest rates.

We are potentially exposed to the impact of changes in interest rates as they affect interest earned on our investment portfolio. As of December 31, 2013, we had no short-term investments and substantially all \$28.5 million of our cash and cash equivalents was held in operating bank accounts earning nominal interest. Accordingly, we do not believe that a 10% change in interest rates would have a significant impact on our interest income, operating results or liquidity related to these amounts.

The primary objectives of our investment activities are, in order of importance, to preserve principal, provide liquidity and maximize income without significantly increasing risk. We do not currently use or plan to use derivative financial instruments in our investment portfolio.

As of December 31, 2013 and December 31, 2012, our cash and cash equivalents were maintained by financial institutions in the United States, the United Kingdom, Brazil, Canada, China, France, Hong Kong, India, Russia, Korea and our current deposits are likely in excess of insured limits.

Our accounts receivable primarily relate to revenues earned from digital storefront operators and advertising platforms. We perform ongoing credit evaluations of our customers' and the digital storefronts' financial condition but generally require no collateral from them. At December 31, 2013, Apple accounted for 46.3%, and Google and Jirbo (dba AdColony) each accounted for 11.1% of total accounts receivable. At December 31, 2012, Apple accounted for 44.3%, Kontagent, Inc. (successor-in-interest to Medium Entertainment, dba PlayHaven, with which Kontagent merged in December 2013) accounted for 13.2% and Google accounted for 10.8% of total accounts receivable.

***Foreign Currency Exchange Risk***

We transact business in more than 90 countries in more than 20 different currencies, and in 2012 and 2013, some of these currencies fluctuated significantly. Our revenues are usually denominated in the functional currency of the carrier or distributor while the operating expenses of our operations outside of the United States are maintained in their local currency, with the significant operating currencies consisting of British Pound Sterling ("GBP"), Chinese Renminbi, Brazilian Real and Russian Ruble. Although recording operating expenses in the local currency of our foreign operations mitigates some of the exposure of foreign currency fluctuations, variances among the currencies of our customers and our foreign operations relative to the United States Dollar ("USD") could have and have had a material impact on our results of operations.

Our foreign currency exchange gains and losses have been generated primarily from fluctuations in GBP versus the USD and in the Euro versus GBP. At month-end, non-functional currency-denominated accounts receivable and intercompany balances are marked to market and unrealized gains and losses are included in other income (expense), net. Translation adjustments arising from the use of differing exchange rates are included in accumulated other comprehensive income in stockholders' equity. We have in the past experienced, and in the future expect to experience, foreign currency exchange gains and losses on our accounts receivable and intercompany receivables and payables. Foreign currency exchange gains and losses could have a material adverse effect on our business, operating results and financial condition.

There is also additional risk if the currency is not freely or actively traded. Some currencies, such as the Chinese Renminbi, in which our Chinese operations principally transact business, are subject to limitations on conversion into other currencies, which can limit our ability to react to foreign currency devaluations.

To date, we have not engaged in exchange rate hedging activities, and we do not expect to do so in the foreseeable future.

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Item 8. *Financial Statements and Supplementary Data*

**GLU MOBILE INC.**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Glu Mobile Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive loss, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Glu Mobile Inc. and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
San Jose, California  
March 14, 2014

**GLU MOBILE INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(in thousands, except per share data)**

	As of December 31,	
	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 28,496	\$ 22,325
Accounts receivable, net	18,305	11,881
Prepaid expenses and other	7,663	5,167
Total current assets	54,464	39,373
Property and equipment, net	5,096	5,026
Restricted Cash	1,730	—
Other long-term assets	637	227
Intangible assets, net	5,599	10,889
Goodwill	19,485	19,440
Total assets	<u>\$ 87,011</u>	<u>\$ 74,955</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,657	\$ 7,269
Accrued liabilities	1,971	2,128
Accrued compensation	5,378	5,989
Accrued royalties	1,727	2,781
Deferred revenues	18,224	11,711
Total current liabilities	37,957	29,878
Other long-term liabilities	2,357	6,190
Total liabilities	40,314	36,068
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 5,000 shares authorized at December 31, 2013 and 2012; no shares issued and outstanding at December 31, 2013 and 2012	—	—
Common stock, \$0.0001 par value: 250,000 authorized at December 31, 2013 and 2012; 78,464 and 66,022 shares issued and outstanding at December 31, 2013 and 2012	8	6
Additional paid-in capital	298,593	271,016
Accumulated other comprehensive income	307	167
Accumulated deficit	(252,211)	(232,302)
Total stockholders' equity	46,697	38,887
Total liabilities and stockholders' equity	<u>\$ 87,011</u>	<u>\$ 74,955</u>

The accompanying notes are an integral part of these consolidated financial statements.

**GLU MOBILE INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(in thousands, except per share data)**

	Year Ended December 31,		
	2013	2012	2011
Revenues	\$ 105,613	\$ 108,183	\$ 74,025
Cost of revenues:			
Platform commissions, royalties and other	32,371	29,630	20,229
Impairment of prepaid royalties and guarantees	435	—	531
Amortization of intangible assets	4,238	3,783	5,447
Total cost of revenues	<u>37,044</u>	<u>33,413</u>	<u>26,207</u>
Gross profit	<u>68,569</u>	<u>74,770</u>	<u>47,818</u>
Operating expenses:			
Research and development	46,877	54,275	39,073
Sales and marketing	26,120	20,893	14,607
General and administrative	15,550	14,744	14,002
Amortization of intangible assets	1,336	1,980	825
Restructuring charge	1,448	1,371	545
Impairment of goodwill	—	3,613	—
Total operating expenses	<u>91,331</u>	<u>96,876</u>	<u>69,052</u>
Loss from operations	<u>(22,762)</u>	<u>(22,106)</u>	<u>(21,234)</u>
Interest and other income/(expense), net:			
Interest income/(expense)	16	21	(29)
Other income/(expense), net	(6)	(368)	776
Interest and other income/(expense), net	<u>10</u>	<u>(347)</u>	<u>747</u>
Loss before income taxes	<u>(22,752)</u>	<u>(22,453)</u>	<u>(20,487)</u>
Income tax benefit/(provision)	<u>2,843</u>	<u>1,994</u>	<u>(614)</u>
Net loss	<u>\$ (19,909)</u>	<u>\$ (20,459)</u>	<u>\$ (21,101)</u>
Net loss per share — basic and diluted	\$ (0.28)	\$ (0.32)	\$ (0.37)
Weighted average common shares outstanding — basic and diluted	71,453	64,318	57,518

The accompanying notes are an integral part of these consolidated financial statements.

**GLU MOBILE INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(in thousands)**

	<u>Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Loss	<u>\$ (19,909)</u>	<u>\$ (20,459)</u>	<u>\$ (21,101)</u>
Other comprehensive income/(loss):			
Foreign currency translation adjustments	378	(99)	(893)
Reclassification to net loss (1)	(238)	—	—
Other comprehensive income/(loss)	<u>140</u>	<u>(99)</u>	<u>(893)</u>
Comprehensive loss	<u>\$ (19,769)</u>	<u>\$ (20,558)</u>	<u>\$ (21,994)</u>

- (1) The reclassification to net loss relates to the write-off of cumulative translation adjustment upon substantial liquidation of the Company's Brazilian entity and is recognized in Restructuring charge in the Company's consolidated statement of operations for the year ended December 31, 2013.

The accompanying notes are an integral part of these consolidated financial statements.

**GLU MOBILE INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other	Accumulated Deficit	Total Stockholders' Equity Deficit
	Shares	Amount		Comprehensive Income (loss)		
(In thousands, except per share data)						
<b>Balances at December 31, 2010</b>	44,585	\$ 4	\$ 203,464	\$ 1,159	\$ (190,742)	\$ 13,885
Net loss	—	—	—	—	(21,101)	(21,101)
Stock-based compensation expense	—	—	2,559	—	—	2,559
Issuance of other common stock	51	—	200	—	—	200
Issuance of common stock upon exercise of stock options	859	—	1,633	—	—	1,633
Issuance of common stock upon exercise of warrants	2,475	—	3,711	—	—	3,711
Issuance of common stock as consideration for acquisitions	7,106	1	33,157	—	—	33,158
Issuance of common stock upon Secondary Offering, net of issuance costs	8,415	1	15,660	—	—	15,661
Issuance of common stock pursuant to Employee Stock Purchase Plan	258	—	360	—	—	360
Other comprehensive income/(loss)	—	—	—	(893)	—	(893)
<b>Balances at December 31, 2011</b>	<u>63,749</u>	<u>\$ 6</u>	<u>\$ 260,744</u>	<u>\$ 266</u>	<u>\$ (211,843)</u>	<u>\$ 49,173</u>
Net loss	—	—	—	—	(20,459)	(20,459)
Stock-based compensation expense	—	—	4,271	—	—	4,271
Issuance of common stock upon exercise of stock options	806	—	1,357	—	—	1,357
Issuance of common stock upon exercise of warrants	413	—	619	—	—	619
Issuance of common stock as consideration for acquisition	600	—	2,796	—	—	2,796
Issuance of common stock pursuant to Employee Stock Purchase Plan	454	—	1,229	—	—	1,229
Other comprehensive income/(loss)	—	—	—	(99)	—	(99)
<b>Balances at December 31, 2012</b>	<u>66,022</u>	<u>\$ 6</u>	<u>\$ 271,016</u>	<u>\$ 167</u>	<u>\$ (232,302)</u>	<u>\$ 38,887</u>
Net loss	—	—	—	—	(19,909)	(19,909)
Stock-based compensation expense	—	—	4,113	—	—	4,113
Issuance of common stock upon exercise of stock options	958	—	1,295	—	—	1,295
Issuance of common stock upon exercise of warrants	2,886	1	4,328	—	—	4,329
Issuance of common stock as consideration for property and equipment	89	—	189	—	—	189
Issuance of common stock pursuant to Employee Stock Purchase Plan	522	—	978	—	—	978
Issuance of common stock as contingent consideration earned	742	—	2,263	—	—	2,263
Issuance of common stock upon Public Offering, net of issuance costs	7,245	1	13,984	—	—	13,985
Non-cash warrant expense	—	—	427	—	—	427
Other comprehensive income/(loss)	—	—	—	140	—	140
<b>Balances at December 31, 2013</b>	<u>78,464</u>	<u>\$ 8</u>	<u>\$298,593</u>	<u>\$ 307</u>	<u>\$ (252,211)</u>	<u>\$ 46,697</u>

The accompanying notes are an integral part of these consolidated financial statements.

**GLU MOBILE INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Year Ended December 31,		
	2013	2012	2011
<b>Cash flows from operating activities:</b>			
Net loss	\$(19,909)	\$(20,459)	\$(21,101)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	2,707	2,368	1,846
Amortization of intangible assets	5,574	5,763	6,272
Stock-based compensation	4,285	5,822	3,110
Change in fair value of Blammo earnout	7	167	(61)
Non-cash warrant expense	427	—	—
Interest expense on debt	—	—	4
Amortization of loan agreement costs	—	—	70
Non-cash foreign currency remeasurement (gain)/loss	23	365	(789)
Impairment of goodwill	—	3,613	—
Impairment of prepaid royalties and guarantees	435	—	531
Non-cash restructuring charges	244	—	—
Changes in allowance for doubtful accounts	27	281	296
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(6,540)	2,430	(64)
Prepaid expenses and other assets	(2,726)	(359)	1,626
Accounts payable	3,347	(586)	602
Other accrued liabilities	(157)	(459)	(177)
Accrued compensation	910	(1,300)	978
Accrued royalties	(1,495)	(1,133)	(3,402)
Deferred revenues	6,499	680	8,103
Accrued restructuring	(161)	(883)	(1,575)
Other long-term liabilities	(3,075)	(3,059)	(2,996)
Net cash used in operating activities	<u>(9,578)</u>	<u>(6,749)</u>	<u>(6,727)</u>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(2,722)	(2,014)	(2,708)
Restricted Cash	(1,730)	—	—
Other investing activities	(200)	—	—
Purchase of intangible assets	(253)	(5,000)	—
Net cash received from acquisitions	—	913	10,342
Net cash (used in)/provided by investing activities	<u>(4,905)</u>	<u>(6,101)</u>	<u>7,634</u>
<b>Cash flows from financing activities:</b>			
Payments on line of credit	—	—	(2,288)
MIG loan payments	—	—	(698)
Proceeds from public offering, net	13,985	—	15,661
Proceeds from exercise of stock options and ESPP	2,273	2,586	1,993
Proceeds from exercise of stock warrants and issuance of common stock	4,329	619	3,711
Net cash provided by financing activities	<u>20,587</u>	<u>3,205</u>	<u>18,379</u>
Effect of exchange rate changes on cash	67	(242)	63
Net increase/(decrease) in cash and cash equivalents	6,171	(9,887)	19,349
Cash and cash equivalents at beginning of period	22,325	32,212	12,863
Cash and cash equivalents at end of period	<u>\$ 28,496</u>	<u>\$ 22,325</u>	<u>\$ 32,212</u>
<b>Supplemental disclosures of cash flow information</b>			
Common stock issued for acquisitions	\$ —	2,796	33,158
Common stock issued for property and equipment	\$ 189	—	—
Common stock issued as contingent consideration earned	\$ 2,263	—	—
Income taxes paid	\$ 269	394	1,453

The accompanying notes are an integral part of these consolidated financial statements.

**GLU MOBILE INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except per share data and percentages)**

**NOTE 1 — THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***The Company***

Glu Mobile Inc. (the “Company” or “Glu”) was incorporated in Nevada in May 2001 and reincorporated in the state of Delaware in March 2007. The Company develops and publishes a portfolio of action/adventure and casual games designed to appeal to a broad cross section of the users of smartphones and tablet devices who download and make purchases within its games through direct-to-consumer digital storefronts, such as the Apple App Store, Google Play Store, Amazon Appstore and others (“Digital Storefronts”). The Company creates games based on its own original intellectual property, as well as third-party licensed brands.

The Company has incurred recurring losses from operations since inception and had an accumulated deficit of \$252,211 as of December 31, 2013. For the year ended December 31, 2013, the Company incurred a net loss of \$19,909. The Company may incur additional losses and negative cash flows in the future. Failure to generate sufficient revenues, reduce spending or raise additional capital could adversely affect the Company’s ability to achieve its intended business objectives.

***Basis of Presentation***

The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

***Basis of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated.

***Use of Estimates***

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) requires the Company’s management to make judgments, assumptions and estimates that affect the amounts reported in its consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Significant estimates and assumptions reflected in the financial statements include, but are not limited to, the estimated lives that we use for revenue recognition, the allowance for doubtful accounts, useful lives of property and equipment and intangible assets, income taxes, fair value of stock awards issued and contingent consideration issued to Blammo shareholders, fair value of warrants issued, accounting for business combinations, and evaluating goodwill and long-lived assets for impairment. Actual results may differ from these estimates and these differences may be material.

***Revenue Recognition***

The Company generates revenues through the sale of games on traditional feature phones and smartphones and tablets, such as Apple’s iPhone and iPad and other mobile devices utilizing Google’s Android operating system. Feature phone games are distributed primarily through wireless carriers and smartphone games are distributed primarily through Digital Storefronts.

***Smartphone Revenue***

The Company distributes its games for smartphones and tablets to the end customer through Digital Storefronts. Within these Digital Storefronts, users can download the Company’s free-to-play games and pay to acquire virtual currency which can be redeemed in the game for virtual goods. The Company recognizes revenue, when persuasive evidence of an arrangement exists, the service has been provided to the user, the price paid by the user is fixed or determinable, and collectability is reasonably assured. Determining whether and when some of these criteria have been satisfied requires judgments that may have a significant impact on the timing and amount of revenue the Company reports in each period. For the purposes of determining when the service has been provided to the player, the Company has determined that an implied obligation exists to the paying user to continue displaying the purchased virtual goods within the game over the estimated average playing period of paying players for the game, which represents the Company’s best estimate of the estimated average life of virtual goods.

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The Company sells both consumable and durable virtual goods and receives reports from the Digital Storefronts, which breakdown the various purchases made from their games over a given time period. The Company reviews these reports to determine on a per-item basis whether the purchase was a consumable virtual good or a durable virtual good. Consumable goods are items consumed at a predetermined time or otherwise have limitations on repeated use, while durable goods are items accessible to the user over an extended period of time. The Company's revenues from consumable virtual goods have been immaterial over the previous three years and are one-time actions that can be purchased directly by the player through the Digital Storefront. The Company recognizes the revenues from these items immediately, since it believes that the delivery obligation has been met and there are no further implicit or explicit performance obligations related to the purchase of that consumable virtual good. Revenues from durable virtual goods are generated through the purchase of virtual coins by users through a Digital Storefront. Players convert the virtual coins within the game to durable virtual goods such as weapons, armor or other accessories to enhance their game-playing experience. The durable virtual goods remain in the game for as long as the player continues to play. The Company believes this represents an implied service obligation, and accordingly, recognizes the revenues from the purchase of these durable virtual goods over the estimated average playing period of paying users. Based on the Company's analysis, the estimated weighted average useful life of a paying user is approximately three months, and this estimate has been consistent since the Company's initial analysis. If a new game is launched and only a limited period of paying player data is available, then the Company also considers other qualitative factors, such as the playing patterns for paying users for other games with similar characteristics. While the Company believes its estimates to be reasonable based on available game player information, it may revise such estimates in the future as the games' operation periods change. Any adjustments arising from changes in the estimates of the lives of these virtual goods would be applied prospectively on the basis that such changes are caused by new information indicating a change in game player behavior patterns. Any changes in the Company's estimates of useful lives of these virtual goods may result in revenues being recognized on a basis different from prior periods' and may cause its operating results to fluctuate.

The Company also has relationships with certain advertising service providers for advertisements within smartphone games and revenue from these advertising providers is generated through impressions, clickthroughs, banner ads and offers. Revenue is recognized as advertisements are delivered and reported to the Company, an executed contract exists, the price is fixed or determinable and collectability has been reasonably assured. Delivery generally occurs when the advertisement has been displayed or the offer has been completed by the user. The fee received for certain offer advertisements that result in the user receiving virtual currency for redemption within a game are deferred and recognized over the average playing period of paying users.

### *Feature Phone Revenue*

The Company's feature phone revenues are derived primarily by licensing software products in the form of mobile games. The Company distributes its products primarily through mobile telecommunications service providers ("carriers"), which market the games to end users. License fees are usually billed by the carrier upon download of the game by the end user and are generally billed monthly. Revenues are recognized from the Company's games when persuasive evidence of an arrangement exists, the game has been delivered, the fee is fixed or determinable, and the collection of the resulting receivable is probable. Management considers a signed license agreement to be evidence of an arrangement with a carrier and a "clickwrap" agreement to be evidence of an arrangement with an end user. For these licenses, the Company defines delivery as the download of the game by the end user.

### *Other Estimates and Judgments*

The Company estimates revenues from carriers and Digital Storefronts in the current period when reasonable estimates of these amounts can be made. Certain carriers and Digital Storefronts provide reliable interim preliminary reporting and others report sales data within a reasonable time frame following the end of each month, both of which allow the Company to make reasonable estimates of revenues and therefore to recognize revenues during the reporting period. Determination of the appropriate amount of revenue recognized involves judgments and estimates that the Company believes are reasonable, but it is possible that actual results may differ from the Company's estimates. When the Company receives the final reports, to the extent not received within a reasonable time frame following the end of each month, the Company records any differences between estimated revenues and actual revenues in the reporting period when the Company determines the actual amounts. Historically, the revenues on the final revenue report have not differed significantly from the reported revenues for the period.

### *Principal Agent Considerations*

In accordance with ASC 605-45, *Revenue Recognition: Principal Agent Considerations*, the Company evaluates its carrier and Digital Storefront agreements in order to determine whether or not it is acting as the principal or as an agent when selling its games, which it considers in determining if revenue should be reported gross or net. The Company primarily uses Digital Storefronts for distributing its smartphone games, whereas carriers are used for distribution of the Company's feature phone games. Key indicators that the Company evaluates to reach this determination include:

- the terms and conditions of the Company's contracts with the carriers and the Digital Storefronts;
- the party responsible for billing and collecting fees from the end-users, including the resolution of billing disputes;

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- whether the Company is paid a fixed percentage of the arrangement’s consideration or a fixed fee for each game or transaction;
- the party which sets the pricing with the end-user, has the credit risk and provides customer support; and
- the party responsible for the fulfillment of the game and that determines the specifications of the game.

Based on the evaluation of the above indicators, the Company determined that it is generally acting as a principal and is the primary obligor to end-users for smartphone games distributed through digital storefronts and therefore recognizes revenue related to these arrangements on a gross basis. For feature phone games, the Company concluded that the carriers are the primary obligor and therefore recognizes revenue for the amounts due from the carriers on a net basis.

***Deferred Platform Commissions and Royalties***

Digital Storefronts retain platform commissions and fees on each purchase made by the paying players through the Digital Storefront. The Company is also obligated to pay ongoing licensing fees in the form of royalties related to the games developed based on intellectual property licensed from third parties. Additionally, certain smartphone games sold through digital storefronts require the revenue to be deferred due to an implied obligation to the paying player to continue displaying the purchased virtual goods within the game over the estimated average playing period of paying players for the game. As revenues from sales to paying players through Digital Storefronts are deferred, the related direct and incremental platform commissions and fees as well as third party royalties are also deferred and reported in “Prepaid expenses and other” on the consolidated balance sheets. The deferred platform commissions and royalties are recognized in the consolidated statements of operations in “Cost of revenues” in the period in which the related sales are recognized as revenues.

***Cash and Cash Equivalents***

The Company considers all investments purchased with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. The Company deposits cash and cash equivalents with financial institutions that management believes are of high credit quality. Deposits held with financial institutions often exceed the amount of insurance on these deposits.

***Restricted Cash***

Restricted cash consists of deposits related to letters of credit to secure obligations under the Company’s operating lease agreements.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents and accounts receivable.

The Company derives its accounts receivable from revenues earned from customers or through Digital Storefronts located in the U.S. and other locations outside of the U.S. The Company performs ongoing credit evaluations of its customers’ and the Digital Storefronts’ financial condition and, generally, requires no collateral from its customers or the Digital Storefronts. The Company bases its allowance for doubtful accounts on management’s best estimate of the amount of probable credit losses in the Company’s existing accounts receivable. The Company reviews past due balances over a specified amount individually for collectability on a monthly basis. It reviews all other balances quarterly. The Company charges off accounts receivable balances against the allowance when it determines that the amount will not be recovered.

The following table summarizes the revenues from customers or aggregate purchases through Digital Storefronts in excess of 10% of the Company’s revenues:

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Apple	50.1%	41.3%	26.5%
Google	19.2	20.3	—
Tapjoy	—	10.7	11.6

At December 31, 2013, Apple accounted for 46.3%, and Jirbo (dba AdColony) and Google each accounted for 11.1% of total accounts receivable. At December 31, 2012, Apple accounted for 44.3%, Kontagent, Inc. (successor-in-interest to Medium Entertainment, dba PlayHaven, with which Kontagent merged in December 2013) accounted for 13.2% and Google accounted for 10.8% of total accounts receivable. No other customer or Digital Storefront represented more than 10% of the Company’s total accounts receivable as of these dates.

### ***Fair Value***

The Company accounts for fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a three tier hierarchy, which prioritizes the inputs used in measuring fair value as follows:

**Level 1** - Quoted prices in active markets for identical assets or liabilities.

**Level 2** - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The first two levels in the hierarchy are considered observable inputs and the last is considered unobservable. The Company's cash and cash equivalents, which were held in operating bank accounts, are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Level 3 liabilities consist of acquisition-related non-current liabilities for contingent consideration (i.e., earnouts). Please refer to Note 4 for further details.

### ***Prepaid or Guaranteed Licensor Royalties***

The Company's royalty expenses consist of fees that it pays to branded content owners for the use of their intellectual property, including trademarks and copyrights, in the development of the Company's games. Royalty-based obligations are either paid in advance and capitalized on the balance sheet as prepaid royalties or accrued as incurred and subsequently paid. These royalty-based obligations are expensed to cost of revenues at the greater of the revenues derived from the relevant game multiplied by the applicable contractual rate or an effective royalty rate based on expected net product sales. Advanced license payments that are not recoupable against future royalties are capitalized and amortized over the lesser of the estimated life of the branded title or the term of the license agreement.

The Company's contracts with some licensors include minimum guaranteed royalty payments, which are payable regardless of the ultimate volume of sales to end users. In accordance with ASC 460-10-15, *Guarantees* ("ASC 460"), the Company recorded a minimum guaranteed liability of \$433 and zero as of December 31, 2013 and 2012, respectively. When no significant performance remains with the licensor, the Company initially records each of these guarantees as an asset and as a liability at the contractual amount. The Company believes that the contractual amount represents the fair value of the liability. When significant performance remains with the licensor, the Company records royalty payments as an asset when actually paid and as a liability when incurred, rather than upon execution of the contract. The Company classifies minimum royalty payment obligations as current liabilities to the extent they are contractually due within the next twelve months.

Each quarter, the Company evaluates the realization of its royalties as well as any unrecognized guarantees not yet paid to determine amounts that it deems unlikely to be realized through product sales. The Company uses estimates of revenues, cash flows and net margins to evaluate the future realization of prepaid royalties and guarantees. This evaluation considers multiple factors, including the term of the agreement, forecasted demand, game life cycle status, game development plans, and current and anticipated sales levels, as well as other qualitative factors such as the success of similar games and similar genres on mobile devices for the Company and its competitors and/or other game platforms (e.g., consoles, personal computers and Internet) utilizing the intellectual property and whether there are any future planned theatrical releases or television series based on the intellectual property. To the extent that this evaluation indicates that the remaining prepaid and guaranteed royalty payments are not recoverable, the Company records an impairment charge to cost of revenues in the period that impairment is indicated. The Company recorded impairment charges to cost of revenues of \$435, zero, and \$531 during the years ended December 31, 2013, 2012, and 2011, respectively.

### ***Goodwill and Intangible Assets***

In accordance with ASC 350, *Intangibles-Goodwill and Other* (“ASC 350”), the Company’s goodwill is not amortized but is tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Under ASC 350, the Company performs the annual impairment review of its goodwill balance as of September 30. This impairment review involves a multiple-step process as follows:

Step — 0 The Company evaluates qualitative factors and overall financial performance to determine whether it is necessary to perform the first step of the two-step goodwill test. This step is referred to as “Step 0.” Step 0 involves, among other qualitative factors, weighing the relative impact of factors that are specific to the reporting unit as well as industry and macroeconomic factors. After assessing those various factors, if it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity will need to proceed to the first step of the two-step goodwill impairment test.

Step — 1 The Company compares the fair value of each of its reporting units to the carrying value including goodwill of that unit. For each reporting unit where the carrying value, including goodwill, exceeds the unit’s fair value, the Company moves on to step 2. If a unit’s fair value exceeds the carrying value, no further work is performed and no impairment charge is necessary.

Step — 2 The Company performs an allocation of the fair value of the reporting unit to its identifiable tangible and intangible assets (other than goodwill) and liabilities. This allows the Company to derive an implied fair value for the unit’s goodwill. The Company then compares the implied fair value of the reporting unit’s goodwill with the carrying value of the unit’s goodwill. If the carrying amount of the unit’s goodwill is greater than the implied fair value of its goodwill, an impairment charge would be recognized for the excess.

In 2013 and 2011, the Company did not record any goodwill impairment charges as the fair values of the reporting units exceeded their respective carrying values. In 2012, the Company concluded that a portion of the goodwill attributed to the APAC reporting unit was impaired and recorded a \$3,613 impairment charge.

Purchased intangible assets with finite lives are amortized using the straight-line method over their useful lives ranging from one to nine years and are reviewed for impairment in accordance with ASC 360, *Property, Plant and Equipment* (“ASC 360”).

### ***Long-Lived Assets***

The Company evaluates its long-lived assets, including property and equipment and intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable in accordance with ASC 360. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets, significant negative industry or economic trends, and a significant decline in the Company’s stock price for a sustained period of time. The Company recognizes impairment based on the difference between the fair value of the asset and its carrying value. Fair value is generally measured based on either quoted market prices, if available, or a discounted cash flow analysis.

### ***Property and Equipment***

The Company states property and equipment at cost. The Company computes depreciation or amortization using the straight-line method over the estimated useful lives of the respective assets or, in the case of leasehold improvements, the lease term of the respective assets, whichever is shorter.

The depreciation and amortization periods for the Company’s property and equipment are as follows:

Computer equipment	Three years
Computer software	Three years
Furniture and fixtures	Three years
Leasehold improvements	Shorter of the estimated useful life or remaining term of lease

### ***Research and Development Costs***

The Company charges costs related to research, design and development of products to research and development expense as incurred. The types of costs included in research and development expenses include salaries, contractor fees and allocated facilities costs.

### ***Software Development Costs***

The Company applies the principles of ASC 985-20, *Software-Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* (“ASC 985-20”). ASC 985-20 requires that software development costs incurred in conjunction with product development be charged to research and development expense until technological feasibility is established. Thereafter, until the product is released for sale, software development costs must be capitalized and reported at the lower of unamortized cost or net realizable value of the related product. The Company has adopted the “tested working model” approach to establishing technological feasibility for its games. Under this approach, the Company does not consider a game in development to have passed the technological feasibility milestone until the Company has completed a model of the game that contains essentially all the functionality and features of the final game and has tested the model to ensure that it works as expected. To date, the Company has not incurred significant costs between the establishment of technological feasibility and the release of a game for sale; thus, the Company has expensed all software development costs as incurred. The Company considers the following factors in determining whether costs can be capitalized: the uncertainty regarding a game’s revenue-generating potential and its historical practice of canceling games at any stage of the development process.

### ***Internal Use Software***

The Company recognizes internal use software development costs in accordance with ASC 350-40, *Intangibles-Goodwill and Other-Internal Use Software* (“ASC 350-40”). Thus, the Company capitalizes software development costs, including costs incurred to purchase third-party software, beginning when it determines certain factors are present including, among others, that technology exists to achieve the performance requirements and/or buy versus internal development decisions have been made. The Company capitalized certain internal use software costs totaling approximately \$249, \$1,598 and \$1,787 during the years ended December 31, 2013, 2012, and 2011, respectively. The estimated useful life of costs capitalized is generally three years. During the years ended December 31, 2013, 2012 and 2011, the amortization of capitalized software costs totaled approximately \$1,097, \$1,014 and \$507, respectively. Capitalized internal use software development costs are included in property and equipment, net.

### ***Income Taxes***

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes* (“ASC 740”), which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in its financial statements or tax returns. Under ASC 740, the Company determines deferred tax assets and liabilities based on the temporary difference between the financial statement and tax bases of assets and liabilities using the enacted tax rates in effect for the year in which it expects the differences to reverse. The Company establishes valuation allowances when necessary to reduce deferred tax assets to the amount it expects to realize.

The Company accounts for uncertain tax positions in accordance with ASC 740, which requires companies to adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained. ASC 740 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company’s policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense.

### ***Restructuring***

The Company accounts for costs associated with employee terminations and other exit activities in accordance with ASC 420, *Exit or Disposal Cost Obligations* (“ASC 420”). The Company records employee termination benefits as an operating expense when it communicates the benefit arrangement to the employee and it requires no significant future services, other than a minimum retention period, from the employee to earn the termination benefits. In addition, termination benefits related to international employees are recognized when the amount of such termination benefits becomes estimable and payment is probable.

### ***Stock-Based Compensation***

The Company applies the fair value provisions of ASC 718, *Compensation-Stock Compensation* (“ASC 718”). ASC 718 requires the recognition of compensation expense, using a fair-value based method, for costs related to all share-based payments including stock options and restricted stock units (“RSUs”). ASC 718 requires companies to estimate the fair value of stock-option awards on the grant date using an option pricing model. The fair value of stock options and stock purchase rights granted pursuant to the Company’s equity incentive plans and 2007 Employee Stock Purchase Plan (“ESPP”), respectively, is determined using the Black-Scholes valuation model. The determination of fair value is affected by the stock price, as well as assumptions regarding subjective and complex variables such as expected employee exercise behavior and expected stock price volatility over the expected term of the award. Generally, these assumptions are based on historical information and judgment is required to determine if historical trends may be indicators of future outcomes. Employee stock-based compensation expense is calculated based on awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment to stock-based compensation expense will be recognized at that time. Changes to the assumptions used in the Black-Scholes option valuation calculation and the forfeiture rate, as well as future equity granted or assumed through acquisitions could significantly impact the compensation expense the Company recognizes. The cost of RSUs is determined using the fair value of the Company’s common stock based on the quoted closing price of the Company’s common stock on the date of grant, and is reduced for estimated forfeitures. The compensation cost for all share-based payment awards is amortized on a straight-line basis over the requisite service period.

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The Company has elected to use the “with and without” approach as described in determining the order in which tax attributes are utilized. As a result, the Company will only recognize a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized. In addition, the Company has elected to account for the indirect effects of stock-based awards on other tax attributes, such as the research tax credit, through its statement of operations.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of ASC 718 and ASC 505-50.

### ***Advertising Expenses***

The Company expenses the production costs of advertising, including direct response advertising, the first time the advertising takes place. Advertising expense was \$18,308, \$12,124 and \$6,114 in the years ended December 31, 2013, 2012 and 2011, respectively.

### ***Comprehensive Loss***

Comprehensive loss consists of two components, net loss and other comprehensive income/(loss). Other comprehensive income/(loss) refers to revenues, expenses, gains and losses that under GAAP are recorded as an element of stockholders’ equity but are excluded from net loss. The Company’s other comprehensive income/(loss) included foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, and a reclassification to net loss from the write-off of cumulative translation adjustment.

### ***Foreign Currency Translation***

In preparing its consolidated financial statements, the Company translated the financial statements of its foreign subsidiaries from their functional currencies, the local currency, into U.S. Dollars. This process resulted in unrealized exchange gains and losses, which are included as a component of accumulated other comprehensive loss within stockholders’ deficit. However, if the functional currency is deemed to be the U.S. Dollar, any gain or loss associated with the translation of these financial statements would be included within the Company’s consolidated statements of operations.

Cumulative foreign currency translation adjustments include any gain or loss associated with the translation of a subsidiary’s financial statements when the functional currency of a subsidiary is the local currency. If the Company disposes of any of its subsidiaries, any cumulative translation gains or losses would be realized and recorded within the Company’s consolidated statement of operations in the period during which the disposal occurs. If the Company determines that there has been a change in the functional currency of a subsidiary relative to the U.S. Dollar, any translation gains or losses arising after the date of change would be included within the Company’s consolidated statement of operations.

### ***Business Combination***

The Company applies the accounting standard related to business combinations, ASC 805, *Business Combinations* (“ASC 805”). The standard requires recognition of assets acquired, liabilities assumed, and contingent consideration at their fair value on the acquisition date with subsequent changes recognized in earnings; requires acquisition-related expenses and restructuring costs to be recognized separately from the business combination and expensed as incurred; requires in-process research and development to be capitalized at fair value as an indefinite-lived intangible asset until completion or abandonment; and requires that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for taxes.

The Company accounts for acquisitions of entities or assets that include inputs and processes and have the ability to create outputs as business combinations. The purchase price of the acquisition is allocated to tangible assets, liabilities, and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. Acquisition-related expenses and restructuring costs are expensed as incurred. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, these estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the preliminary purchase price allocation period, which may be up to one year from the business combination date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. After the preliminary purchase price allocation period, the Company records adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period in its operating results in the period in which the adjustments were determined.

**Recent Accounting Pronouncements**

In February 2013, the FASB issued ASU 2013-2, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance requires the presentation of the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The guidance is effective for fiscal years beginning after December 15, 2012. During the year ended December 31, 2013, the Company adopted this guidance and reclassified the accumulated translation adjustment related to its Brazilian subsidiary out of accumulated other comprehensive income to restructuring charge in the Company's consolidated statement of operations upon the substantially complete liquidation of the entity.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. This accounting guidance will not have a material impact on the Company's consolidated financial statements once adopted.

**NOTE 2 — NET LOSS PER SHARE**

The Company computes basic net loss per share by dividing its net loss for the period by the weighted average number of common shares outstanding during the period less the weighted average unvested common shares subject to restrictions by the Company.

	Year Ended December 31,		
	2013	2012	2011
Net loss	\$(19,909)	\$(20,459)	\$(21,101)
Basic and diluted shares:			
Weighted average common shares outstanding	71,543	64,932	57,834
Weighted average unvested common shares subject to restrictions	(90)	(614)	(316)
Weighted average shares used to compute basic and diluted net loss per share	71,453	64,318	57,518
Net loss per share — basic and diluted	\$ (0.28)	\$ (0.32)	\$ (0.37)

The following weighted average outstanding options, RSUs, and warrants to purchase common stock and unvested shares of common stock subject to restrictions have been excluded from the computation of diluted net loss per share of common stock for the periods presented because including them would have had an anti-dilutive effect:

	Year Ended December 31,		
	2013	2012	2011
Warrants to purchase common stock	3,310	4,187	5,344
Unvested common shares subject to restrictions	90	614	316
Options to purchase common stock	10,646	10,321	8,112
RSUs	936	—	—
	14,982	15,122	13,772

**NOTE 3 — BUSINESS COMBINATIONS****Acquisition of GameSpy Industries, Inc.**

On August 2, 2012, the Company completed the acquisition of GameSpy Industries, Inc. ("GameSpy") pursuant to an Agreement and Plan of Merger (the "GameSpy Merger Agreement") by and among the Company, Galileo Acquisition Corp., a California corporation and wholly owned subsidiary of the Company ("Galileo"), IGN Entertainment, Inc. ("IGN") and GameSpy. GameSpy, which is based in California, provides technology and services for multiplayer and server-based gaming. The Company acquired GameSpy as part of its efforts to enhance the monetization and retention of the Company's players by incorporating GameSpy's expertise in community functionality, synchronous multiplayer and asynchronous player versus player mechanics into the Company's games.

Pursuant to the terms of the GameSpy Merger Agreement, the Company issued to IGN, as GameSpy's sole shareholder, in exchange for all of the issued and outstanding shares of GameSpy capital stock, a total of 600 shares of the Company's common stock, for consideration of approximately \$2,796, based on the \$4.66 closing price of the Company's common stock on The NASDAQ Global Market on August 2, 2012; 90 shares of which continue to be held in escrow as security pending resolution of an indemnification claim made by the Company under the GameSpy Merger Agreement. In addition, the Company, GameSpy and IGN entered into a Transition Services Agreement, pursuant to which IGN will provide to the Company and GameSpy certain backend data center transition services related to GameSpy's private cloud storage infrastructure for up to two years following the acquisition.

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The allocation of the GameSpy purchase price was based upon valuations for certain assets acquired and liabilities assumed. The valuation was based upon calculations and valuations, and the Company's estimates and assumptions are subject to change as the Company obtains additional information for its estimates during the respective measurement periods (up to one year from the acquisition date). The following table summarizes the fair values of assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:	
Cash	\$ 913
Accounts receivable, net	1,695
Property and equipment	485
Intangible assets:	
Customer contracts and related relationships	250
Titles, content and technology	1,300
Goodwill	1,096
Total assets acquired	<u>5,739</u>
Liabilities assumed:	
Other accrued liabilities	(689)
Deferred revenue	(1,684)
Deferred tax liability	(570)
Total liabilities acquired	<u>(2,943)</u>
Net acquired assets	<u>\$ 2,796</u>

Acquisition-related intangibles included in the above table are finite-lived and are being amortized on a straight-line basis over their estimated lives of two to three years, which approximates the pattern in which the economic benefits of the intangible assets are expected to be realized.

In connection with the acquisition of GameSpy, the Company recorded net deferred tax liabilities of \$570, with a corresponding adjustment to goodwill. These deferred taxes were primarily related to identifiable intangible assets and net operating losses.

The Company allocated the residual value of \$1,096 to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with ASC 350, *Intangibles – Goodwill and Other* (“ASC 350”), goodwill will not be amortized but will be tested for impairment at least annually. Goodwill created as a result of the GameSpy acquisition is not deductible for tax purposes.

#### ***Acquisition of Griptonite, Inc.***

On August 2, 2011, the Company completed the acquisition of Griptonite, Inc., a Washington corporation (“Griptonite”) and formerly a wholly owned subsidiary of Foundation 9 Entertainment, Inc., a Delaware corporation (“Foundation 9”), pursuant to an Agreement and Plan of Merger, as amended on August 15, 2011 (the “Merger Agreement”), by and among the Company, Granite Acquisition Corp., a Washington corporation and wholly owned subsidiary of the Company (“Sub”), Foundation 9 and Griptonite. Pursuant to the terms of the Merger Agreement, Sub merged with and into Griptonite in a statutory reverse triangular merger (the “Merger”), with Griptonite surviving the Merger as a wholly owned subsidiary of the Company. Griptonite, which is based in Bellevue, Washington, is a developer of games for advanced platforms, including handheld devices. The Company acquired Griptonite to increase its studio development capacity and augment its existing development efforts to accelerate the introduction of new titles on smartphones and tablets.

In connection with the Merger, the Company issued to Foundation 9, as Griptonite's sole shareholder, in exchange for all of the issued and outstanding shares of Griptonite capital stock, a total of 6,106 shares of the Company's common stock, for consideration of approximately \$28,088, using the \$4.60 closing price of the Company's common stock on The NASDAQ Global Market on August 2, 2011. 600 of the initial shares that were held in escrow to satisfy potential indemnification claims under the Merger Agreement were released on November 2, 2012. In addition, the Company may be required to issue additional shares (not to exceed 5,302 shares) or in specified circumstances pay additional cash (i) in satisfaction of indemnification obligations in the case of breaches of the Company's and Sub's representations, warranties and covenants in the Merger Agreement or (ii) pursuant to potential working capital adjustments.

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The allocation of the Griptonite purchase price was based upon valuations for certain assets acquired and liabilities assumed. The following table summarizes the fair values of assets acquired and liabilities assumed at the date of acquisition:

<b>Assets acquired:</b>	
Cash	\$ 10,300
Accounts receivable	1,558
Prepaid and other current assets	1,028
Property and equipment	796
Other long term assets	33
<b>Intangible assets:</b>	
Non-compete agreements	3,200
Developed Technology	2,500
Goodwill	12,670
<b>Total assets acquired</b>	<b><u>32,085</u></b>
<b>Liabilities assumed:</b>	
Accounts payable and other accrued liabilities	(1,226)
Deferred tax liability and other long-term liabilities	(2,771)
<b>Total liabilities</b>	<b><u>(3,997)</u></b>
<b>Net acquired assets</b>	<b><u>\$ 28,088</u></b>

Acquisition-related intangibles included in the above table are finite-lived and are being amortized on a straight-line basis over their estimated lives ranging from three months to two years which approximates the pattern in which the economic benefits of the intangible assets are realized.

The Company allocated the residual value of \$12,670 to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with ASC 350, goodwill will not be amortized but will be tested for impairment at least annually. Goodwill created as a result of the Griptonite acquisition is not deductible for tax purposes.

#### *Assumption of Griptonite Lease*

In connection with the Merger, the Company assumed lease obligations related to the premises located in Kirkland, Washington (the “Prior Griptonite Lease”). The Griptonite Lease covered approximately 54 rentable square feet and terminated on September 30, 2013. As part of the 2011 purchase accounting adjustments for Griptonite, the Company eliminated the existing deferred rent balance and recorded a fair value adjustment to reflect the current market value of the unfavorable operating lease commitment. The fair value of the unfavorable operating lease obligation was zero and \$477, respectively, as of December 31, 2013 and 2012. This lease terminated in September 2013 and the Company entered into a new lease in Bellevue, Washington, which has been included in the future lease obligations disclosed in Note 7.

#### *Acquisition of Blammo Games Inc.*

On August 1, 2011, the Company completed the acquisition of Blammo Games Inc. (“Blammo”), by entering into a Share Purchase Agreement (the “Share Purchase Agreement”) by and among the Company, Blammo and each of the owners of the outstanding share capital of Blammo (the “Sellers”). Blammo is a developer of freemium games located in Toronto, Canada.

Pursuant to the terms of the Share Purchase Agreement, the Company purchased from the Sellers all of the issued and outstanding share capital of Blammo (the “Share Purchase”), and in exchange for such Blammo share capital, the Company (i) issued to the Sellers, in the aggregate, 1,000 shares of the Company’s common stock (the “Initial Shares”), which resulted in initial consideration of \$5,070 using the \$5.07 closing price of the Company’s common stock on The NASDAQ Global Market on August 1, 2011, and (ii) agreed to issue to the Sellers, in the aggregate, up to an additional 3,313 shares of the Company’s common stock (the “Additional Shares”) if Blammo achieves certain Net Revenue targets, as more fully described in Note 4. 100 of the Initial Shares that were held in escrow to satisfy potential indemnification claims under the Share Purchase Agreement were released on August 1, 2012.

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The allocation of the Blammo purchase price was based upon valuations for certain assets acquired and liabilities assumed. The following table summarizes the fair values of assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:	
Cash and other assets	\$ 69
Intangible assets:	
Non-compete agreements	1,400
In-process research and development	300
Goodwill	4,309
Total assets acquired	<u>6,078</u>
Liabilities assumed:	
Accounts payable and other accrued liabilities	(287)
Other long-term liabilities	(721)
Total liabilities	<u>(1,008)</u>
Net acquired assets	<u>\$ 5,070</u>

Acquisition-related intangibles included in the above table are finite-lived and are being amortized on a straight-line basis over their estimated lives ranging from one to four years which approximates the pattern in which the economic benefits of the intangible assets are realized.

In connection with the acquisition of Blammo, in 2011, the Company recorded net deferred tax liabilities of \$416, with a corresponding adjustment to goodwill. These deferred taxes were primarily related to identifiable intangible assets and net operating losses.

The Company allocated the residual value of \$4,309 to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with ASC 350, goodwill will not be amortized but will be tested for impairment at least annually. Goodwill created as a result of the Blammo acquisition is not deductible for tax purposes.

### **Valuation Methodology**

The Company engaged a third-party valuation firm to aid management in its analyses of the fair value of GameSpy, Griptonite and Blammo. All estimates, key assumptions and forecasts were either provided by or reviewed by the Company. While the Company chose to utilize a third-party valuation firm, the fair value analyses and related valuations represent the conclusions of management and not the conclusions or statements of any third party.

Intangible assets acquired consist of non-compete agreements, customer contracts, acquired technology and in-process research and development (“IPR&D”).

The Blammo and Griptonite non-compete agreements were valued using the loss of income method, which is an income approach. Two separate cash flows were prepared, one to model the cash flow with the non-compete agreements in place, and one without the agreements. The difference between the debt-free cash flow of the two models was then discounted to present value using the discount rate of 25%.

In the valuation of Griptonite’s developed technology, the replacement cost method of the cost approach was used. Although the Company does not expect to use the acquired technology, it was deemed likely that a market participant would perceive value in acquiring and integrating these technologies into their own platforms. The value was determined based on the engineering costs to replace or recreate the developed technology. Key assumptions used included, work hours to recreate, costs per month and remaining total and economic life.

As of the valuation date, Blammo was in the process of developing one game, which was launched in December 2011. The Company estimated that the majority of the revenues associated with this game would be generated in 2012 and 2013. The fair value was calculated using the multi-period excess earning method of the income approach, and significant assumptions used included the discount rate, forecasted revenues, forecasted cost of goods sold and forecasted operating expense. The Company capitalized approximately \$300 of IPR&D costs associated with the above game at the acquisition date. These costs were reclassified to “*Titles, Content and Technology*” in the fourth quarter of 2011 upon launch of the game and amortized over the estimated life of the game of two years.

In the valuation of GameSpy customer contracts, these contracts were valued over their remaining terms, which included consideration of moderate anticipated renewals and is consistent with market participant considerations. These contracts were fair valued using the Multi-Period Excess Earnings (“MPEE”) method of the income approach and key assumptions used included: projected revenue and operating expenses for GameSpy’s remaining contracts, the remaining contractual period of the contracts and a discount rate of 14%. The Company valued developed technology using the replacement cost method of the cost approach and based on the perceived value that a market participant would ascribe to the GameSpy technology, which allows for hosting multi-player games on mobile devices and other platforms. Key assumptions used included fully burdened headcount spending information. As of the valuation date, the fair value of GameSpy’s deferred revenue was \$1,684, which reflects the costs including hosting fees, salaries and benefits, equipment and facilities to support the contractual obligations associated with these revenues, plus a market participant margin. The deferred revenue will be recognized on a straight-line basis over 24 months.

### ***Pro Forma Financial Information (unaudited)***

The results of operations for GameSpy, Griptonite and Blammo and the estimated fair market values of the assets acquired and liabilities assumed have been included in the Company's consolidated financial statements since the date of each acquisition. During 2011, Griptonite contributed approximately \$825 to the Company's net revenue and increased net losses by \$9,511. The results of the acquisitions resulted in an increase to the Company's net loss due to lower revenue generated from the work-for-hire contracts that were substantially completed during 2011 and due to the amortization of acquired identified intangible assets.

The unaudited pro forma financial information in the table below summarizes the combined results of the Company's operations and those of Griptonite for the periods shown as if the acquisition of Griptonite had occurred on January 1, 2011. The pro forma financial information includes the business combination accounting effects of the acquisition, including amortization charges from acquired intangible assets. The pro forma financial information presented below is for informational purposes only, and is subject to a number of estimates, assumptions and other uncertainties. In addition, the pro forma financial information presented below does not include the unaudited financial information of Blammo and GameSpy, since these were not material.

	<b>Year Ended December 31, 2011</b>
Total pro forma revenues	\$ 84,704
Pro forma net loss	(21,256)
Pro forma net loss per share — basic and diluted	(0.35)

All of the goodwill related to the GameSpy, Blammo and Griptonite transactions was assigned to the Company's Americas reporting unit. See Note 6 for additional information related to the changes in the carrying amount of goodwill.

### **NOTE 4 — FAIR VALUE MEASUREMENTS**

#### ***Fair Value Measurements***

The Company's cash and cash equivalents, which were held in operating bank accounts, are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. As of December 31, 2013 and December 31, 2012, the Company had \$28,496 and \$22,325, respectively, in cash and cash equivalents. In addition, the Company's restricted cash is classified within Level 1 of the fair value hierarchy. The carrying value of accounts receivable and payables approximates fair value due to the short time to expected receipt of payment or cash.

#### ***Liabilities for Contingent Consideration***

On May 16, 2013, the Company issued 742 shares of common stock to the former Blammo shareholders based on the Net Revenue that Blammo achieved for its fiscal year ended March 31, 2013. Since the contingency related to the number of shares earned in connection with the target for the year ended March 31, 2013 was resolved and the number of shares became fixed as of March 31, 2013, the fair value of these shares as then last remeasured in the amount of \$2,263 has been presented in additional paid-in capital in the Company's consolidated balance sheet since March 31, 2013. The remaining Additional Shares will be issued to the Sellers if, and to the extent that, Blammo achieves certain Net Revenue performance targets as follows: (i) for fiscal 2014 (April 1, 2013 through March 31, 2014), (a) 417 Additional Shares will be issued to the Sellers if, and only in the event that, Blammo meets its Baseline Net Revenue goal for such fiscal year, and (b) up to an additional 833 Additional Shares will be issued to the Sellers to the extent that Blammo exceeds its Baseline Net Revenue goal and meets its Upside Net Revenue goal for such fiscal year, and (ii) for fiscal 2015 (April 1, 2014 through March 31, 2015), (a) no Additional Shares will be issued to the Sellers if Blammo does not meet its Baseline Net Revenue goal for such fiscal year and (b) up to 1,154 Additional Shares will be issued to the Sellers to the extent that Blammo exceeds its Baseline Net Revenue goal and meets its Upside Net Revenue goal for such fiscal year. To the extent that Blammo meets its Baseline Net Revenue goal for a fiscal year but does not meet its Upside Net Revenue goal for such fiscal year, Additional Shares will be issued to the Sellers on a straight-line basis based on the amount by which Blammo exceeded the Baseline Net Revenue goal. Blammo's Baseline and Upside Net Revenue goals for fiscal 2014 and 2015 are as follows:

<b>Fiscal Year</b>	<b>Baseline Net Revenue</b>	<b>Upside Net Revenue</b>
Fiscal 2014	\$ 5,500	\$ 10,000
Fiscal 2015	\$ 8,500	\$ 15,000

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Three of the five Sellers are also employees of Blammo. If any of these employee Sellers voluntarily terminates his employment with Blammo (other than because of a disability that prevents him from performing his job) or if the Company or Blammo terminates such Seller's employment for Cause (as defined in the Share Purchase Agreement), then such Seller will be eligible to receive Additional Shares if and when such Additional Shares are earned as described above only with respect to the fiscal year in which such termination of employment occurs (and all previous fiscal years to the extent applicable), but not with respect to any Additional Shares issued in any subsequent fiscal year. In such an event, the Additional Shares that such Seller would have otherwise received will be forfeited and will not be issued by the Company or distributed to the other Sellers, but the other Sellers' rights to receive Additional Shares will not otherwise be affected. The fair value of the contingent consideration issued to the three Sellers who are also employees of Blammo is not considered part of the purchase price, since vesting is contingent upon these employees' continued service during the earn-out periods. The Company records the contingent consideration issued to these employees as a compensation expense over the earn-out period of one to three years. See Note 9 for further details. In accordance with ASC 805, *Business Combinations*, non-employee contingent consideration issued to the two Sellers who are not employees of Blammo was recorded as part of the purchase accounting and is fair valued at each subsequent reporting period. The total fair value of the non-employee contingent consideration liability has been estimated at \$68 and \$412 as of December 31, 2013 and December 31, 2012, respectively. During the years ended December 31, 2013 and 2012, the Company recorded fair value expense adjustments of \$7 and \$167, respectively, which represent the changes in fair value of the non-employee contingent consideration for both respective periods. In accordance with ASC 805, changes in the fair value of non-employee contingent consideration are recognized in general and administrative expense in the Company's consolidated statements of operations.

Level 3 liabilities consist of acquisition-related liabilities for contingent consideration (i.e., earnouts) related to the acquisition of Blammo. As of December 31, 2012, the Company recorded a contingent consideration liability of \$2,512, of which \$1,855 was recorded as a current liability in accrued compensation as settlement was less than one year. As of December 31, 2013, the Company recorded a contingent consideration liability of \$427, of which \$329 was recorded as a current liability in accrued compensation as settlement is less than one year. The Company uses a risk-neutral framework to estimate the probability of achieving the revenue targets set forth above for each year. The fair value of the contingent consideration was determined using a digital option, which captures the present value of the expected payment multiplied by the probability of reaching the revenue targets for each year. Key assumptions for the year ended December 31, 2013 included a discount rate of 35.0%, volatility of 35.0%, risk-free interest rates of between 0.07% and 0.19% and probability-adjusted revenue levels. Key assumptions for the year ended December 31, 2012 included a discount rate of 35.0%, volatility of 38.0%, risk-free rates of between 0.05% and 0.28% and probability-adjusted revenue levels. Probability-adjusted revenue is a significant input that is not observable in the market, which ASC 820 refers to as a Level 3 input.

#### NOTE 5 — BALANCE SHEET COMPONENTS

##### *Accounts Receivable*

	December 31,	
	2013	2012
Accounts receivable	\$18,764	\$ 12,313
Less: Allowance for doubtful accounts	(459)	(432)
	<u>\$ 18,305</u>	<u>\$ 11,881</u>

Accounts receivable include amounts billed and unbilled as of the respective balance sheet dates, but net of platform commissions to our digital storefronts.

The movement in the Company's allowance for doubtful accounts is as follows:

Description	Balance at	Additions	Deductions	Balance at
	Beginning of			End of
	Year			Year
Year ended December 31, 2013	\$ 432	\$ 51	\$ 24	\$ 459
Year ended December 31, 2012	\$ 800	\$ 202	570	\$ 432
Year ended December 31, 2011	\$ 504	\$ 390	94	\$ 800

The Company had no significant write-offs or recoveries during the years ended December 31, 2013, 2012, and 2011.

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*Prepaid expenses and other*

	December 31,	
	2013	2012
Deferred platform commission fees	4,516	2,680
Prepaid royalties	740	—
Prepays and other	2,407	2,487
	<u>\$7,663</u>	<u>5,167</u>

*Property and Equipment*

	December 31,	
	2013	2012
Computer equipment	\$ 6,134	\$ 6,255
Furniture and fixtures	862	566
Software	6,290	6,304
Leasehold improvements	2,768	2,227
	<u>16,054</u>	<u>15,352</u>
Less: Accumulated depreciation and amortization	(10,958)	(10,326)
	<u>\$ 5,096</u>	<u>\$ 5,026</u>

Depreciation and amortization for the years ended December 31, 2013, 2012 and 2011 were \$2,707, \$2,368 and \$1,846, respectively.

*Other Long-Term Liabilities*

	December 31,	
	2013	2012
Uncertain tax position obligations	\$ 890	\$3,859
Deferred income tax liability	122	647
Contingent earnout liability	98	657
Deferred rent and other	1,247	1,027
	<u>\$2,357</u>	<u>\$6,190</u>

**NOTE 6 — GOODWILL AND INTANGIBLE ASSETS**

*Intangible Assets*

The Company's intangible assets were acquired primarily in connection with the acquisitions of MacroSpace in 2004, iPhone in 2006, MIG in 2007, Superscape in 2008, Griptonite and Blammo in 2011 and GameSpy in 2012, as well as in connection with the purchase of the Deer Hunter trademark and brand assets from Atari, Inc. ("Atari") in 2012. The carrying amounts and accumulated amortization expense of the acquired intangible assets, including the impact of foreign currency exchange translation, at December 31, 2013 and December 31, 2012 were as follows:

	Estimated Useful Life	December 31, 2013			December 31, 2012		
		Gross Carrying Value (Including Impact of Foreign Exchange)	Accumulated Amortization Expense (Including Impact of Foreign Exchange)	Net Carrying Value (Including Impact of Foreign Exchange)	Gross Carrying Value (Including Impact of Foreign Exchange)	Accumulated Amortization Expense (Including Impact of Foreign Exchange)	Net Carrying Value (Including Impact of Foreign Exchange)
<b>Intangible assets amortized to cost of revenues:</b>							
Titles, content and technology	2 yrs	\$12,851	(12,165)	\$ 686	\$ 12,781	\$ (11,518)	\$ 1,263
Catalogs	1 yr	1,283	(1,283)	—	1,257	(1,257)	—
ProvisionX Technology	6 yrs	211	(211)	—	207	(207)	—
Carrier contract and related relationships	5 yrs	19,940	(19,645)	295	19,585	(16,421)	3,164
Licensed content	5 yrs	3,040	(3,040)	—	2,952	(2,952)	—
Service provider license	9 yrs	482	(324)	158	467	(262)	205
Trademarks	7 yrs	5,230	(1,480)	3,750	5,225	(760)	4,465
		<u>43,037</u>	<u>(38,148)</u>	<u>4,889</u>	<u>42,474</u>	<u>(33,377)</u>	<u>9,097</u>
<b>Other intangible assets amortized to operating expenses:</b>							
Emux Technology	6 yrs	1,368	(1,368)	—	1,341	(1,341)	—
Noncompete agreements	4 yrs	5,452	(4,742)	710	5,187	(3,395)	1,792
		<u>6,820</u>	<u>(6,110)</u>	<u>710</u>	<u>6,528</u>	<u>(4,736)</u>	<u>1,792</u>

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Total intangibles assets	<u>\$49,857</u>	<u>\$ (44,258)</u>	<u>\$ 5,599</u>	<u>\$ 49,002</u>	<u>\$ (38,113)</u>	<u>\$10,889</u>
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The Company has included amortization of acquired intangible assets directly attributable to revenue-generating activities in cost of revenues. The Company has included amortization of acquired intangible assets not directly attributable to revenue-generating activities in operating expenses. The Company acquired approximately \$1,550 of intangible assets as part of the GameSpy acquisition in the third quarter of 2012. The Company acquired approximately \$7,400 of intangible assets as part of the Griptonite and Blammo acquisitions in the third quarter of 2011, which includes approximately \$300 of Blammo IPR&D that was reclassified as “Titles, Content and Technology” in the fourth quarter of 2011; see Note 3 for further details.

On April 1, 2012, the Company acquired from Atari its Deer Hunter trademark and associated domain names and also took a license to the other intellectual property associated with the Deer Hunter brand for total consideration of \$5,000 in cash. The license agreement pursuant to which the Company licensed the other intellectual property associated with the Deer Hunter brand has a term equal to the longer of (i) 99 years and (ii) the expiration of the copyrights in and copyrightable elements of the Deer Hunter intellectual property assets. The acquisition price has been recorded as acquired intangible assets and classified within “Trademarks” in the above table and will be amortized over the estimated useful life of seven years.

During the years ended December 31, 2013, 2012 and 2011, the Company recorded amortization expense in the amounts of \$4,238, \$3,783 and \$5,447, respectively, in cost of revenues. During the years ended December 31, 2013, 2012 and 2011, the Company recorded amortization expense in the amounts of \$1,336, \$1,980 and \$825, respectively, in operating expenses. The Company recorded no impairment charges during the years ended December 31, 2013, 2012 and 2011.

As of December 31, 2013, the total expected future amortization related to intangible assets was as follows:

<u>Period Ending December 31,</u>	<u>Amortization Included in Cost of Revenues</u>	<u>Amortization Included in Operating Expenses</u>	<u>Total Amortization Expense</u>
2014	\$ 1,496	\$ 508	\$ 2,004
2015	1,021	202	1,223
2016	766	—	766
2017	714	—	714
2018 and thereafter	892	—	892
	<u>\$ 4,889</u>	<u>\$ 710</u>	<u>\$ 5,599</u>

### **Goodwill**

The Company has goodwill attributable to its MIG, GameSpy, Blammo and Griptonite acquisitions as of December 31, 2013. The Company attributed all of the goodwill resulting from the MIG acquisition to its Asia and Pacific (“APAC”) reporting unit. The Company acquired \$17,044 and \$1,031 of goodwill during 2011 and 2012 respectively as part of the GameSpy, Blammo and Griptonite acquisitions, which was fully assigned to its Americas reporting unit; see Note 3 for further details. The Company had fully impaired in prior years all goodwill allocated to its EMEA reporting unit. The goodwill allocated to the Americas reporting unit is denominated in U.S. Dollars (“USD”) and the goodwill allocated to the APAC reporting unit is denominated in Chinese Renminbi (“RMB”). As a result, the goodwill attributed to the APAC reporting unit is subject to foreign currency fluctuations.

In the valuation of the goodwill balance for Griptonite, Blammo, MIG and GameSpy, the Company gave consideration to the future economic benefits of other assets that were not individually identified or separately recognized. The acquired studio workforce for each of these acquisitions was estimated to have value, and since the acquired workforce is not individually identified or separately recognized, it was subsumed within the goodwill recognized as part of each business combination. The Company further planned to leverage its preexisting contractual relationships with Digital Storefronts to distribute new titles developed by the Griptonite and Blammo studios and the expected synergies are reflected in the value of the goodwill recognized. The Company also used the GameSpy acquired workforce and expertise to help in its development efforts for its games-as-a-service technology platform, and these synergies are reflected in the value of goodwill recognized.

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Goodwill by geographic region is as follows:

	December 31, 2013				December 31, 2012			
	Americas	EMEA	APAC	Total	Americas	EMEA	APAC	Total
Balance as of January 1								
Goodwill	\$ 42,946	\$ 25,354	\$ 24,251	\$ 92,551	\$ 41,915	\$ 25,354	\$ 24,220	\$ 91,489
Accumulated Impairment Losses	(24,871)	(25,354)	(22,886)	(73,111)	(24,871)	(25,354)	(19,273)	(69,498)
	18,075	—	1,365	19,440	17,044	—	4,947	21,991
Goodwill Acquired during the year	—	—	—	—	1,031	—	—	1,031
Effects of Foreign Currency Exchange	—	—	45	45	—	—	31	31
Impairment Losses	—	—	—	—	—	—	(3,613)	(3,613)
Balance as of period ended:	18,075	—	1,410	19,485	18,075	—	1,365	19,440
Goodwill	42,946	25,354	24,296	92,596	42,946	25,354	24,251	92,551
Accumulated Impairment Losses	(24,871)	(25,354)	(22,886)	(73,111)	(24,871)	(25,354)	(22,886)	(73,111)
Balance as of period ended:	\$ 18,075	\$ —	\$ 1,410	\$ 19,485	\$ 18,075	\$ —	\$ 1,365	\$ 19,440

In accordance with ASC 350, the Company's goodwill is not amortized but is tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Under ASC 350, the Company performs the annual impairment review of its goodwill balance as of September 30 or more frequently if triggering events occur.

The Company evaluates qualitative factors and overall financial performance to determine whether it is necessary to perform the first step of the multiple-step goodwill test. This step is referred to as "Step 0." Step 0 involves, among other qualitative factors, weighing the relative impact of factors that are specific to the reporting unit as well as industry and macroeconomic factors. After assessing those various factors, if it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity will need to proceed to the first step of the goodwill impairment test. ASC 350 requires a multiple-step approach to testing goodwill for impairment for each reporting unit annually, or whenever events or changes in circumstances indicate the fair value of a reporting unit is below its carrying amount. The first step measures for impairment by applying the fair value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying the fair value-based tests to individual assets and liabilities within each reporting unit. The fair value of the reporting units is estimated using a combination of the market approach, which utilizes comparable companies' data, and/or the income approach, which uses discounted cash flows.

The Company has three reporting units comprised of the 1) Americas, 2) EMEA and 3) APAC regions. As of December 31, 2013, the Company had goodwill attributable to the APAC and Americas reporting units. The cash flows of these reporting units reflect the income and expenses of assets directly employed by, and liabilities related to, the operations of the reporting unit, including revenue related to local contractual relationships, but excludes revenue related to global contractual relationships such as Digital Storefronts which are owned by the U.S. and allocated directly to the Americas reporting unit. During the third quarter of 2013, the Company performed a Step 0 qualitative assessment for its Americas, EMEA, and APAC reporting units. Based on this assessment, the Company concluded that it was more likely than not that the fair value of each of the reporting units was greater than their carrying amounts, and, as a result, did not proceed to further impairment testing. In 2012, the Company concluded that a portion of the goodwill attributed to the APAC reporting unit was impaired and recorded a \$3,613 impairment charge. In 2011, the Company did not record any goodwill impairment charges as the fair values of the reporting units exceeded their respective carrying values.

**NOTE 7 — COMMITMENTS AND CONTINGENCIES**

**Leases**

The Company leases office space under non-cancelable operating facility leases with various expiration dates through September 2020. Rent expense for the years ended December 31, 2013, 2012 and 2011 was \$3,380, \$2,704 and \$2,237, respectively. The terms of the facility leases provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid. The deferred rent balance was \$1,131 and \$632 at December 31, 2013 and 2012, respectively, and was included within other long-term liabilities.

In April 2013, the Company entered into a sublease for 29 square feet of office space for its new San Francisco headquarters. The term of the sublease began on May 23, 2013 and will expire on March 31, 2018. The Company provided the sub-landlord a letter of credit in the amount of \$1,230 to secure its obligations under the lease. Cash deposited as a security to the letter of credit has been classified as restricted cash on the Company's consolidated balance sheet as of December 31, 2013.

In June 2013, the Company entered into a lease for 18 square feet of office space at its new location in Bellevue, Washington. The term of the lease began on September 23, 2013 and will expire on September 30, 2020, unless the Company exercises its right to early terminate the lease effective as of September 30, 2017. The Company provided the landlord a letter of credit in the amount of \$500 to secure its obligations under the lease and this amount has been classified as restricted cash on the Company's consolidated balance sheet as December 31, 2013. In addition, the Company has provided the landlord with a guarantee of lease to guarantee the obligations under the new Griptonite lease.

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At December 31, 2013, future minimum lease payments under non-cancelable operating leases were as follows:

<u>Period Ending December 31,</u>	<u>Minimum Operating Lease Payments</u>
2014	\$ 3,915
2015	4,032
2016	3,422
2017	2,668
2018	920
2019 and thereafter	982
	<u>\$15,939</u>

### ***Minimum Guaranteed Royalties and Developer Commitments***

The Company has entered into license and publishing agreements with various owners of brands and other intellectual property to develop and publish games for mobile devices. Pursuant to some of these agreements, the Company is required to pay minimum royalties or license fees over the term of the agreement regardless of actual game sales. Future minimum royalty payments as of December 31, 2013 were \$698.

The Company also from time to time contracts with various external software developers (“third-party developers”) to design and develop its games. The Company advances funds to these third-party developers, in installments, payable upon the completion of specified development milestones. Future developer commitments as of December 31, 2013 were \$353, which are due over the next twelve months. These developer commitments reflect the Company’s minimum cash obligations but do not necessarily represent the periods in which they will be expensed. The Company expenses developer commitments as services are provided.

### ***Income Taxes***

As of December 31, 2013, unrecognized tax benefits and potential interest and penalties are classified within “Other long-term liabilities” on the Company’s consolidated balance sheets. As of December 31, 2013, the settlement of the Company’s income tax liabilities could not be determined; however, the liabilities are not expected to become due within the next 12 months.

### ***Indemnification Arrangements***

The Company has entered into agreements under which it indemnifies each of its officers and directors during his or her lifetime for certain events or occurrences while the officer or director is or was serving at the Company’s request in that capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. Accordingly, the Company had recorded no liabilities for these agreements as of December 31, 2013 or 2012.

In the ordinary course of its business, the Company includes standard indemnification provisions in most of its license agreements with carriers and other distributors. Pursuant to these provisions, the Company generally indemnifies these parties for losses suffered or incurred in connection with its games, including as a result of intellectual property infringement and viruses, worms and other malicious software. The term of these indemnity provisions is generally perpetual after execution of the corresponding license agreement, and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions is generally unlimited. The Company has never incurred costs to defend lawsuits or settle indemnified claims of these types. As a result, the Company believes the estimated fair value of these indemnity provisions is minimal. Accordingly, the Company had recorded no liabilities for these provisions as of December 31, 2013 or 2012.

### ***Contingencies***

From time to time, the Company is subject to various claims, complaints and legal actions in the normal course of business. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using available information. The Company’s estimate of losses is developed in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. After taking all of the above factors into account, the Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed reasonably probable and the amount can be reasonably estimated. The Company further determines whether an estimated loss from a contingency should be disclosed by assessing whether a material loss is deemed reasonably possible. Such disclosure will include an estimate of the additional loss or range of loss or will state that an estimate cannot be made.

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In April 2013, Lodsys Group, LLC, a Texas limited liability company (“Lodsys”), filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that the Company has been infringing two of Lodsys’ patents, and sought unspecified damages, including treble damages for willful infringement, interest, attorneys’ fees and such other costs as the Court may deem just and proper. On June 19, 2013, the Company filed an answer to Lodsys’s complaint (i) denying all of Lodsys’s claims, (ii) setting forth certain affirmative defenses to Lodsys’s claims and (iii) asserting counterclaims that the Company does not infringe the Lodsys patents and that the Lodsys patents are invalid. In December 2013, without admitting infringement or liability, the Company entered into a patent sub-license agreement and a settlement agreement with Lodsys to settle the dispute for an immaterial amount. In January 2014 the Court dismissed the complaint against the Company with prejudice.

The Company does not believe it is party to any currently pending litigation, the outcome of which is reasonably likely to have a material adverse effect on its operations, financial position or liquidity. However, the ultimate outcome of any litigation is uncertain and, regardless of outcome, litigation can have an adverse impact on the Company because of defense costs, potential negative publicity, diversion of management resources and other factors.

## **NOTE 8 — STOCKHOLDERS’ EQUITY**

### ***Common Stock***

At December 31, 2013, the Company was authorized to issue 250,000 shares of common stock. As of December 31, 2013, the Company had reserved 23,100 shares for future issuance under its stock plans and outstanding warrants.

### ***Preferred Stock***

At December 31, 2013, the Company was authorized to issue 5,000 shares of preferred stock.

### ***Acquisitions***

On August 2, 2012, the Company issued an aggregate of 600 shares of its common stock to IGN in connection with the Company’s acquisition of GameSpy.

On August 2, 2011, the Company issued an aggregate of 6,106 shares of its common stock to Foundation 9 in connection with the Company’s acquisition of Griptonite.

On August 1, 2011, the Company issued an aggregate of 1,000 shares of its common stock to the Sellers in connection with the Company’s acquisition of Blammo.

See Note 3 – Business Combinations – for more information about these acquisitions.

### ***Shares Issued In Connection With the Blammo Earnout***

On May 16, 2013, the Company issued 742 shares to the former Blammo shareholders based on the Net Revenue that Blammo achieved for its fiscal year ended March 31, 2013. The fair value of this earnout amount has been presented in additional paid-in capital on the Company’s consolidated balance sheet as of December 31, 2013.

### ***Public Offerings***

In September 2013, the Company sold in an underwritten public offering an aggregate of 7,245 shares of its common stock at a public offering price of \$2.10 per share for net cash proceeds of approximately \$13,985 after underwriting discounts and other offering expenses. This public offering exhausted all of the securities that the Company was able to issue under its shelf registration statement that the SEC declared effective in December 2010.

In January 2011, the Company sold in an underwritten public offering an aggregate of 8,415 shares of its common stock at a public offering price of \$2.05 per share for net proceeds of approximately \$15,661 after underwriting discounts and commissions and offering expenses. The underwriters of this offering were Roth Capital Partners, LLC, Craig-Hallum Capital Group LLC, Merriman Capital, Inc. and Northland Capital Markets.

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***Warrants to Purchase Common Stock***

In July 2013, the Company and MGM Interactive Inc. (“MGM”) entered into a warrant agreement that gives MGM the right to purchase up to 3,333 shares of the Company’s common stock at an exercise price of \$3.00 per share (the “Warrant”), subject to certain adjustments for dividends, reorganizations and other common stock events. Of the 3,333 shares of the Company’s common stock underlying the Warrant, 333 shares were immediately vested and exercisable on the warrant agreement effective date and the remaining shares will vest and become exercisable based on conditions related to the Company releasing mobile games based on mutually agreed upon intellectual property licensed by MGM to the Company. The Warrant expires on July 15, 2018. Under ASC 505, the Company estimated the fair value of the vested shares of the Warrant on the grant date using the Black-Scholes option valuation model and the weighted average assumptions. Key assumptions for the year ended December 31, 2013 included an expected term of 5.0 years, volatility of 64.2%, risk-free interest rate of 1.5% and a dividend yield of 0%. During the year ended December 31, 2013, 2013, the Company recorded \$427 of non-cash warrant related expense in cost of revenues for warrant shares immediately vested upon signing of the agreement, as such vesting was not tied to any game release nor to any specific intellectual property license.

During the years ended December 31, 2013, 2012, and 2011, respectively, investors exercised warrants to purchase 2,886, 413, and 2,475 shares of the Company’s common stock, and the Company received gross proceeds of \$4,329, \$619, and \$3,711 in connection with these exercises. These exercised warrants were issued by the Company in August 2010 in connection with a private placement transaction.

Warrants outstanding at December 31, 2013 were as follows:

<u>Date of Issuance</u>	<u>Term (Years)</u>	<u>Exercise Price per Share</u>	<u>Number of Shares Outstanding Under Warrant</u>
August 2010 - Warrants issued in private offering	5	\$ 1.50	974
July 2013 - Warrant issued to MGM	5	3.00	3,333
			<u>4,307</u>

**NOTE 9 — STOCK OPTION AND OTHER BENEFIT PLANS**

***2007 Equity Incentive Plan***

In 2007, the Company’s Board of Directors adopted, and the Company’s stockholders approved, the 2007 Equity Incentive Plan (the “2007 Plan”). The 2007 Plan permits the Company to grant stock options, RSUs, and other stock-based awards to employees, non-employee directors and consultants. In April 2013, the Company’s Board of Directors approved, and in June 2013, the Company’s stockholders approved, the amended and restated 2007 Equity Incentive Plan (the “Amended 2007 Plan”). The Amended 2007 Plan includes an increase of 7,200 shares in the aggregate number of shares of common stock authorized for issuance under the plan. It also includes a fungible share provision, pursuant to which each share that is subject to a stock-based award that is not a “full value award” (restricted stock, RSUs, or other stock-based awards where the price charged to the participant for the award is less than 100% of the fair market value) reduces the number of shares available for issuance by 1.39 shares. When a stock-based award that is not a full value award is cancelled, the underlying shares are returned to the pool of shares available for grant at a ratio of 1.39 shares for each share cancelled.

The Company may grant options under the 2007 Plan at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by its Board of Directors, provided, however, that (i) the exercise price of an incentive stock option (“ISO”) or non-qualified stock options (“NSO”) may not be less than 100% or 85%, respectively, of the estimated fair value of the underlying shares of common stock on the grant date, and (ii) the exercise price of an ISO or NSO granted to a 10% stockholder may not be less than 110% of the estimated fair value of the shares on the grant date. The fair value of the Company’s common stock is determined by the last sale price of such stock on the NASDAQ Global Market on the date of determination. The stock options granted to employees generally vest with respect to 25% of the underlying shares one year from the vesting commencement date and with respect to an additional 1/48 of the underlying shares per month thereafter. Stock options granted during 2007 before October 25, 2007 have a contractual term of ten years and stock options granted on or after October 25, 2007 have a contractual term of six years.

As of December 31, 2013, 4,494 shares were available for future grants under the Amended 2007 Plan.

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### **2007 Employee Stock Purchase Plan**

In 2007, the Company's Board of Directors adopted and the Company's stockholders approved, the 2007 Employee Stock Purchase Plan (the "2007 Purchase Plan"). The Company initially reserved 667 shares of its common stock for issuance under the 2007 Purchase Plan. On each January 1 for the first eight calendar years after the first offering date, the aggregate number of shares of the Company's common stock reserved for issuance under the 2007 Purchase Plan will be increased automatically by the number of shares equal to 1% of the total number of outstanding shares of the Company's common stock on the immediately preceding December 31, provided that the Board of Directors may reduce the amount of the increase in any particular year and provided further that the aggregate number of shares issued over the term of this plan may not exceed 5,333. The 2007 Purchase Plan permits eligible employees, including employees of certain of the Company's subsidiaries, to purchase common stock at a discount through payroll deductions during defined offering periods. The price at which the stock is purchased is equal to the lower of 85% of the fair market value of the common stock at the beginning of an offering period or after a purchase period ends.

In January 2009, the 2007 Purchase Plan was amended to provide that the Compensation Committee of the Company's Board of Directors may fix a maximum number of shares that may be purchased in the aggregate by all participants during any single offering period (the "Maximum Offering Period Share Amount"). The Committee may raise or lower the Maximum Offering Period Share Amount. The Committee established the Maximum Offering Period Share Amount of 500 shares for the offering period that commenced on February 15, 2009 and ended on August 14, 2009, and a Maximum Offering Period Share Amount of 200 shares for each offering period thereafter. In October 2011, the Committee increased the Maximum Offering Period Share Amount for the offering period that started on August 22, 2011 and for each subsequent offering period to 300 shares.

As of December 31, 2013, 924 shares were available for issuance under the 2007 Purchase Plan.

### **2008 Equity Inducement Plan**

In March 2008, the Company's Board of Directors adopted the 2008 Equity Inducement Plan (the "Inducement Plan") to augment the shares available under its existing 2007 Plan. The Company has not sought stockholder approval for the Inducement Plan. As such, awards under the Inducement Plan are granted in accordance with NASDAQ Listing Rule 5635(c)(4) and only to persons not previously an employee or director of the Company, or following a bona fide period of non-employment, as an inducement material to such individuals entering into employment with the Company. The Inducement Plan initially permitted the Company to grant only nonqualified stock options, but in 2013, the Compensation Committee of the Company's Board amended the Inducement Plan to permit the award of RSUs under the plan. The Company may grant NSOs under the Inducement Plan at prices less than 100% of the fair value of the shares on the date of grant, at the discretion of its Board of Directors. The fair value of the Company's common stock is determined by the last sale price of such stock on the NASDAQ Global Market on the date of determination.

As of December 31, 2013, 396 shares were reserved for future grants under the Inducement Plan.

### **Share-Based Awards Available for Grant**

The calculation of share-based awards available for grant under the Amended 2007 Plan and the Inducement Plan for the year ended December 31, 2013 is as follows:

	<b>Shares Available</b>
<b>Balances at December 31, 2012</b>	<b>1,178</b>
Increase in authorized shares	7,400
Share-based awards granted (1)	(6,359)
Share-based awards canceled (2)	2,671
<b>Balances at December 31, 2013</b>	<b><u>4,890</u></b>

- (1) Under the terms of the Amended 2007 Plan, RSUs granted on or after June 6, 2013 reduce the number of shares available for grant by 1.39 shares for each share subject to an RSU award.
- (2) RSUs granted after June 6, 2013 that are forfeited and returned to the pool of shares available for grant increase the pool by 1.39 shares for each share subject to an RSU that is forfeited.

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**RSU Activity**

A summary of the Company's RSU activity for the year ended December 31, 2013 is as follows:

	Number of Units Outstanding	Weighted Average Grant Date Fair Value
<b>Awarded and unvested, December 31, 2012</b>	—	\$ —
Granted	2,747	2.90
Vested	—	—
Forfeited	(169)	2.74
<b>Awarded and unvested, December 31, 2013</b>	<u>2,578</u>	<u>\$ 2.91</u>
Restricted stock units expected to vest, December 31, 2013	<u>1,919</u>	

**Stock Option Activity**

The following table summarizes the Company's stock option activity:

	Options Outstanding		Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value
	Number of Shares	Weighted Average Exercise Price		
<b>Balances at December 31, 2010</b>	6,928	2.02		
Options granted	4,925	3.66		
Options canceled	(1,250)	2.50		
Options exercised	(859)	1.90		
<b>Balances at December 31, 2011</b>	9,744	2.80		
Options granted	3,399	3.84		
Options canceled	(1,416)	3.89		
Options exercised	(806)	1.68		
<b>Balances at December 31, 2012</b>	10,921	3.07		
Options granted	2,937	2.70		
Options canceled	(2,502)	3.65		
Options exercised	(957)	1.35		
<b>Balances at December 31, 2013</b>	<u>10,399</u>	\$ 2.98	3.80	\$ 11,928
Options vested and expected to vest at December 31, 2013	9,554	\$ 2.98	3.69	\$ 11,162
Options exercisable at December 31, 2013	5,636	\$ 2.96	2.98	\$ 7,457

At December 31, 2013, the options outstanding and currently exercisable by exercise price were as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.42 - \$ 1.21	1,688	1.95	\$ 1.13	1,612	\$ 1.12
\$1.30 - \$ 2.03	1,055	2.79	1.68	858	1.68
\$2.26 - \$ 2.74	1,363	5.29	2.49	185	2.38
\$2.83 - \$ 2.90	1,260	4.11	2.89	560	2.90
\$2.91 - \$ 2.91	1,121	5.67	2.91	13	2.91
\$2.98 - \$ 3.39	1,043	4.60	3.29	350	3.29
\$3.47 - \$ 4.30	1,459	3.46	3.99	881	3.94
\$4.35 - \$ 5.34	1,247	3.39	4.79	1,014	4.81
\$5.70 - \$ 11.66	156	3.01	11.06	156	11.06
\$11.88 - \$ 11.88	7	3.30	11.88	7	11.88
<b>\$0.42 - \$ 11.88</b>	<u>10,399</u>	3.80	\$ 2.98	<u>5,636</u>	\$ 2.96

The Company has computed the aggregate intrinsic value amounts disclosed in the above table based on the difference between the original exercise price of the options and the fair value of the Company's common stock of \$3.88 per share at December 31, 2013. The total intrinsic value of awards exercised during the years ended December 31, 2013, 2012 and 2011 was \$1,886, \$2,114, and \$2,065, respectively.



### Stock-Based Compensation

The Company recognizes stock-based compensation expense in accordance with ASC 718, and has estimated the fair value of each option award on the grant date using the Black-Scholes option valuation model and the weighted average assumptions noted in the following table.

	Year Ended December 31,		
	2013	2012	2011
Dividend yield	— %	— %	— %
Risk-free interest rate	0.82%	0.60%	1.06%
Expected term (years)	4.00	4.00	4.02
Expected volatility	52%	65%	65%

The Company based its expected volatility on its own historic volatility and the historical volatility of a peer group of publicly traded entities. The expected term of options gave consideration to early exercises, post-vesting cancellations and the options' six-year contractual term. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury Constant Maturity Rate as of the date of grant. The weighted-average fair value of stock options granted during the year ended December 31, 2013, 2012 and 2011 was \$1.10, \$1.90, and \$1.81 per share, respectively.

The cost of RSUs is determined using the fair value of the Company's common stock based on the quoted closing price of the Company's common stock on the date of grant. RSUs typically vest and are settled over approximately a four-year period with 25% of the shares vesting on or around the one-year anniversary of the grant date and the remaining shares vesting quarterly thereafter. Compensation cost is amortized on a straight-line basis over the requisite service period.

The Company calculated employee stock-based compensation expense based on awards ultimately expected to vest and reduced it for estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes the consolidated stock-based compensation expense by line items in the consolidated statement of operations:

	Year Ended December 31,		
	2013	2012	2011
Research and development	\$1,948	\$3,491	\$1,387
Sales and marketing	303	386	351
General and administrative	2,034	1,945	1,372
Total stock-based compensation expense	<u>\$4,285</u>	<u>\$5,822</u>	<u>\$3,110</u>

The above table includes compensation expense attributable to the contingent consideration potentially issuable to the Blammo employees who were former shareholders of Blammo, which is recorded as research and development expense over the term of the earn-out periods, since these employees are primarily employed in product development. The Company re-measures the fair value of the contingent consideration each reporting period and only records a compensation expense for the portion of the earn-out target that is likely to be achieved. In addition, the Company is exposed to potential continued fluctuations in the fair market value of the contingent consideration in each reporting period, since re-measurement is impacted by changes in the Company's share price and the assumptions used by the Company. The Company estimated the total fair value of this liability to be \$368 and \$2,242 as of December 31, 2013 and December 31, 2012, respectively; the amount as of December 31, 2013 excludes the 2013 contingent consideration earnout that was classified into additional paid-in capital. See Note 4 for further details. During the years ended December 31, 2013 and 2012, the Company recorded \$171 and \$1,549 of stock-based compensation expense, respectively, related to this contingent consideration.

Consolidated net cash proceeds from option exercises were \$1,295, \$1,357 and \$1,633 for the year ended December 31, 2013, 2012 and 2011, respectively. The Company realized no significant income tax benefit from stock option exercises during the year ended December 31, 2013, 2012 and 2011. As required, the Company presents excess tax benefits from the exercise of stock options, if any, as financing cash flows rather than operating cash flows. As permitted by ASC 718, the Company has deferred the recognition of its excess tax benefit from non-qualified stock option exercises.

As of December 31, 2013, the Company had \$4,998 of total unrecognized compensation expense, net of estimated forfeitures, related to RSUs that will be recognized over a weighted-average period of approximately four years. As of December 31, 2013, the Company had \$6,047 of total unrecognized compensation expense related to stock options, net of estimated forfeitures. The unrecognized compensation expense excludes unvested Blammo stock-based contingent consideration expense, which will be recognized over a weighted average period of 2.63 years.

**401(k) Defined Contribution Plan**

The Company sponsors a 401(k) defined contribution plan covering all employees. The Company does not match the contributions made by its employees.

**NOTE 10 — INCOME TAXES**

The components of loss before income taxes by tax jurisdiction were as follows:

	Year Ended December 31,		
	2013	2012	2011
United States	\$ (21,820)	\$ (6,745)	\$ (25,159)
Foreign	(932)	(15,708)	4,672
Loss before income taxes	<u>\$ (22,752)</u>	<u>\$ (22,453)</u>	<u>\$ (20,487)</u>

The components of income tax provision were as follows:

	Year Ended December 31,		
	2013	2012	2011
<b>Current:</b>			
Federal	\$ —	\$ —	\$ —
State	(4)	(4)	(2)
Foreign	2,294	913	(2,698)
	<u>2,290</u>	<u>909</u>	<u>(2,700)</u>
<b>Deferred:</b>			
Federal	—	497	1,452
State	—	64	211
Foreign	553	524	423
	<u>553</u>	<u>1,085</u>	<u>2,086</u>
<b>Total:</b>			
Federal	—	497	1,452
State	(4)	60	209
Foreign	2,847	1,437	(2,275)
	<u>\$ 2,843</u>	<u>\$ 1,994</u>	<u>\$ (614)</u>

The difference between the actual rate and the federal statutory rate was as follows:

	Year Ended December 31,		
	2013	2012	2011
Tax at federal statutory rate	34.0%	34.0%	34.0%
State tax, net of federal benefit	—	0.3	1.0
Foreign rate differential	(0.1)	(0.6)	1.4
Research and development credit	5.1	—	2.1
Withholding taxes	(2.1)	(0.3)	(0.1)
Goodwill impairment	—	(5.5)	—
Stock-based compensation	(0.7)	(2.7)	(1.3)
Non-deductible intercompany bad debt	0.3	(16.5)	—
FIN 48 interest and release	14.6	10.0	(0.4)
Other	1.6	(0.7)	(0.4)
Valuation allowance	(40.2)	(9.1)	(39.3)
Effective tax rate	<u>12.5%</u>	<u>8.9%</u>	<u>(3.0)%</u>

During 2012, the Company's United Kingdom subsidiary recognized an intercompany bad debt expense of approximately \$10,870 that is non-tax deductible for United Kingdom tax purposes.

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Deferred tax assets and liabilities consist of the following:

	December 31, 2013			December 31, 2012		
	US	Foreign	Total	US	Foreign	Total
Deferred tax assets:						
Fixed assets	\$ 554	\$ 1,685	\$ 2,239	\$ 571	\$ 1,501	\$ 2,072
Net operating loss carryforwards	36,299	10,552	46,851	32,795	12,207	45,002
Accruals, reserves and other	7,761	208	7,969	3,605	121	3,726
Foreign tax credit	6,348	—	6,348	6,086	—	6,086
Stock-based compensation	3,311	56	3,367	2,723	58	2,781
Research and development credit	4,245	—	4,245	2,839	—	2,839
Other	3,088	10	3,098	2,873	11	2,884
Total deferred tax assets	\$ 61,606	\$ 12,511	\$ 74,117	\$ 51,492	\$ 13,898	\$ 65,390
Deferred tax liabilities:						
Macrospace, MIG and iPhone intangible assets	\$ —	\$ (94)	\$ (94)	\$ —	\$ (498)	\$ (498)
GameSpy intangible assets	—	—	—	(506)	—	(506)
Blammo intangible assets	—	(129)	(129)	—	(261)	(261)
Griptonite intangible assets	—	—	—	(949)	—	(949)
Superscape intangible assets	(116)	—	(116)	—	—	—
Other	—	(9)	(9)	—	(9)	(9)
Net deferred tax assets	61,490	12,279	73,769	50,037	13,130	63,167
Less valuation allowance	(61,490)	(12,294)	(73,784)	(50,037)	(13,674)	(63,711)
Net deferred tax liability	\$ —	\$ (15)	\$ (15)	\$ —	\$ (544)	\$ (544)

The Company has not provided deferred taxes on unremitted earnings attributable to foreign subsidiaries because these earnings are intended to be reinvested indefinitely. No deferred tax asset was recognized since the Company does not believe the deferred tax asset will reverse in the foreseeable future. The amount of accumulated foreign earnings of the Company's foreign subsidiaries total \$2,206 as of December 31, 2013. If the Company's foreign earnings were repatriated, additional tax expense might result. The Company determined that the calculation of the amount of unrecognized deferred tax liability related to these cumulative unremitted earnings attributable to foreign subsidiaries is not practicable. The Company recorded a release of its valuation allowance of zero, \$562, and \$1,702 during 2013, 2012, and 2011, respectively. The 2012 and 2011 release was associated with the acquisitions of GameSpy in August 2012 and Griptonite in 2011. Pursuant to ASC 805-740, changes in the Company's valuation allowance that stem from a business combination should be recognized as an element of the Company's deferred income tax expense or benefit. The Company previously recognized a valuation allowance against its net operating loss carryforwards and determined that it should be able to utilize the benefit of those net operating losses against the deferred tax liabilities of GameSpy and Griptonite; therefore, it has partially released its pre-existing valuation allowance. In accordance with ASC 740 and based on all available evidence on a jurisdictional basis, the Company believes that, it is more likely than not that its deferred tax assets will not be utilized, and has recorded a full valuation allowance against its net deferred tax assets in each of its jurisdictions except for one entity in China. The Company assesses on a periodic basis the likelihood that it will be able to recover its deferred tax assets. The Company considers all available evidence, both positive and negative, including historical levels of income or losses, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If it is not more likely than not that the Company expects to recover its deferred tax assets, the Company will increase its provision for taxes by recording a valuation allowance against the deferred tax assets that it estimates will not ultimately be recoverable. The available negative evidence at December 31, 2013 and 2012 included historical and projected future operating losses. As a result, the Company concluded that an additional valuation allowance of \$10,073 and \$696, net of the described releases, was required to reflect the gross increase in its deferred tax assets prior to valuation allowance during 2013 and 2012, respectively. As of December 31, 2013 and 2012, the Company considered it more likely than not that its deferred tax assets would not be realized with their respective carryforward periods.

At December 31, 2013, the Company has net operating loss carryforwards of approximately \$93,213 and \$78,379 for federal and state tax purposes, respectively. These carryforwards will expire from 2014 to 2033. In addition, the Company has research and development tax credit carryforwards of approximately \$5,168 for federal income tax purposes and \$4,077 for California tax purposes. The federal research and development tax credit carryforwards will begin to expire in 2022. The California state research credit will carry forward indefinitely. The Company has approximately \$6,340 of foreign tax credits that will begin to expire in 2017, and approximately \$12 of state alternative minimum tax credits that will carryforward indefinitely. The Company's ability to use its net operating loss carryforwards and federal and state tax credit carryforwards to offset future taxable income and future taxes, respectively, may be subject to restrictions attributable to equity transactions that result in changes in ownership as defined by Internal Revenue Code Section 382.

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In addition, at December 31, 2013, the Company has net operating loss carryforwards of approximately \$47,364 for United Kingdom tax purposes that are all limited and can only offset a portion of the annual combined profits in the United Kingdom until the net operating losses are fully utilized.

A reconciliation of the total amounts of unrecognized tax benefits was as follows:

	Year Ended December 31,	
	2013	2012
Beginning balance	\$ 4,626	\$ 4,034
Reductions of tax positions taken during previous years	(725)	(631)
Additions based on uncertain tax positions related to the current period	1,149	410
Additions based on uncertain tax positions related to prior periods	1,449	813
Cumulative translation adjustment	39	—
Ending balance	<u>\$ 6,538</u>	<u>\$ 4,626</u>

The total unrecognized tax benefits as of December 31, 2013 and 2012 include approximately \$4,623 and \$3,104, respectively of unrecognized tax benefits that have been netted against deferred tax assets. As of December 31, 2013, approximately \$1,915 of unrecognized tax benefits, if recognized, would impact the Company's effective tax rate. The remaining amount, if recognized, would adjust the Company's deferred tax assets which are subject to valuation allowance. At December 31, 2013, the Company anticipated that the liability for uncertain tax positions, excluding interest and penalties, could decrease by approximately \$1,278 within the next twelve months due to the expiration of certain statutes of limitation in foreign jurisdictions in which the Company does business.

The Company's policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense. The Company has accrued \$283 of interest and penalties on uncertain tax positions as of December 31, 2013, as compared to \$2,348 as of December 31, 2012. Approximately \$105, \$182 and \$248 of accrued interest and penalty expense related to estimated obligations for unrecognized tax benefits was recognized during 2013, 2012 and 2011 respectively. During 2013, the Company released \$2,441 of interest and penalties on uncertain tax positions due to the expiration of certain statutes of limitation in foreign jurisdictions in which the Company does business.

The Company is subject to taxation in the United States and various foreign jurisdictions. The material jurisdictions subject to examination by tax authorities are primarily the State of California, United States, United Kingdom, Canada, and China. The Company's federal and California tax returns are open by statute for tax years 2002 and forward and could be subject to examination by the tax authorities. The statute of limitations for the Company's 2011 and 2012 tax returns for the various entities in the United Kingdom is expected to be closed in 2014. The Company's China income tax returns are open by statute for tax years 2008 and forward.

## NOTE 11 — SEGMENT REPORTING

ASC 280, *Segment Reporting* ("ASC 280"), establishes standards for reporting information about operating segments. It defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision-maker is its Chief Executive Officer. The Company's Chief Executive Officer reviews selected financial information on a geographic basis; however this information is included within one operating segment for purposes of allocating resources and evaluating financial performance.

Accordingly, the Company reports as a single reportable segment—mobile games. For purpose of enterprise-wide disclosures, a breakdown of the Company's total sales to customers in the feature phone and smartphone markets is shown below:

	Year Ended December 31,		
	2013	2012	2011
Feature phone	\$ 5,319	\$ 13,135	\$31,091
Smartphone	100,294	95,048	42,934
	<u>\$105,613</u>	<u>\$108,183</u>	<u>\$74,025</u>

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For purposes of enterprise-wide disclosures, the Company attributes revenues to geographic areas based on the country in which the distributor's, advertising service provider's or carrier's principal operations are located. In the case of Digital Storefronts, revenues are attributed to the geographic location where the end-user makes the purchase. The Company generates its revenues in the following geographic regions:

	Year Ended December 31,		
	2013	2012	2011
United States of America	\$ 48,697	\$ 57,816	\$36,765
China	10,985	5,827	4,007
Americas, excluding the USA	5,430	5,051	6,528
EMEA	22,820	22,381	20,621
APAC, excluding China	17,681	17,108	6,104
	<u>\$105,613</u>	<u>\$108,183</u>	<u>\$ 74,025</u>

The Company attributes its long-lived assets, which primarily consist of property and equipment, to a country primarily based on the physical location of the assets. Property and equipment, net of accumulated depreciation and amortization, summarized by geographic location was as follows:

	Year Ended December 31,	
	2013	2012
Americas	\$ 4,108	\$ 3,649
EMEA	899	1,092
APAC	89	285
	<u>\$ 5,096</u>	<u>\$ 5,026</u>

**NOTE 12 — RESTRUCTURING**

Restructuring information as of December 31, 2013 was as follows:

	Restructuring				
	2012 and 2013		2010	2009	Total
	Facilities and other	Workforce	Facilities and other	Facilities and other	
Balance as of January 1, 2012	\$ —	\$ —	\$ 653	\$ 234	\$ 887
Charges to operations	—	1,371	—	—	1,371
Non cash adjustments	—	—	—	—	—
Charges settled in cash	—	(1,367)	(653)	(234)	(2,254)
Balance as of December 31, 2012	—	4	—	—	4
Charges to operations	584	864	—	—	1,448
Non Cash Adjustments	(183)	—	—	—	(183)
Charges settled in cash	(401)	(868)	—	—	(1,269)
Balance as of December 31, 2013	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

During 2009, 2010, 2012, and 2013, the Company's management approved restructuring plans to improve the effectiveness and efficiency of its operating model and reduce operating expenses around the world. The 2012 and 2013 restructuring plans included \$584 of facility-related restructuring charges related to streamlining the Company's previous facility in Kirkland, Washington, and additional costs associated with vacating the Company's Brazil office. In addition, the Company recorded a non-cash adjustment of \$238 in respect of the cumulative translation adjustment related to the Company's Brazilian subsidiary that was reclassified to net loss upon the substantial liquidation of the entity and is recognized in restructuring charge on the Company's consolidated income statement for the year ended December 31, 2013.

Since inception of the 2012 and 2013 restructuring plan through December 31, 2013, the Company incurred \$2,235 of restructuring charges relating to employee termination costs in its San Francisco, California, EMEA, APAC, Brazil, and Washington offices. During the year ended December 31, 2013, the Company recorded \$864 of the 2012 and 2013 restructuring plan charges relating to employee termination costs in its Brazil, San Francisco, China, Washington, and EMEA offices.

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**NOTE 13 – QUARTERLY FINANCIAL DATA (unaudited, in thousands)**

The following table sets forth unaudited quarterly consolidated statements of operations data for 2012 and 2013. The Company derived this information from its unaudited consolidated financial statements, which it prepared on the same basis as its audited consolidated financial statements contained in this report. In its opinion, these unaudited statements include all adjustments, consisting only of normal recurring adjustments that the Company considers necessary for a fair statement of that information when read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. The operating results for any quarter should not be considered indicative of results for any future period.

	For the Three Months Ended							
	2012				2013			
	March 31	June 30	September 30	December 31	March 31	June 30	September 30	December 31
Revenues	\$ 26,509	\$29,264	\$ 26,099	\$ 26,311	\$ 24,605	\$24,445	\$ 21,722	\$ 34,841
Cost of revenues:								
Platform commissions, royalties and other	7,522	7,780	6,946	7,382	7,462	7,670	7,436	9,803
Impairment of prepaid royalties and guarantees	—	—	—	—	—	(d)	435	—
Amortization of intangible assets	753	932	1,025	1,073	1,074	1,078	1,082	1,004
Total cost of revenues	8,275	8,712	7,971	8,455	8,536	8,748	8,953	10,807
Gross profit	18,234	20,552	18,128	17,856	16,069	15,697	12,769	24,034
Operating expenses:								
Research and development	15,033	15,697(a)	9,979	13,566	11,630	11,224	11,405	12,618
Sales and marketing	4,375	4,701	5,545	6,272	5,008	5,143	5,361(e)	10,608
General and administrative	4,366	4,556	2,466	3,356	3,919	3,852	3,617	4,162
Amortization of intangible assets	495	495	495	495	495	495	229	117
Impairment of goodwill	—	(c)	3,613	—	—	—	—	—
Restructuring charge	—	320	213	838	511	937	—	—
Total operating expenses	24,269	25,769	22,311	24,527	21,563	21,651	20,612	27,505
Income (loss) from operations	(6,035)	(5,217)	(4,183)	(6,671)	(5,494)	(5,954)	(7,843)	(3,471)
Interest and other income (expense), net	(366)	210	(455)	264	132	163	(155)	(130)
Loss before income taxes	(6,401)	(5,007)	(4,638)	(6,407)	(5,362)	(5,791)	(7,998)	(3,601)
Income tax benefit (provision)	(440)(b)	2,019(b)	1,075	(660)	(135)(f)	2,870	30	78
Net loss	\$ (6,841)	\$ (2,988)	\$ (3,563)	\$ (7,067)	\$ (5,497)	\$ (2,921)	\$ (7,968)	\$ (3,523)
Net loss per share — basic and diluted	\$ (0.11)	\$ (0.05)	\$ (0.06)	\$ (0.11)	\$ (0.08)	\$ (0.04)	\$ (0.11)	\$ (0.05)

- (a) Changes in the research and development expense from \$15,033 in the first quarter of 2012 and \$9,979 in the third quarter of 2012 was due primarily to changes in the fair market value of contingent consideration issued to employees who are former shareholders of Blammo.
- (b) The income tax benefit of \$2,019 in the second quarter of 2012 was due primarily to the release of uncertain tax positions in certain foreign jurisdictions due to the expiration of the statute of limitations. The income tax benefit of \$1,075 in the third quarter of 2012 was due primarily to the release of the GameSpy valuation allowance upon acquisition and changes in pre-tax income in certain foreign entities.
- (c) The goodwill impairment charge of \$3,613 in the third quarter of 2012 was due to a decline in the estimated fair value of the APAC reporting unit attributable to an accelerated decline in the local feature phone business and the recent restructuring of the Company's operations in the region.
- (d) The impairment of prepaid royalties and guarantees charge of \$435 in the third quarter of 2013 was primarily due to a prepaid royalty impairment charge recorded for two of our third-party publishing titles.
- (e) Change in sales and marketing expense from \$5,008 in the first quarter of 2013 to \$10,608 in the fourth quarter of 2013 was due primarily to higher marketing expenses associated with promoting *Deer Hunter 2014*.
- (f) The income tax benefit of \$2,870 in the second quarter of 2013 was due primarily to the release of uncertain tax positions due to the expiration of certain statutes of limitations in certain foreign jurisdictions.

**NOTE 14 – RELATED PARTY TRANSACTIONS**

Hany Nada, one of the Company's directors, serves as one of the seven managing directors of Granite Global Ventures II L.L.C., the general partner of each of Granite Global Ventures II L.P. and GGV II Entrepreneurs Fund L.P., which together beneficially owned approximately 6.88% of the Company's stock as of December 31, 2013. Hany Nada also serves as one of the seven managing directors of GGV Capital IV L.L.C., the general partner of each of GGV Capital IV L.P. and GGV Capital IV Entrepreneurs Fund L.P. (together, "GGV IV"). GGV IV has an approximate 14.4% shareholding in Kontagent, Inc. (successor-in-interest to Medium Entertainment, dba PlayHaven, with which Kontagent merged in December 2013). Mr. Nada was a member of PlayHaven's board of directors at the time of GGV IV's investment in PlayHaven in the fourth quarter of 2012, and has continued as a member of Kontagent's Board of Directors. For the year ended December 31, 2013 and 2012, the Company generated revenues of \$5,724 and \$6,285, respectively, from Kontagent. As of December 31, 2013 and December 31, 2012, Kontagent accounted for 9.0% and 13.2%, respectively, of the Company's total accounts receivable balance.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2013, our disclosure controls and procedures are designed to provide reasonable assurance and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the guidelines established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2013 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on page 48.

**Remediation of Previously Disclosed Material Weakness**

Management previously reported a material weakness in our internal control over financial reporting related to application of the applicable revenue recognition accounting guidance relating to our smartphone revenues for sales through digital storefronts. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected in a timely basis.

We made the following changes to our internal controls over financial reporting to remediate this material weakness:

- Established detailed and improved controls for reviewing and assessing the potential impact of material revenue agreements on gross versus net revenue reporting.
- Established an additional layer of review in assessing the potential impact of material agreements that we enter into.
- Provided additional communication related to gross versus net reporting criteria to our accounting, finance, and legal staff to take into consideration when negotiating material agreements and recording the related revenues.

We completed the documentation and testing of the corrective actions described above and, as of December 31, 2013, has concluded that the steps taken have remediated this material weakness.

***Changes in Internal Control over Financial Reporting***

The actions described above in the remediation of the previously reported material weakness, which concluded during the fourth quarter constitute a change in our internal control over financial reporting during our fourth fiscal quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2014 Annual Meeting of Stockholders. For information with respect to our executive officers, see “Executive Officers” at the end of Part I, Item 1 of this report.

We maintain a Code of Business Conduct and Ethics that applies to all employees, officers and directors. Our Code of Business Conduct and Ethics is published on our website at [www.glu.com/investors](http://www.glu.com/investors). We disclose on our website amendments to certain provisions of our Code of Business Conduct and Ethics, or waivers of such provisions granted to executive officers and directors.

**Item 11. Executive Compensation**

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2014 Annual Meeting of Stockholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2014 Annual Meeting of Stockholders.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2014 Annual Meeting of Stockholders.

**Item 14. Principal Accounting Fees and Services.**

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2014 Annual Meeting of Stockholders.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a)(1) Financial Statements: The financial statements filed as part of this report are listed on the index to financial statements on page 47.

(2) Financial Schedules: All schedules have been omitted because they are not required, not applicable, not present in amounts sufficient to require submission of the schedule, or the required information is otherwise included.

(b) Exhibits. The exhibits listed on the Exhibit Index (following the Signatures section of this report) are included, or incorporated by reference, in this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GLU MOBILE INC.

Date: March 14, 2014

By: /s/ Niccolo M. de Masi  
Niccolo M. de Masi, President and Chief Executive Officer

Date: March 14, 2014

By: /s/ Eric R. Ludwig  
Eric R. Ludwig, Executive Vice President and Chief Financial Officer

## POWER OF ATTORNEY

By signing this Annual Report on Form 10-K below, I hereby appoint each of Niccolo M. de Masi, Eric R. Ludwig and Scott J. Leichtner as my attorney-in-fact to sign all amendments to this Form 10-K on my behalf, and to file this Form 10-K (including all exhibits and other documents related to the Form 10-K) with the Securities and Exchange Commission. I authorize each of my attorneys-in-fact to (1) appoint a substitute attorney-in-fact for himself and (2) perform any actions that he believes are necessary or appropriate to carry out the intention and purpose of this Power of Attorney. I ratify and confirm all lawful actions taken directly or indirectly by my attorneys-in-fact and by any properly appointed substitute attorneys-in-fact.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Niccolo M. de Masi</u> Niccolo M. de Masi	President, Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2014
<u>/s/ Eric R. Ludwig</u> Eric R. Ludwig	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 14, 2014
<u>/s/ Gregory J. Cannon</u> Gregory J. Cannon	Vice President of Finance and Corporate Controller (Principal Accounting Officer)	March 14, 2014
<u>/s/ William J. Miller</u> William J. Miller	Chairman of the Board	March 14, 2014
<u>Lorne Abony</u>	Director	
<u>/s/ Eric R. Ball</u> Eric R. Ball	Director	March 14, 2014
<u>/s/ Ann Mather</u> Ann Mather	Director	March 14, 2014
<u>/s/ Hany M. Nada</u> Hany M. Nada	Director	March 14, 2014
<u>/s/ Benjamin T. Smith, IV</u> Benjamin T. Smith, IV	Director	March 14, 2014

**Exhibit Index**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference</b>				<b>Filed Herewith</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	
2.01	Agreement and Plan of Merger, dated as of August 2, 2011 by and among Glu Mobile Inc., Granite Acquisition Corp., Foundation 9 Entertainment, Inc. and Griptonite, Inc.	8-K	001-33368	2.01	08/02/11	
2.02	Amendment No. 1 to Agreement and Plan of Merger, dated as of August 2, 2011 by and among Glu Mobile Inc., Granite Acquisition Corp., Foundation 9 Entertainment, Inc. and Griptonite, Inc.	8-K	001-33368	2.01	08/15/11	
2.03	Share Purchase Agreement, dated as of August 1, 2011, by and among Glu, Blammo Games Inc. and each of the owners of the outstanding share capital of Blammo.	8-K	001-33368	2.02	08/02/11	
2.04	Agreement and Plan of Merger, dated as of August 2, 2012 by and among Glu Mobile Inc., Galileo Acquisition Corp, IGN Entertainment, Inc. and GameSpy Industries, Inc.	10-Q	001-33368	2.01	11/09/12	
3.01	Restated Certificate of Incorporation of Glu Mobile Inc.	S-1/A	333-139493	3.02	02/14/07	
3.02	Amended and Restated Bylaws of Glu Mobile Inc., adopted on March 7, 2014.	8-K	001-33368	99.01	03/13/14	
4.01	Form of Registrant's Common Stock Certificate.	S-1/A	333-139493	4.01	02/14/07	
10.01#	Form of Indemnity Agreement entered into between Glu Mobile Inc. and each of its directors and executive officers, effective as of October 24, 2013.	8-K	001-33368	99.01	10/29/13	
10.02#	2001 Stock Option Plan, form of option grant used from December 19, 2001 to May 2, 2006, form of option grant used from December 8, 2004 to May 2, 2006 and forms of option grant used since May 2, 2006.	S-1/A	333-139493	10.02	01/22/07	
10.03(A)#	2007 Equity Incentive Plan, as amended through June 6, 2013.	8-K	001-33368	99.01	06/10/13	
10.03(B)#	For the 2007 Equity Incentive Plan, forms of (a) Notice of Stock Option Grant, Stock Option Award Agreement and Stock Option Exercise Agreement, (b) Notice of Restricted Stock Award and Restricted Stock Agreement, (c) Notice of Stock Appreciation Right Award and Stock Appreciation Right Award Agreement and (d) Notice of Stock Bonus Award and Stock Bonus Agreement.	S-1/A	333-139493	10.03	02/16/07	
10.03(C)#	For the 2007 Equity Incentive Plan, form of Notice of Restricted Stock Unit Award and Restricted Stock Unit Agreement	10-Q	001-33368	10.08	08/09/13	
10.04#	2007 Employee Stock Purchase Plan, as amended and restated on August 1, 2011.	10-K	001-33368	10.04	03/14/12	
10.05(A)#	2008 Equity Inducement Plan, as amended effective November 1, 2013.	8-K	001-33368	99.01	10/04/13	

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10.05(B)#	For the 2008 Equity Inducement Plan, forms of Notice of Stock Option Grant, Stock Option Award Agreement and Stock Option Exercise Agreement.	10-K	001-33368	10.05	03/21/10	
10.05(C)#	For the 2008 Equity Inducement Plan, form of Notice of Restricted Stock Unit Award and Restricted Stock Unit Award Agreement.					X
10.06#	Forms of Stock Option Award Agreement (Immediately Exercisable) and Stock Option Exercise Agreement (Immediately Exercisable) under the Glu Mobile Inc. 2007 Equity Incentive Plan.	10-Q	001-33368	10.05	08/14/08	
10.07#	Employment Agreement between Glu Mobile Inc. and Niccolo M. de Masi, dated December 28, 2009.	8-K	001-33368	99.02	01/04/10	
10.08#	Summary of Compensation Terms of Niccolo M. de Masi.	8-K	001-33368	—	12/16/13	
10.09#	Change of Control Severance Agreement, dated as of December 28, 2009, by and between Glu Mobile Inc. and Niccolo M. de Masi.	8-K	001-33368	99.03	01/04/10	
10.10#	Amendment, dated as of July 7, 2011, to Change of Control and Severance Agreement between Glu Mobile Inc. and Niccolo M. de Masi, dated as of December 28, 2009.	10-Q	001-33368	10.01	11/14/11	
10.11#	Summary of Compensation Terms of Eric R. Ludwig.	8-K	001-33368	—	12/16/13	
10.12#	Change of Control Severance Agreement, dated as of October 10, 2008, between Glu Mobile Inc. and Eric R. Ludwig.	10-K	001-33368	10.09	03/13/09	
10.13#	Amendment, dated as of July 7, 2011, to Change of Control and Severance Agreement between Glu Mobile Inc. and Eric R. Ludwig, dated as of October 10, 2008.	10-Q	001-33368	10.02	11/14/11	
10.14#	Offer Letter between Glu Mobile Inc. and Chris Akhavan, dated as of March 14, 2013.					X
10.15#	Summary of Compensation Terms of Chris Akhavan.	8-K	001-33368	—	12/16/13	
10.16#	Change of Control Severance Agreement between Glu Mobile Inc. and Chris Akhavan, dated as of April 22, 2013.	10-Q	001-33368	—	08/09/13	
10.17#	Offer Letter between Glu Mobile Inc. and Matthew Ricchetti, dated as of October 8, 2012.	10-K	001-33368	10.16	03/15/13	
10.18#	Summary of Compensation Terms of Matthew Ricchetti.	8-K	001-33368	—	12/16/13	
10.19#	Change of Control Severance Agreement between Glu Mobile Inc. and Matthew Ricchetti, dated as of April 1, 2013.	8-K	001-33368	99.01	04/05/13	
10.20#	Summary of Compensation Terms of Scott J. Leichtner.	8-K	001-33368	—	2/14/14	
10.21#	Summary of Change of Control Severance Arrangement between Glu Mobile Inc. and Scott J. Leichtner, dated as of July 7, 2011.	10-K	001-33368	10.15	03/15/13	

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10.22#	Glu Mobile Inc. 2013 Executive Bonus Plan.	8-K/A	001-33368	99.01	01/18/13	
10.23#	Summary of Executive Bonus Plan for Chris Akhavan, adopted October 3, 2013.	8-K	001-33368	—	10/04/13	
10.24#	Glu Mobile Inc. 2014 Executive Bonus Plan, as amended	8-K	001-33368	99.01	2/14/14	
10.25#	Non-Employee Director Compensation Program, effective as of October 1, 2013.					X
10.26	Sublease between Oracle America, Inc. and Glu Mobile Inc., dated as of April 16, 2013.	8-K	001-33368	99.01	04/22/13	
10.27	Lease between Talon Portfolio Services, LLC and Griptonite, Inc., dated as of June 6, 2013.	10-Q	001-33368	10.07	08/09/13	
10.28	Purchase Agreement, dated as of June 30, 2010, by and between Glu Mobile Inc. and certain PIPE investors.	8-K	001-33368	99.01	07/06/10	
10.29	Form of Warrant by and between Glu Mobile Inc. and certain PIPE investors.	8-K	001-33368	4.01	07/06/10	
10.30	Common Stock Warrant, between Glu Mobile Inc. and MGM Interactive Inc., dated as of July 15, 2013.	S-3	333-190545	4.03	08/09/13	
10.31	iOS Developer Program License Agreement between Glu Games Inc. and Apple Inc., as amended to date.	10-K	001-33368	10.27	03/15/13	
10.32	Android Market Developer Distribution Agreement between Glu Games Inc. and Google Inc., as amended to date.	10-K	001-33368	10.28	03/15/13	
10.33+	License Agreement, dated as of March 31, 2012, by and between Glu Mobile Inc. and Atari, Inc.	10-Q/ A	001-33368	10.01	10/12/12	
10.34+	Trademark and Domain Name Assignment and License Agreement, dated as of March 31, 2012, by and between Glu Mobile Inc. and Atari Inc.	10-Q	001-33368	10.02	08/09/12	
10.35+	Unity Technologies Software License Agreement between Glu Mobile Inc. and Unity Technologies ApS, dated as of October 29, 2012.	10-K	001-33368	10.33	03/15/13	
21.01	List of Subsidiaries of Glu Mobile Inc.					X
23.01	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.					X
24.01	Power of Attorney (see the Signature Page to this report).					
31.01	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
31.02	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
32.01	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(a)/15d-14(a).*					X

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32.02	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(a)/15d-14(a). *	X
101.INS	XBRL Report Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Calculation Linkbase Document	
101.LAB	XBRL Taxonomy Label Linkbase Document	
101.PRE	XBRL Presentation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	

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# Indicates a management compensatory plan or arrangement.

+ Certain portions of this exhibit have been omitted and have been filed separately with the SEC pursuant to an order granting confidential treatment issued by the SEC under Rule 24b-2 as promulgated under the Exchange Act.

\* This certification is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Glu Mobile Inc. specifically incorporates it by reference.

**GLU MOBILE INC.  
2008 EQUITY INDUCEMENT PLAN  
NOTICE OF RESTRICTED STOCK UNIT AWARD**

**GRANT NUMBER:** \_\_\_\_\_

The terms defined in Glu Mobile Inc.'s (the "*Company*") 2008 Equity Inducement Plan (the "*Plan*") shall have the same meanings in this Notice of Restricted Stock Unit Award (the "*Notice of Grant*").

**Name:** \_\_\_\_\_

**Address:** \_\_\_\_\_

You ("*Participant*") have been granted an award of Restricted Stock Units ("*RSUs*"), subject to the terms and conditions set forth in this Notice of Grant, the attached Award Agreement (Restricted Stock Units) (hereinafter the "*RSU Agreement*"), including any country-specific terms and conditions for Participant's country attached in an appendix to the RSU Agreement (the "*Appendix*" and collectively, the "*Agreement*") and the Plan (available in hard copy by request), all of which are incorporated herein by reference, as follows:

**Number of RSUs:** \_\_\_\_\_

**Date of Grant:** \_\_\_\_\_

**First Vesting Date:** \_\_\_\_\_

**Expiration Date:** The date on which settlement of all RSUs granted hereunder occurs, with earlier expiration upon the Termination Date as further described in Section 5 of the RSU Agreement.

**Vesting Schedule:** Subject to your continued service as an employee, director or consultant of the Company or a Subsidiary, the RSUs will vest as follows: \_\_\_\_\_ . If any portion of the RSUs vest on a date that is a non-trading day on the Nasdaq Market, then the award will vest on the next trading day.

Participant understands that his or her continued service relationship with the Company or a Subsidiary is for an unspecified duration, can be terminated at any time (to the fullest extent permitted by applicable law), and that nothing in this Notice of Grant, the Agreement or the Plan changes the ability of the Company or the employing Subsidiary to terminate the service relationship. Participant acknowledges that the vesting of the RSUs pursuant to this Notice of Grant is earned only by continuing service as an employee, director or consultant of the Company or a Subsidiary. Participant also understands that this Notice of Grant is subject to the terms and conditions of the Agreement and the Plan, both of which are incorporated herein by reference. Participant has read both the Agreement and the Plan.

**PARTICIPANT**

**GLU MOBILE INC.**

Signature: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Its: \_\_\_\_\_

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**GLU MOBILE INC.**  
**2008 EQUITY INDUCEMENT PLAN**  
**AWARD AGREEMENT (RESTRICTED STOCK UNITS)**

Unless otherwise defined herein, the terms defined in the Company's 2008 Equity Inducement Plan, as amended (the "**Plan**"), shall have the same defined meanings in this Award Agreement (Restricted Stock Units) (this "**RSU Agreement**").

Participant has been granted Restricted Stock Units ("**RSUs**") subject to the terms, restrictions and conditions of the Plan, the Notice of Restricted Stock Unit Grant ("**Notice of Grant**") and this RSU Agreement, including any country-specific terms and conditions for Participant's country attached in an appendix to this RSU Agreement (the "**Appendix**" and collectively, the "**Agreement**").

**1. Settlement.** Settlement of RSUs shall be made within 30 days following the applicable date of vesting under the vesting schedule set forth in the Notice of Grant. Unless otherwise set forth in this Agreement, settlement of RSUs shall be in Shares.

**2. No Stockholder Rights.** Unless and until such time as Shares are issued in settlement of vested RSUs, Participant shall have no ownership of the Shares allocated to the RSUs and shall have no right to receive dividends or other distributions on such Shares or to vote such Shares.

**3. Dividend Equivalents.** Dividends, if any (whether in cash or Shares), shall not be credited to Participant.

**4. No Transfer.** The RSUs and any interest therein shall not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of.

**5. Termination.** If Participant's service Terminates for any reason, all unvested RSUs shall be forfeited to the Company forthwith, and all rights of Participant to such RSUs shall immediately terminate.

For purposes of this grant of RSUs, the Termination Date is deemed to occur on the date Participant is no longer actively providing services to the Company or a Subsidiary (regardless of the reason for such Termination and whether or not later to be found invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employee agreement, if any), and will not be extended by any notice period (e.g., Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any).

If there is any dispute as to whether Termination has occurred, the Committee shall have sole discretion to determine whether such Termination has occurred and the effective date of such Termination.

**6. Acknowledgement.** The Company and Participant agree that the RSUs are granted under and governed by the Notice of Grant, this Agreement and by the provisions of the Plan (incorporated herein by reference). Participant: (a) acknowledges receipt of a copy of the Plan and the Plan prospectus, (b) represents that Participant has carefully read and is familiar with their provisions, and (c) accepts the RSUs subject to all of the terms and conditions set forth herein and those set forth in the Plan and the Notice of Grant.

**7. Nature of Grant.** In accepting the grant, Participant acknowledges, understands and agrees that:

(a) the grant of the RSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of RSUs, or benefits in lieu of RSUs, even if RSUs have been granted in the past;

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(b) all decisions with respect to future RSUs or other grants, if any, will be at the sole discretion of the Committee;

(c) the RSUs and the Shares subject to the RSUs are not intended to replace any pension rights or compensation;

(d) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(e) Participant is voluntarily participating in the Plan;

(f) the future value of the Shares is unknown, indeterminable and cannot be predicted with certainty;

(g) no claim or entitlement to compensation or damages shall arise from forfeiture of the RSUs upon Termination of Participant's service relationship (whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's service agreement, if any), and in consideration of the grant of the RSUs to which Participant is otherwise not entitled, Participant irrevocably agrees never to institute any claim against the Company and any Subsidiary, waives Participant's ability, if any, to bring any such claim, and releases the Company and any Subsidiary from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, Participant shall be deemed irrevocably to have agreed not to pursue such claim and agreed to execute any and all documents necessary to request dismissal or withdrawal of such claim;

(h) unless otherwise provided in the Plan, the RSUs and the benefits evidenced by this Agreement do not create any entitlement to have the RSUs or any such benefits transferred to, or assumed by, another company or be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of the Company; and

(i) neither the Company and any Subsidiary shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of the RSUs or of any amounts due to Participant pursuant to the settlement of the RSUs or the subsequent sale of any Shares acquired upon settlement.

**8. No Advice Regarding Grant.** The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan or Participant's acquisition or sale of the Shares. Participant is hereby advised to consult with Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

**9. Data Privacy.** *Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other RSU grant materials by and among the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

*Participant understands that the Company and any Subsidiary may hold certain personal information about him or her, including, but not limited to, name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares or directorships held in the Company, details of all RSUs or any other entitlement to shares awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.*

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*Participant understands that Data will be transferred to E\*Trade Financial Services or such other stock plan service provider designated by the Committee which may be assisting the Company presently or in the future with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the U.S. or elsewhere, and that the recipients' country (e.g., the U.S.) may have different data privacy laws and protections than Participant's country. Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting Participant's local human resources representative. Participant authorizes the Company, E\*Trade Financial Services and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing Participant's participation in the Plan. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing Participant's local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her employment status or service and career with the Company or any Subsidiary will not be adversely affected; the only adverse consequence of refusing or withdrawing Participant's consent is that the Company would not be able to grant Participant RSUs or other equity awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that Participant may contact his or her local human resources representative.*

**10. Appendix.** Notwithstanding any provisions in this RSU Agreement, the RSUs shall be subject to any special terms and conditions set forth in the Appendix to this RSU Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this RSU Agreement.

**11. Imposition of Other Requirements.** The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the RSUs and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

**12. Responsibility for Taxes.** Regardless of any action the Company or, if different, Participant's employer (the "**Employer**") takes with respect to any or all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to participation in the Plan and legally applicable to Participant ("**Tax-Related Items**"), Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains Participant's responsibility and may exceed the amount actually withheld by the Company or the Employer. Participant further acknowledges and agrees that the Company and/or the Employer: (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the RSUs, including, but not limited to, the grant, vesting or settlement of the RSUs, the issuance of Shares upon settlement of the RSUs, the subsequent sale of Shares acquired pursuant to such issuance and the receipt of any dividends; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the RSUs to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if Participant is subject to Tax-Related Items in more than one jurisdiction between the date of grant and the date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

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Before any relevant taxable or tax withholding event, as applicable, Participant will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy their withholding obligations with regard to any Tax-Related Items by one or a combination of the following:

- (i) withholding from Participant's wages or other cash compensation paid to Participant by the Company and/or the Employer; or
- (ii) withholding from proceeds of the sale of Shares acquired upon settlement of the RSUs either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization); or
- (iii) withholding in Shares to be issued upon settlement of the RSUs.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case Participant will receive a refund of any over-withheld amount in cash and will have no entitlement to the Share equivalent. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, Participant is deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of Participant's participation in the Plan.

Finally, Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Participant's participation in the Plan that cannot be satisfied by the means described above. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares, if Participant fails to comply with his or her obligations in connection with the Tax-Related Items.

**13. Compliance with Laws and Regulations.** The issuance and delivery of Shares to Participant will be subject to and conditioned upon compliance by the Company and Participant with all applicable U.S. or foreign state and federal laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer.

**14. Successors and Assigns.** The Company may assign any of its rights under this Agreement. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, this Agreement will be binding upon Participant and Participant's heirs, executors, administrators, legal representatives, successors and assigns.

**15. Governing Law; Venue; Severability.** The Plan and Notice of Grant are incorporated herein by reference. The Plan, the Notice of Grant and this Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof. For purposes of any action, lawsuit or other proceedings brought to enforce this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of the City and County of San Francisco, California, or the United States federal courts for the Northern District of California, and no other courts. This Agreement is governed by Delaware law except for that body of law pertaining to conflict of laws. If any provision of this Agreement is determined by a court of law to be illegal or unenforceable, then such provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

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**16. Waiver.** Participant acknowledges that a waiver by the Company of the breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other participant.

**17. No Rights as Employee, Director or Consultant.** Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or a Parent or Subsidiary, to terminate Participant's employment or other service relationship for any reason, with or without cause.

**18. Language.** If Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

**19. Electronic Delivery and Acceptance.** The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

By your signature and the signature of the Company's representative on the Notice of Grant, Participant and the Company agree that this RSU is granted under and governed by the terms and conditions of the Plan, the Notice of Grant and this Agreement. Participant has reviewed the Plan, the Notice of Grant and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to signing this Agreement, and fully understands all provisions of the Plan, the Notice of Grant and this Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions relating to the Plan, the Notice of Grant and this Agreement. Participant further agrees to notify the Company upon any change in Participant's residence address.

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**APPENDIX  
COUNTRY-SPECIFIC TERMS AND CONDITIONS TO  
GLU MOBILE INC.  
AWARD AGREEMENT (RESTRICTED STOCK UNITS)**

***Terms and Conditions***

This Appendix includes additional terms and conditions that govern the RSUs granted to Participant if Participant resides in one of the countries listed herein. If Participant is a citizen or resident (or is considered as such for local law purposes) of a country other than the country in which Participant is currently residing, or if Participant transfers to another country after the grant but prior to the vesting of the RSUs, the Company shall, in its discretion, determine to what extent the additional terms and conditions contained herein shall be applicable to Participant.

***Notifications***

This Appendix may also include information regarding certain other issues of which Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control, tax and other laws in effect in the respective countries as of April 2013. Such laws are often complex and change frequently. As a result, the Company strongly recommends that Participant not rely on the information noted herein as the only source of information relating to the consequences of Participant's participation in the Plan because the information may be out of date at the time Participant vests in RSUs or sells shares acquired upon vesting of the RSUs. In addition, the information is general in nature and may not apply to Participant's particular situation, and the Company is not in a position to assure Participant of any particular result. Accordingly, Participant is advised to seek appropriate professional advice as to how the relevant laws in Participant's country may apply to his or her individual situation.

If Participant is a citizen or resident (or is considered as such for local law purposes) of a country other than the country in which Participant is currently residing, or if Participant transfers to another country after the grant but prior to the vesting of the RSUs, the notifications contained herein may not be applicable to Participant.

Capitalized terms used but not defined herein shall have the meanings ascribed to them in the RSU Agreement or the Plan.

**Canada**

***Terms and Conditions***

RSUs Payable Only in Shares. Notwithstanding any discretion contained in Section 9.3 of the Plan or Section 1 of the RSU Agreement, the grant of RSUs does not provide any right for Participant to receive a cash payment and the RSUs are payable in Shares only.

Termination. The following provision replaces the second paragraph of Section 5 of the RSU Agreement:

For purposes of this grant of RSUs, the Termination Date is deemed to occur effective as of the earlier of (a) the date Participant is no longer actively providing services to the Company or any Subsidiary, and (b) the date Participant receives notice of termination of service from the Employer, regardless of any notice period or period of pay in lieu of such notice required under local law (including, but not limited to statutory law, regulatory law and/or common law).

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### **Notifications**

**Securities Law Information.** Participant will not be permitted to sell or otherwise dispose of the shares acquired upon vesting of the RSUs within Canada. Participant will only be permitted to sell or dispose of any shares acquired under the Plan if such sale or disposal takes place outside of Canada on the facilities on which such shares are traded.

### ***The following provisions apply if Participant is a resident of Quebec:***

**Language Consent.** The parties acknowledge that it is their express wish that the RSU Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

*Les parties reconnaissent avoir exigé la rédaction en anglais de la convention, ainsi que de tous documents, avis et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement à, la présente convention.*

**Data Privacy.** The following provision supplements Section 9 of the RSU Agreement:

Participant hereby authorizes the Company and the Company's representatives to discuss and obtain all relevant information from all personnel, professional or non-professional, involved in the administration of the Plan. Participant further authorizes the Company and any Subsidiary to record such information and to keep such information in Participant's employment file.

### **China**

#### **Terms and Conditions**

The following applies only to Participants who are subject to exchange control restrictions in the People's Republic of China, as determined by the Company in its sole discretion.

Vesting of RSUs. Notwithstanding the vesting schedule set forth in the Notice of Grant or any other provision of the RSU Agreement, Participant agrees that the RSUs shall not vest unless and until the Company receives all necessary approvals from the State Administration of Foreign Exchange ("**SAFE**") to offer equity awards in China ("**SAFE Approval**"). If Participant's service relationship Terminates for any reason prior to receipt of the SAFE Approval, all unvested RSUs shall be forfeited to the Company forthwith, and all rights of Participant to such RSUs shall immediately terminate.

If SAFE Approval is received after the first or additional vesting dates would have occurred pursuant to the vesting schedule set forth in the Notice of Grant (but which did not occur in the absence of SAFE Approval) and provided Participant has continued to provide service to the Company or any Subsidiary through the date on which the SAFE Approval is received, on the date SAFE Approval is received, Participant will vest in the RSUs which would have vested on any vesting dates prior to the SAFE Approval date, and such RSUs shall be settled in accordance with Section 1 of the RSU Agreement. Any remaining RSUs will vest in accordance with the vesting schedule set forth in the Notice of Grant, subject to Participant's continued service with the Company or any Subsidiary.

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Settlement of RSUs and Sale of Shares. This provision supplements Section 1 of the RSU Agreement:

To facilitate compliance with local regulatory requirements, Participant agrees that the Company is entitled, at its discretion, to sell any Shares to be issued to Participant upon vesting of the RSUs. The sale may occur (a) immediately upon the vesting of the RSUs, (b) following Participant's Termination, or (c) within any other time frame as the Company determines to be necessary to comply with local regulatory requirements. Participant further agrees that the Company is authorized to instruct its designated broker to assist with the mandatory sale of such Shares (on Participant's behalf pursuant to this authorization) and Participant expressly authorizes the Company's designated broker to complete the sale of such Shares. Participant acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Shares at any particular price. Upon the sale of the Shares, the Company agrees to pay Participant the cash proceeds from the sale, less any brokerage fees or commissions and subject to any obligation to satisfy Tax-Related Items. Participant agrees that the payment of the cash proceeds will be subject to the repatriation requirements described below.

Participant further agrees that any Shares that may be issued to Participant shall be deposited directly into an account with the Company's designated broker. The deposited Shares may not be transferred (either electronically or in certificate form) from the brokerage account. This limitation shall apply both to transfers to different accounts with the same broker and to transfers to other brokerage firms. The limitation shall apply to all Shares issued to Participant under the Plan, whether or not Participant continues to be employed by the Company or one of its Subsidiaries. If Participant sells Shares issued upon vesting of the RSUs, the repatriation requirements described below shall apply.

Exchange Control Requirements. Participant understands and agrees that, pursuant to local exchange control requirements, Participant will be required to repatriate the cash proceeds from the sale of the Shares issued upon the vesting of the RSUs and any cash dividends paid on such Shares to China. Participant further understands that, under local law, such repatriation of his or her cash proceeds will need to be effectuated through a special exchange control account established by the Company or one of its Subsidiaries, and Participant hereby consents and agrees that any proceeds will be transferred to such special account prior to being delivered to Participant.

Participant further understands that the Company may decide to deliver the proceeds in U.S. dollars or in local currency. If the proceeds are to be delivered in U.S. dollars, Participant understands and agrees that he or she will be required to open a U.S. dollar account into which the proceeds may then be transferred. If the proceeds are to be delivered in local currency, Participant understands and agrees that the Company will be required to convert the proceeds prior to delivery. In this respect, the Participant acknowledges and agrees that the Company is under no obligation to secure any particular exchange conversion rate and that there may be delays in converting the cash proceeds to local currency due to exchange control restrictions. Participant agrees to bear any currency fluctuation risk between the time the cash proceeds are received and the time the cash proceeds are distributed to Participant through the special account described above.

Finally, Participant agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

## Russia

### Notifications

Exchange Control Information. Exchange control laws require Participants resident in Russia who sell Shares or receive dividends on such Shares to repatriate the proceeds to Russia within a reasonably short time. Such proceeds must initially be credited to Participant through a foreign currency account opened in Participant's name at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to a foreign bank subject to the following limitations: (a) the foreign account may be opened only for individuals; (b) the foreign account may not be used for business activities; (c) the Russian authorities must be given notice of the opening/closing of each foreign account within one month of the account opening/closing; and (d) the Russian tax authorities must be given notice of the account balances of such foreign accounts as of the beginning of each calendar year. ***Participant is strongly encouraged to contact Participant's personal advisor as exchange control requirements may change and non-compliance with applicable requirements can result in severe penalties for Participant.***

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Securities Law Information. The RSU Agreement, the Plan and all other materials that Participant may receive regarding participation in the Plan do not constitute advertising or an offering of securities in Russia. The issuance of securities pursuant to the Plan has not and will not be registered in Russia; hence, the securities described in any Plan-related documents may not be used for offering or public circulation in Russia.

When Participant acquires Shares upon vesting, the Shares will be held for Participant in a U.S. brokerage account. Participant will not be permitted to request share certificates and hold the certificates in Russia. Participant may sell his or her Shares on a U.S. stock market, but is not permitted to sell Shares directly to other Russian individuals.

Labor Law Information. If Participant continues to hold Shares after an involuntary termination of Participant's employment, Participant may not be eligible to receive unemployment benefits in Russia.

## United Kingdom

### Terms and Conditions

RSUs Payable in Shares Only. Notwithstanding any discretion contained in Section 9.3 of the Plan, the grant of RSUs does not provide any right for Participant to receive a cash payment and the RSUs are capable of settlement in Shares only.

Joint Election for the Transfer of Employer's National Insurance Contributions to the Employee. As a condition of participation in the Plan and the vesting of the RSUs, Participant agrees to accept any liability for secondary Class 1 National Insurance contributions ("NICs") that may be payable by the Company or the Employer in connection with the RSUs and any event giving rise to Tax-Related Items (the "**Employer NICs**"). The Employer NICs may be collected by the Company or the Employer using any of the methods described in Section 12 ("Responsibility for Taxes") of the RSU Agreement.

Without prejudice to the foregoing, Participant agrees to execute a joint election with the Company or the Employer (a "**Joint Election**"), the form of such Joint Election being formally approved by Her Majesty's Revenue and Customs ("**HMRC**"), and any other consent or elections required to accomplish the transfer of the Employer NICs liability to Participant. Participant further agrees to execute such other elections as may be required by any successor to the Company and/or the Employer for the purpose of continuing the effectiveness of Participant's Joint Election.

If Participant does not complete the Joint Election attached to this Appendix and return such completed Joint Election to the Employer prior to vesting of the RSUs, or if approval of the Joint Election is withdrawn by HMRC and a new Joint Election is not entered into, this award of RSUs shall become null and void and will not vest, without any liability to the Company, the Employer or any Parent or Subsidiary of the Company.

Withholding of Taxes. This provision supplements Section 12 of the RSU Agreement:

If payment or withholding of the income tax due is not made within 90 days of the event giving rise to the income tax or such other period specified in Section 222(1)(c) of the U.K. Income Tax (Earnings and Pensions) Act 2003 (the "**Due Date**"), the amount of any uncollected income tax shall constitute a loan owed by Participant to the Employer, effective as of the Due Date. Participant agrees that the loan will bear interest at the then-current official rate of HMRC, it shall be immediately due and repayable, and the Company or the Employer may recover it at any time thereafter by any of the means referred to in Section 12 of the RSU Agreement. Notwithstanding the foregoing, if Participant is a director or executive officer of the Company (within the meaning of Section 13(k) of the U.S. Securities and Exchange Act of 1934, as amended), he or she shall not be eligible for a loan from the Company to cover the income tax. If Participant is a director or executive officer and income tax is not collected from or paid by him or her by the Due Date, the amount of any uncollected income tax will constitute a benefit to Participant on which additional income tax and NICs will be payable. Participant will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for reimbursing the Company or the Employer (as applicable) for the value of the employee NICs due on this additional benefit.

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## United States

### Terms and Conditions

Termination. This provision replaces the second paragraph of Section 5 of the RSU Agreement:

If Participant is an employee of the Company or a Subsidiary, Participant's employment constitutes employment at-will, and nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or if applicable, Subsidiary of the Company, to terminate Participant's employment, for any reason at any time.

Responsibility for Taxes. The following provisions supplement Section 12 of the RSU Agreement:

Participant acknowledges that there will be tax consequences upon settlement of the RSUs or disposition of the Shares, if any, received in connection therewith, and Participant should consult a tax adviser regarding Participant's tax obligations prior to such settlement or disposition. Upon vesting of the RSU, Participant will include in income the fair market value of the Shares subject to the RSU. The included amount will be treated as ordinary income by Participant and will be subject to withholding by the Company when required by applicable law. Unless the Company notifies Participant in writing (where email will suffice) that Participant will make arrangements to pay the Company applicable income and employment taxes in cash, the Company shall withhold a number of Shares with a fair market value (determined on the applicable vesting date of the RSU) equal to the minimum amount the Company is required to withhold for income and employment taxes. Upon disposition of the Shares, any subsequent increase or decrease in value will be treated as short-term or long-term capital gain or loss, depending on whether the Shares are held for more than one year from the date of settlement. Further, a RSU is considered a deferral of compensation that is subject to Section 409A of the Code. Section 409A of the Code imposes special rules to the timing of making and effecting certain amendments of this RSU with respect to distribution of any deferred compensation. Participant should consult his or her personal tax advisor for more information on the actual and potential tax consequences of this RSU.

For purposes of the Agreement and to the extent applicable to a Participant, a termination of employment will be determined consistent with the rules relating to a "separation from service" as defined in Section 409A of the Internal Revenue Code and the regulations thereunder ("**Section 409A**"). Notwithstanding anything else provided herein, to the extent any payments/consideration provided under this Agreement constitute deferred compensation subject to Section 409A, and Participant is deemed at the time of such termination of employment or service to be a "specified employee" under Section 409A, then such payment shall not be made or commence until the earlier of (a) the expiration of the six-month period measured from the separation from service from the Company or (b) the date of Participant's death following such a separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to Participant including, without limitation, the additional tax for which Participant would otherwise be liable under Section 409A(a)(1)(B) in the absence of such a deferral. To the extent any payment under this Agreement may be classified as a "short-term deferral" within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this provision are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.



March 14, 2013

Kumars (Christopher) Akhavan

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Re: **Offer of Employment**

Dear Christopher:

This offer of employment replaces previous offer sent to you dated March 7, 2013. Glu Mobile Inc. (the "Company") is pleased to offer you a full-time regular exempt position with the Company as President of Publishing reporting to me. We would like your employment to begin on April 22, 2013 (the "Start Date") or such later Start Date as may be mutually agreeable. We are pleased to find someone with your vision and commitment to work as an integral part of our team. This offer is contingent on the Company's satisfactory acceptance of reference and background checks.

You will be entitled to receive a biweekly salary of \$10,000 (equal to a \$260,000 annual salary) (the "Base Salary") to be paid in accordance with the Company's normal payroll procedures.

You will also be eligible to participate in a Company bonus plan for the Company's 2013 fiscal year (the "Bonus Plan"). Payments under the Bonus Plan will be based on the achievement of specific Company objectives related to the financial performance of the Publishing organization under your supervision (the "Objectives"). The Bonus Plan will have a target payout of 100% of your annual Base Salary if you achieve the Objectives at the target level, with the opportunity for a payout of up to 200% of your annual Base Salary for achievement of the Objectives significantly in excess of the target level, with any such bonus payment under the Bonus Plan prorated for the 2013 fiscal year based on your Start Date. The specific Objectives will be determined by me and the Company's Chief Financial Officer, after consultation with you, after your Start Date and, if required, will be approved by the Company's Board or a committee of the Company's Board.

We will recommend that the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") grant you an option to purchase up to 300,000 shares of the common stock of the Company at the then current fair market value, which will be the closing price of the Company's common stock on The NASDAQ Global Market on the date of grant. We expect that the Compensation Committee will grant you your option on the second Tuesday of the month following your Start Date; accordingly, if your Start Date is April 22, 2013 then we would expect that your stock option would be granted to you on May 14, 2013. Your stock option will vest over four years, with 25% of the total number of shares subject to the option vesting on the one-year anniversary of the date of grant and the remainder vesting in equal installments on the monthly date of grant anniversary each month thereafter. All stock options issued to you shall be governed by the terms and conditions of the Company's 2008 Equity Inducement Plan or 2007 Equity Incentive Plan (as applicable) and Stock Option Agreement, which agreement will be executed by you and the Company upon Compensation Committee approval of the grant of the stock options hereunder.

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We will also recommend to the Compensation Committee that it approve the following severance arrangement in the event that your employment with the Company is terminated without Cause or as a result of an Involuntary Termination at any time within 12 months after a Change of Control, and you deliver to the Company a signed general release of claims: receipt of (i) six months of your then-current annual base salary, (ii) 50% of your annual bonus for such calendar year, based on your target potential bonus (not the amount actually payable), (iii) an additional 36 months of vesting with respect to each of your then-outstanding and not fully vested equity awards and (iv) up to six months of continuation coverage for you (and any eligible dependents) pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985.

**“Cause”** means (i) your committing of an act of gross negligence, gross misconduct or dishonesty, or other willful act, including misappropriation, embezzlement or fraud, that materially adversely affects the Company or any of the Company’s customers, suppliers or partners, (ii) your personal dishonesty, willful misconduct in the performance of services for the Company, or breach of fiduciary duty involving personal profit, (iii) your being convicted of, or pleading no contest to, any felony or misdemeanor involving fraud, breach of trust or misappropriation or any other act that the Company’s Board reasonably believes in good faith has materially adversely affected, or upon disclosure will materially adversely affect, the Company, including the Company’s public reputation, (iv) any material breach of any agreement with the Company by you that remains uncured for 30 days after written notice by the Company to you, unless that breach is incapable of cure, or any other material unauthorized use or disclosure of the Company’s confidential information or trade secrets involving personal benefit or (v) your failure to follow the lawful directions of the Company’s chief executive officer, in the scope of your employment unless you reasonably believe in good faith that these directions are not lawful and notify the chief executive officer of the reasons for your belief.

**“Involuntary Termination”** means your resignation of employment from the Company expressly based on the occurrence of any of the following conditions, without your informed written consent, provided, however, that with respect to each of the following conditions, you must (a) within 90 days following its occurrence, deliver to the Company a written notice explaining the specific basis for your belief that you are entitled to terminate your employment due to an Involuntary Termination and (b) give the Company an opportunity to cure any of the following within 30 days following delivery of such notice and explanation (i) a material reduction in your duties, position or responsibilities, or your removal from these duties, position and responsibilities, unless you are provided with a position of substantially equal or greater organizational level, duties, authority and compensation; provided, however, that a change of title, in and of itself, or a reduction of duties, position or responsibilities solely by virtue of the Company’s being acquired and made part of a larger entity will not constitute an “Involuntary Termination,” (ii) a greater than 15% reduction in your then-current annual base compensation that is not applicable to the Company’s other executive officers, or (iii) a relocation to a facility or a location more than 30 miles from your then-current location of employment.

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**“Change of Control”** means the closing of (i) a merger or consolidation in one transaction or a series of related transactions, in which the Company’s securities held by the Company’s stockholders before the merger or consolidation represent less than 50% of the outstanding voting equity securities of the surviving corporation after the transaction or series of related transactions, (ii) a sale or other transfer of all or substantially all of the Company’s assets as a going concern, in one transaction or a series of related transactions, followed by the distribution to the Company’s stockholders of any proceeds remaining after payment of creditors or (iii) a transfer of more than 50% of the Company’s outstanding voting equity securities by the Company’s stockholders to one or more related persons or entities other than the Company in one transaction or a series of related transactions.

In addition, we are offering you a signing bonus of \$100,000, less applicable payroll taxes (the “Signing Bonus”). The Signing Bonus will be paid to you in equal monthly installments over the course of your first year of employment with the Company – that is, the initial 1/12<sup>th</sup> of your Signing Bonus will be paid to you in your first paycheck following the one-month anniversary of your Start Date, the next 1/12<sup>th</sup> of your Signing Bonus will be paid to you in your first paycheck following the two-month anniversary of your Start Date and so on until the final installment of your Signing Bonus is paid in your first paycheck following the one-year anniversary of your Start Date. If your employment with the Company (or any affiliate of the Company) ends for any reason other than death, disability or reduction in force before the first anniversary of your Start Date, (1) the Company will have no obligation to pay to you any portion of your Signing Bonus which is unpaid on the date of your termination of employment with the Company (or any affiliate of the Company) and (2) you agree that you will repay to the Company the portion of the Signing Bonus that you already have received in full immediately upon termination. In addition, if your employment with the Company terminates for any reason other than death, disability or reduction in force between the first and second anniversaries of your Start Date, you will repay to the Company the Signing Bonus on a pro-rata basis (based on the number of months employed since your Start Date) immediately upon termination (e.g., if your employment with the Company terminates for any reason other than death, disability or reduction in force fifteen months after your Start Date, you would be required to repay 9/24ths of your Signing Bonus). If you are obligated to repay the Signing Bonus, in part or in full, you authorize the Company to deduct all or any portion of the amount owed from your final paycheck

As a Company employee, you will also be eligible to receive certain employee benefits, as modified by the Company from time to time, including medical, dental, and vision insurance coverage; sixteen days personal time off per year, plus such additional holiday time as is provided to the Company’s other regular employees; this currently includes the period between Christmas and New Year’s Day.

Your employment with the Company is for no specified period and constitutes an “AT-WILL” employment arrangement. As a result, you are free to resign at any time, with or without notice, for any reason or for no reason. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without notice and with or without cause.

For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of the Start Date, or our employment relationship with you may be terminated.

As a condition of your employment, you will be required to sign and comply with the Employee Proprietary Information and Inventions Agreement, a copy of which is attached hereto as Exhibit A. In addition, you agree that you will not engage in any other employment, occupation, consulting or other business activity related to the business in which the Company is now involved or becomes involved during the term of your employment, nor will you engage in any activities that conflict with your obligations to the Company.

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This letter, along with the Employee Proprietary Information and Information Agreement, sets forth the terms and conditions of your employment with the Company and supersede any prior representations or agreements, whether written or oral. This letter may not be modified or amended except by a written agreement, signed both by an officer of the Company and you.

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To accept the Company's offer of employment, please sign and date this letter in the space provided below and return it to me no later than March 15, 2013.

We believe Glu Mobile is poised to achieve great success. We anticipate that you will be a critical component of that success. We look forward to working with you.

Sincerely,

GLU MOBILE INC.

/s/ Niccolo de Masi  
Niccolo de Masi, President & CEO

ACCEPTED AND AGREED TO  
this 16th day of March 2013

/s/ Kumars (Christopher) Akhavan  
Kumars (Christopher) Akhavan

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**EXHIBIT A  
GLU MOBILE INC.**

**PROPRIETARY INFORMATION AND INVENTIONS AGREEMENT**

This Proprietary Information and Inventions Agreement (the "Agreement") is made and entered into this 16th day of March 2013 by and between GLU MOBILE INC., a Delaware corporation (the "Company"), and Kumars (Christopher) Akhavan (the "Employee"), and confirms the parties' mutual understanding with respect to the subject matter hereof, and constitutes a material part of the consideration for Employee's employment and/or continued employment with the Company.

**1. Confidential Information.**

a. **Definition.** Employee acknowledges and agrees that Employee has obtained or may now or hereafter obtain from the Company certain of the Company's confidential information, in whatever form, which includes, but is not limited to, all of the Company's (i) past, present and future research, (ii) business, development and marketing plans, (iii) customer lists and customer relationships, (iv) prices (except where publicly disclosed by the Company) and pricing strategies, (v) secret inventions, processes, methods and specifications, (vi) compilations of information (including, without limitation, studies, records, reports, drawings, memoranda, drafts and any other related information), (vii) trade secrets, (viii) product development proposals, and (ix) other ideas, concepts, strategies, designs, suggestions and recommendations relating, without limitation, to any of the foregoing or to any product developed or proposed to be developed by the Company or by the Employee and/or others for the Company (collectively, the "Confidential Information"). "Confidential Information" does not include any of the foregoing items which: i) at the time of disclosure was known to Employee free of any confidentiality obligations; and ii) has become publicly and widely known and made generally available through no wrongful act of Employee or of others who were under confidentiality obligations as to the information involved.

b. **Non-Disclosure and Return of Confidential Information.** Employee hereby acknowledges and agrees that the Company is the owner of all of the Confidential Information, as defined in Paragraph 1(a) of this Agreement, and all copyrights, trade secrets, patents, trademarks and all other intellectual or industrial property rights contained in, or associated with, any or all such Confidential Information. Employee shall not disclose to any other person, firm, corporation or other entity any of the Company's Confidential Information, or use any such Confidential Information for any purpose whatsoever, except as authorized in writing by the Company, and the Employee shall not, and shall not attempt to, reverse engineer, decompile or disassemble any of the Company's Products without the Company's prior written consent. Employee hereby acknowledges and agrees that the unauthorized use or disclosure of any of the Company's Confidential Information or any of the Company's intellectual or industrial property rights, constitute unfair competition under applicable law, and Employee shall not at any time during the term of this Agreement or thereafter engage in any such unfair competition with respect to the Company. Employee agrees that all Confidential Information are and shall remain the Company's property. Except in the course of providing services to the Company as an Employee, Employee agrees that Confidential Information shall not be copied by Employee without the Company's prior written consent, and shall not be removed from the Company's premises without the Company's prior written consent. Employee agrees that all Confidential Information shall be returned to the Company, along with any and all copies, immediately upon request therefore, or upon the termination of Employee's employment with the Company, whichever is first to occur.

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c. Previous Employer's Proprietary Information. During the course of employment with the Company, or at any other time, Employee shall not wrongfully use or disclose to the Company any proprietary information or trade secrets of Employee's former employer(s). Employee shall not bring onto the Company's premises any such information without first obtaining the express written consent of such former employer(s).

d. Third Party's Information. Employee acknowledges that the Company has received and may hereafter receive certain proprietary information from one or more third parties to which the Company is subject to a duty of non-disclosure and to restrictions on the use thereof. Employee agrees that the Employee owes the Company and any such third party, during the term of employment with the Company and thereafter, a duty to hold all such information in the strictest confidence, and Employee shall not disclose any such third party proprietary information or any portion thereof to any person, firm, corporation or other entity, or make use of such third party proprietary information in any way without the Company's and the third party's prior written consent.

## **2. Inventions.**

a. Ownership. All designs, processes, methods, formulas, techniques, artwork, brochures, manuals, products, procedures, programs, drawings, notes, documents, information, materials, discoveries and inventions (the "Designs and Inventions") made, conceived or developed by Employee alone or with others which (i) result from or relate to any and all work performed by Employee for the Company (the "Work"), (ii) may be disclosed to Employee by the Company while Employee performs any such Work, (iii) use or have used equipment, supplies, facilities or trade secret or confidential information of the Company's, (iv) relate at the time of conception or reduction to practice thereof to the business of the Company or to its actual or demonstrably anticipated research and development, or (v) use or have used the hours for which Employee is compensated by the Company, shall be the sole property of the Company, shall be considered "works made for hire" (as that term is defined under the United States Copyright Act, as amended), and shall be assigned to the Company immediately upon conception or development; provided, however, that any Design and Invention that does not meet any of the foregoing conditions shall not be deemed to be assigned by Employee to the Company hereunder. The Company shall have the sole right to determine the method of protection for any Designs and Inventions, which are owned by, or assigned to, the Company pursuant to this Paragraph 2(a), including the right to keep the same as trade secrets, to file and execute patent applications thereon, to use and disclose the same without prior patent applications, to file registrations for copyright or trademark thereon in the Company's own name or to follow any other procedure that the Company deems appropriate. Employee shall (i) disclose promptly to the Company in writing all such Designs and Inventions that are within the scope of this Paragraph 2(a); and (ii) provide the Company, at the Company's expense, with all assistance, and take all other actions, including the execution, delivery and filing of all applications, deeds of assignment, instruments and other documents, as reasonably requested by the Company, in order to permit the Company to obtain patents and/or register copyrights or trademarks, as the case may be, or otherwise to perfect and/or protect the Company's ownership of all rights, title and interests in and to all such Designs and Inventions. Employee hereby grants to the Company an irrevocable power of attorney to apply for and to execute such applications and deeds of assignment of any patent, copyright, trademark or other intellectual property right, in Employee's name, as the Company, in its sole discretion, determines to be necessary or appropriate to perfect and/or protect the Company's ownership of all rights, title and interests in and to all such Designs and Inventions. Employee's obligations under this Paragraph 2(a) with respect to such Designs and Inventions shall survive the termination of Employee's employment by the Company.

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b. Exemptions. Notwithstanding the provisions of Paragraph 3(a) of this Agreement, nothing herein shall obligate Employee to assign to the Company any inventions, or any rights therein, which fully qualify under the provisions of Section 2870 of the California Labor Code which provides as follows:

Invention on Own Time—Exemption from Agreement

a. Any provision in any employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to any invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

- (1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or
- (2) Result from any work performed by the employee for the employer.

b. To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

c. Previous Inventions. As a matter of record, Employee hereby certifies that attached hereto as Exhibit A is a complete and accurate list of all inventions and/or improvements relevant to the subject matter of this Agreement which have been made or conceived or first reduced to practice by Employee, alone or jointly with others, prior to the date of Employee's employment by the Company or any affiliate of the Company, which such inventions and/or improvements Employee desires not to be covered by this Agreement. IF EMPLOYEE FAILS TO ATTACH SUCH A LIST TO THE AGREEMENT, THEN SUCH OMISSION SHALL CONSTITUTE A REPRESENTATION BY EMPLOYEE THAT THERE ARE NO SUCH INVENTIONS AND/OR IMPROVEMENTS AT THE TIME OF SIGNING THIS AGREEMENT.

d. Subsequent Inventions. Employee understands and agrees that all designs and inventions reduced to practice following the termination of Employee's employment shall be presumed to have been conceived during Employee's employment with the Company and with the use of the Company's confidential or trade secret information, but such presumption may be overcome by a showing that such design or invention was conceived after such employment and without the use of any such information.

**3. Pre-existing Obligation.**

Employee represents and warrants that Employee is not under any pre-existing obligation(s) inconsistent with the provisions of this Agreement, and has not and will not enter into any contract which conflicts with, or would, if performed by Employee, cause a breach of, this Agreement.

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**Non-Solicitation of Employees/Consultants.** During Employee's employment with the Company and for a period of one (1) year thereafter, Employee will not directly or indirectly solicit away employees or consultants of the Company for Employee's own benefit or for the benefit of any other person or entity.

**Non-Solicitation of Suppliers/Customers.** During and after the termination of Employee's employment with the Company, Employee will not directly or indirectly solicit or otherwise take away customers or suppliers of the Company if, in so doing, Employee accesses, uses or discloses any trade secrets or proprietary or confidential information of the Company. Employee acknowledges and agrees that the names and addresses of the Company's customers and suppliers, and all other confidential information related to them, including their buying and selling habits and special needs, whether created or obtained by, or disclosed to Employee during Employee's employment, constitute trade secrets or proprietary or confidential information of the Company.

**4. Injunctive Relief.**

Employee acknowledges that a remedy at law for any breach of this Agreement would be inadequate relief, and Employee therefore agrees that the Company shall be entitled to injunctive relief, among other remedies, in case of any such breach or threatened breach by Employee.

**5. Survival of Terms.**

The provisions of paragraphs 1, 2, 4, 5, and 7 and shall survive the termination of Employee's employment with the Company, and no such termination shall relieve Employee from liability for any breach of this Agreement.

**6. Indemnities.**

Each party shall indemnify, defend and hold harmless the other party against and in respect of any and all claims, demands, losses, costs, expenses, obligations, liabilities, damages, recoveries and deficiencies that the other party shall incur or suffer by reason of any breach of this Agreement by the indemnifying party.

**7. Attorneys' Fees.**

If any legal action is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default of misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees and other costs incurred in that action, in addition to any other relief to which that party may be entitled.

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**8. Governing Law.**

This Agreement shall be governed by the laws of California, without giving effect to the principles of conflicts of law.

**9. Severability.**

If any term or provision of this Agreement shall be held invalid or unenforceable to any extent, the remainder of this Agreement shall not be affected and each other term and provision of this Agreement shall be valid to the fullest extent permitted by law.

**10. Headings.**

The paragraph headings contained in this Agreement are for reference only and shall not be considered as substantive parts of the Agreement.

**11. Entire Agreement; Modification; Waiver.**

This Agreement constitutes the entire agreement between the parties with respect to the subject matter contained herein and supersedes all prior and contemporaneous agreements, representations and understandings of the parties. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both parties. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver shall be binding unless executed in writing by the party making the waiver.

**12. Binding Effect.**

This Agreement shall be binding on and shall inure to the benefit of the parties to it and their respective heirs, legal successors, representatives and assigns.

**13. Attorney Review.**

Employee agrees that he or she has read and understands the terms of this Agreement, and that Employee is entering into the same voluntarily and without duress. Employee acknowledges that he or she has consulted with an attorney of the Employee's own choosing, or has had a reasonable opportunity to do so, concerning Employee's rights, duties and obligations under the terms of this Agreement. The rule of construction that any uncertainties or ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendment or modification hereto.

**IN WITNESS WHEREOF**, the parties have duly executed this Proprietary Information and Inventions Agreement as of the date and year first written above.

**GLU MOBILE INC.**

By: /s/ Niccolo de Masi  
Niccolo de Masi, President & CEO

**EMPLOYEE**

/s/ Kumars (Christopher) Akhavan  
Kumars (Christopher) Akhavan

**GLU MOBILE INC.**  
**SUMMARY OF NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM**

(Effective as of October 1, 2013)

On October 24, 2013 our Board approved the following program with respect to the compensation of our non-employee directors effective as of October 1, 2013:

**Cash Compensation**

Annual Retainer Fee:	\$ 30,000
Chairman of the Board Fee:	\$ 20,000
Annual Committee Fees:	
Audit Committee Chair	\$ 20,000
Audit Committee Member (other than Chair)	\$ 5,000
Compensation Committee Chair	\$ 15,000
Compensation Committee Member (other than Chair)	\$ 5,000
Nominating and Governance Committee Chair	\$ 5,000
Nominating and Governance Committee Member (other than Chair)	\$ 5,000
Strategy Committee Chair	\$ 20,000
Strategy Committee Member (other than Chair)	\$ 5,000

All cash compensation will be paid in quarterly installments based upon continuing service. We will also reimburse our directors for reasonable expenses in connection with attendance at Board and committee meetings.

**Equity Compensation**

Each year at about the time of our annual meeting of stockholders, each non-employee director will receive an additional equity award of, at that director's discretion, either 16,667 shares of restricted stock or an option to purchase 50,000 shares of our common stock. In either case the award will vest pro rata monthly over one year. About the time he or she joins the Board of Directors, each new non-employee director will receive an initial equity award of, at that director's discretion, either (a) a grant of 20,000 shares of restricted stock or (b) an option to purchase 60,000 shares of our common stock. In either case the award will vest as to 16 2/3% of the shares after six months and thereafter vest pro rata monthly over the next 30 months.

## GLU MOBILE INC.

## Subsidiaries as of March 14, 2014

<u>Name of Subsidiary</u>	<u>State or Other Jurisdiction of Incorporation or Organization</u>
Beijing Qinwang Technology Co. Ltd.	People's Republic Of China
Beijing Zhangzhong MIG Information Technology Co. Ltd.	People's Republic Of China
Blammo Games Inc.	Ontario, Canada
GameSpy Industries, Inc.	California, USA
Glu Games Inc.	Delaware, USA
Glu Mobile Limited	Hong Kong
Glu Mobile K.K.	Japan
Glu Mobile Korea Limited	Korea
Glu Mobile Limited	United Kingdom
Glu Mobile (Russia) Ltd.	United Kingdom
Glu Mobile Technology (Beijing) Co. Ltd.	People's Republic Of China
Griptonite, Inc.	Washington, USA
Griptonite Games Inc.	Delaware, USA
Griptonite Games India Private Limited	India
Maverick Mobile Entertainment (Beijing) Limited	People's Republic Of China

We have omitted certain subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2013.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-141487, 333-149996, 333-157959, 333-165813, 333-172983, 333-176318, 333-180110, 333-187311 and 333-190544) and in the Registration Statements on Form S-3 (Nos. 333-169131, 333-176325, 333-176327 and 333-190545) of Glu Mobile Inc. of our report dated March 14, 2014 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
March 14, 2014

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A)/15D-14(A) OF THE  
SECURITIES EXCHANGE ACT AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Niccolo M. de Masi, certify that:

1. I have reviewed this Annual Report on Form 10-K of Glu Mobile Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2014

/s/ Niccolo M. de Masi

Niccolo M. de Masi  
President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A)/15D-14(A) OF THE  
SECURITIES EXCHANGE ACT AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eric R. Ludwig, certify that:

1. I have reviewed this Annual Report on Form 10-K of Glu Mobile Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2014

/s/ Eric R. Ludwig

Eric R. Ludwig  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. §1350**

The undersigned, Niccolo M. de Masi, the President and Chief Executive Officer of Glu Mobile Inc. (the "Company"), pursuant to 18 U.S.C. §1350, hereby certifies that:

(i) the Annual Report on Form 10-K for the year ended December 31, 2013 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2014

By: /s/ Niccolo M. de Masi

Niccolo M. de Masi

*President and Chief Executive Officer*

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO §18 U.S.C. SECTION 1350**

The undersigned, Eric R. Ludwig, the Senior Vice President, Chief Financial Officer and Chief Administrative Officer of Glu Mobile Inc. (the "Company"), pursuant to 18 U.S.C. §1350, hereby certifies that:

(i) the Annual Report on Form 10-K for the year ended December 31, 2013 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2014

By: /s/ Eric R. Ludwig

Eric R. Ludwig

*Executive Vice President and Chief Financial Officer*

(Principal Financial Officer)

