

GLU MOBILE INC  
Form 10-Q  
November 08, 2018  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 10-Q

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(Mark One)

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

For the Quarterly Period Ended September 30, 2018

OR

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

For the Transition Period from                      to

Commission File Number 001-33368

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Glu Mobile Inc.

(Exact name of the Registrant as Specified in its Charter)

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Delaware                      91-2143667  
(State or Other Jurisdiction of    (I.R.S. Employer  
Incorporation or Organization) Identification No.)

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875 Howard Street, Suite 100

San Francisco, California 94103

(Address of Principal Executive Offices, including Zip Code)

(415) 800-6100

(Registrant's Telephone number, including Area Code)

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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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                         |                           |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer         |
| Non-accelerated filer   | Smaller reporting company |
|                         | Emerging growth company   |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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Shares of Glu Mobile Inc. common stock, \$0.0001 par value per share, outstanding as of November 1, 2018:  
143,246,988

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GLU MOBILE INC.

FORM 10-Q

Quarterly Period Ended September 30, 2018

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## GLU MOBILE INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except per share data)

|   | September 30,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>                               |                       |                      |
| Current assets:                             |                       |                      |
| Cash and cash equivalents                   | \$ 80,781             | \$ 63,764            |
| Accounts receivable, net                    | 38,008                | 34,673               |
| Prepaid royalties                           | 7,020                 | 2,994                |
| Deferred royalties                          | 4,288                 | 4,364                |
| Deferred platform commission fees           | 25,103                | 20,446               |
| Restricted cash                             | 110                   | 602                  |
| Prepaid expenses and other assets           | 8,128                 | 10,733               |
| Total current assets                        | 163,438               | 137,576              |
| Property and equipment, net                 | 12,788                | 14,630               |
| Long-term prepaid royalties                 | 3,822                 | 9,302                |
| Other long-term assets                      | 2,598                 | 3,299                |
| Intangible assets, net                      | 11,162                | 18,264               |
| Goodwill                                    | 116,227               | 116,227              |
| Total assets                                | \$ 310,035            | \$ 299,298           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                       |                      |
| Current liabilities:                        |                       |                      |
| Accounts payable                            | \$ 16,951             | \$ 21,203            |
| Accrued liabilities                         | 1,703                 | 1,154                |
| Accrued compensation                        | 13,189                | 20,603               |
| Accrued royalties                           | 13,651                | 11,782               |
| Accrued restructuring                       | 548                   | 759                  |
| Deferred revenue                            | 83,202                | 77,403               |
| Total current liabilities                   | 129,244               | 132,904              |
| Long-term accrued royalties                 | 3,597                 | 7,300                |
| Other long-term liabilities                 | 5,289                 | 5,234                |

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|  |            |            |
|--|------------|------------|
| Total liabilities  | 138,130    | 145,438    |
| Commitments and contingencies (Note 9)   |            |            |
| Stockholders' equity:  |            |            |
| Preferred stock, \$0.0001 par value; 5,000 shares authorized at September 30, 2018 and December 31, 2017; no shares issued and outstanding at September 30, 2018 and December 31, 2017                 | —          | —          |
| Common stock, \$0.0001 par value; 250,000 shares authorized at September 30, 2018 and December 31, 2017; 143,142 and 138,745 shares issued and outstanding at September 30, 2018 and December 31, 2017 | 14         | 14         |
| Additional paid-in capital   | 611,053    | 589,962    |
| Accumulated other comprehensive income/(loss)  | (1)        | (6)        |
| Accumulated deficit  | (439,161)  | (436,110)  |
| Total stockholders' equity   | 171,905    | 153,860    |
| Total liabilities and stockholders' equity   | \$ 310,035 | \$ 299,298 |

The accompanying Notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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GLU MOBILE INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

|  | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2018                                | 2017        | 2018                               | 2017        |
| Revenue  | \$ 99,285                           | \$ 81,148   | \$ 270,921                         | \$ 206,615  |
| Cost of revenue:   |                                     |             |                                    |             |
| Platform commissions, royalties and other                      | 34,384                              | 28,898      | 95,937                             | 74,519      |
| Impairment of prepaid royalties and minimum guarantees         | —                                   | 464         | 99                                 | 1,256       |
| Impairment and amortization of intangible assets               | 4,167                               | 2,363       | 7,102                              | 8,796       |
| Total cost of revenue  | 38,551                              | 31,725      | 103,138                            | 84,571      |
| Gross profit   | 60,734                              | 49,423      | 167,783                            | 122,044     |
| Operating expenses:  |                                     |             |                                    |             |
| Research and development                                       | 23,839                              | 22,004      | 69,381                             | 71,025      |
| Sales and marketing  | 28,874                              | 29,776      | 85,425                             | 78,015      |
| General and administrative                                     | 8,095                               | 8,698       | 23,593                             | 25,873      |
| Restructuring charge   | 160                                 | 1,402       | 240                                | 6,040       |
| Total operating expenses                                       | 60,968                              | 61,880      | 178,639                            | 180,953     |
| Loss from operations   | (234)                               | (12,457)    | (10,856)                           | (58,909)    |
| Interest and other income /(expense), net                      | 96                                  | (271)       | (521)                              | (340)       |
| Loss before income taxes                                       | (138)                               | (12,728)    | (11,377)                           | (59,249)    |
| Income tax (expense)/benefit                                   | (118)                               | 1,057       | (500)                              | 1,246       |
| Net loss   | \$ (256)                            | \$ (11,671) | \$ (11,877)                        | \$ (58,003) |
| Net loss per common share - basic and diluted                  | \$ (0.00)                           | \$ (0.09)   | \$ (0.08)                          | \$ (0.43)   |
| Weighted average common shares outstanding - basic and diluted | 142,378                             | 135,726     | 140,685                            | 135,047     |

The accompanying Notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.



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GLU MOBILE INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(in thousands)

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|  | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2018                                | 2017        | 2018                               | 2017        |
| Net loss                                 | \$ (256)                            | \$ (11,671) | \$ (11,877)                        | \$ (58,003) |
| Other comprehensive income/(loss):       |                                     |             |                                    |             |
| Foreign currency translation adjustments | (16)                                | (220) *     | 5                                  | (256) *     |
| Other comprehensive income/(loss)        | (16)                                | (220)       | 5                                  | (256)       |
| Comprehensive loss                       | \$ (272)                            | \$ (11,891) | \$ (11,872)                        | \$ (58,259) |

\* Includes release of cumulative translation adjustment upon substantial liquidation / winding down of the Company's foreign subsidiaries which is recognized in other income/(expense) in the Company's consolidated statements of operations for the three and nine months ended September 30, 2017.

The accompanying Notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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GLU MOBILE INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

|  | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
|  | 2018                               | 2017        |
| Cash flows from operating activities:  |                                    |             |
| Net loss   | \$ (11,877)                        | \$ (58,003) |
| Adjustments to reconcile net loss to net cash generated from/used in operating activities: |                                    |             |
| Depreciation   | 2,887                              | 2,447       |
| Impairment and amortization of intangible assets   | 7,102                              | 8,796       |
| Stock-based compensation   | 17,530                             | 10,639      |
| Warrant expense  | 1,046                              | 62          |
| Impairment of prepaid royalties and minimum guarantees                                     | 99                                 | 1,256       |
| Other non-cash adjustments   | 996                                | (1,594)     |
| Changes in operating assets and liabilities, net of effect of acquisitions:                |                                    |             |
| Accounts receivable  | (3,598)                            | (12,581)    |
| Prepaid royalties  | (859)                              | (14,408)    |
| Deferred royalties   | (713)                              | (733)       |
| Deferred platform commission fees  | (4,657)                            | (8,169)     |
| Prepaid expenses and other assets  | 65                                 | (3,804)     |
| Accounts payable and other accrued liabilities   | (2,836)                            | 6,541       |
| Accrued compensation   | (7,414)                            | 3,043       |
| Accrued royalties  | 380                                | 3,419       |
| Deferred revenue   | 15,414                             | 29,528      |
| Accrued restructuring  | (211)                              | 867         |
| Other long-term liabilities  | 55                                 | (641)       |
| Net cash generated from / (used in) operating activities                                   | 13,409                             | (33,335)    |
| Cash flows from investing activities:  |                                    |             |
| Purchase of property and equipment   | (1,912)                            | (3,651)     |
| Other investing activities   | —                                  | (810)       |
| Proceeds from divestiture of Moscow studio   | 2,726                              | —           |
| Net cash paid for acquisitions   | —                                  | (1,659)     |
| Net cash provided by / (used in) investing activities                                      | 814                                | (6,120)     |
| Cash flows from financing activities:  |                                    |             |
| Proceeds from exercise of stock options and purchases under the ESPP                       | 8,128                              | 1,631       |
| Taxes paid related to net share settlement of equity awards                                | (5,613)                            | (1,913)     |
| Net cash provided by / (used in) by financing activities                                   | 2,515                              | (282)       |

|   |           |           |
|---|-----------|-----------|
| Effect of exchange rate changes on cash                               | (213)     | (136)     |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 16,525    | (39,873)  |
| Cash, cash equivalents and restricted cash at beginning of period     | 64,366    | 103,414   |
| Cash, cash equivalents and restricted cash at end of period           | \$ 80,891 | \$ 63,541 |

The accompanying Notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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GLU MOBILE INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands, except per share data)

Note 1 — The Company, Basis of Presentation and Summary of Significant Accounting Policies

Glu Mobile Inc. (the “Company” or “Glu”) was incorporated in the state of Nevada in May 2001 and reincorporated in the state of Delaware in March 2007. The Company develops, publishes, and markets a portfolio of games designed for 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 brands, as well as third-party licensed brands, properties and other content.

Principles of Consolidation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States (“GAAP”) for complete financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 9, 2018. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, which the Company believes are necessary for a fair statement of the Company’s financial position as of September 30, 2018 and its unaudited condensed consolidated results of operations for the three and nine months ended September 30, 2018 and 2017, respectively. These unaudited condensed consolidated financial statements are not necessarily indicative of the results to be expected for the entire year. The unaudited condensed consolidated balance sheet presented as of December 31, 2017 has been derived from the audited consolidated financial statements as of that date, and the unaudited condensed consolidated balance sheet presented as of September 30, 2018 has been derived from the unaudited condensed consolidated financial statements as of that date. Certain prior year balances have been reclassified to conform to the current year presentation. Such reclassifications did not affect revenue, operating loss, net loss, cash flows, total assets, total liabilities or stockholders’ equity.

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

## Reclassifications

In 2018, the Company adopted Accounting Standards Update (“ASU”) 2016-18, Restricted Cash and ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. In addition, the Company condensed certain line items on the current period cash flow statement. Accordingly, the condensed consolidated statement of cash flow for the nine months ended September 30, 2017 has been reclassified to conform with the current period presentation under this new guidance. The Company adopted ASU 2016-18 by removing the line item “Decrease in restricted cash” from cash flows from investing activities for the nine months ended September 30, 2017. This resulted in an increase in net cash used in investing activities of \$710, reflecting the reclassification of the change in restricted cash during the nine months ended September 30, 2017.

## 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 revenue earned from customers or through Digital Storefronts located in the United States and other locations outside of the United States. The Company performs ongoing credit

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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 revenue from customers or aggregate purchases through Digital Storefronts in excess of 10% of the Company's revenue:

|        | Three Months<br>Ended<br>September 30, |        | Nine Months<br>Ended<br>September 30, |        |
|--------|--|--------|---------------------------------------|--------|
|        | 2018                                   | 2017   | 2018                                  | 2017   |
| Apple  | 53.9 %                                 | 54.8 % | 55.4 %                                | 53.6 % |
| Google | 31.7 %                                 | 30.5 % | 30.4 %                                | 30.7 % |

At September 30, 2018, Apple Inc. ("Apple"), Google Inc. ("Google"), and Tapjoy Inc. ("Tapjoy") accounted for 58.3%, 19.8%, and 15.1% of total accounts receivable. At December 31, 2017, Apple accounted for 58.0% and Google Inc. accounted for 17.1%, 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.

## Recent Accounting Pronouncements

## Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The Company adopted ASU 2014-09 and its related amendments effective on January 1, 2018 using the modified retrospective method. See Note 3 "Revenue from Contracts with Customers" for the required disclosures related to the impact of adopting this standard and a discussion of the Company's updated policies related to revenue recognition.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting

conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. It is effective prospectively for the annual period ending December 31, 2018 and interim periods within that annual period. The Company adopted this guidance in the first quarter of 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. ASU No. 2016-16 requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted this guidance in the first quarter of 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU No. 2016-15 addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted this guidance in the first quarter of 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall - Recognition and Measurement of Financial Assets and Financial Liabilities. The guidance requires entities to measure equity investments

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that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for a practicability exception. The updated standard is effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. The ASU adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting implications of the Tax Cuts and Jobs Act ("SAB 118"), which was effective immediately. The SEC issued SAB 118 to address concerns about reporting entities' ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Cuts and Jobs Act in the period of enactment. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the Tax Cuts and Jobs Act are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. The Company has accounted for the tax effects of the Tax Cuts and Jobs Act under the guidance of SAB 118, on a provisional basis. The Company's accounting for certain income tax effects is incomplete, but it has determined reasonable estimates for those effects and has recorded provisional amounts in its unaudited condensed consolidated financial statements as of September 30, 2018 and December 31, 2017.

## Recently Issued Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This new accounting standard update simplifies the measurement of goodwill by eliminating the Step 2 impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The new guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new guidance becomes effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, though early adoption is permitted. The Company is currently assessing the impact of this new guidance.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805), which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard will be effective in the first quarter of fiscal 2019. Early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.



In February 2016, the FASB issued ASU No. 2016-02, Leases. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements and ASU 2018-10, Codification Improvements to Topic 842, Leases. ASU 2016-02 and the subsequent modifications are identified as “ASC 842”. ASC 842 requires lessees to recognize most leases as assets and liabilities on the balance sheet. Qualitative and quantitative disclosures will be enhanced to better understand the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for annual and interim periods beginning after December 31, 2018. The updated standard mandates a modified retrospective transition method with early adoption permitted. The Company expects the adoption will increase the assets and liabilities recorded on its consolidated balance sheet and increase the level of disclosures related to leases. In addition, the Company is in the process of identifying appropriate changes to its accounting policies, business processes, and related internal controls to support recognition and disclosure requirements under ASC 842. The Company expects to design any necessary changes to its business processes, controls and systems in the near future and implement the changes over the remainder of 2018.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The standard provides financial statement preparers with an option to reclassify stranded tax effects within Accumulated Other Comprehensive Loss to retained earnings in each period in which the effect of the

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change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. ASU 2018-02 is effective for the Company beginning in fiscal 2019, including interim periods within that fiscal year. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The guidance simplifies the accounting for share-based payments made to non-employees so the accounting for such payments is substantially the same as those made to employees. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements. This amendment makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standards Codification (ASC). The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments do not require transition guidance and are effective upon issuance of the guidance. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This guidance adds, modifies and removes several disclosure requirements relative to the three levels of inputs used to measure fair value in accordance with Topic 820, Fair Value Measurement. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU clarifies the accounting treatment for implementation costs for cloud computing arrangements (hosting arrangements) that are service contracts. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

## Note 2 — Net Loss Per Share

The Company computes 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 common shares subject to restrictions imposed by the Company.

|  | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2018                                | 2017        | 2018                               | 2017        |
| Net loss   | \$ (256)                            | \$ (11,671) | \$ (11,877)                        | \$ (58,003) |
| Shares used to compute net loss per share:                                   |                                     |             |                                    |             |
| Weighted average common shares outstanding                                   | 142,378                             | 135,726     | 140,685                            | 135,047     |
| Weighted average shares used to compute basic and diluted net loss per share | 142,378                             | 135,726     | 140,685                            | 135,047     |
| Net loss per share - basic and diluted                                       | \$ (0.00)                           | \$ (0.09)   | \$ (0.08)                          | \$ (0.43)   |

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The weighted average of the following options to purchase common stock, warrants to purchase common stock, and restricted stock units (“RSUs”) have been excluded from the computation of net loss per share of common stock for the periods presented because including them would have had an anti-dilutive effect:

|                                   | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|-----------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                   | 2018                                | 2017   | 2018                               | 2017   |
| Warrants to purchase common stock | 3,267                               | 4,267  | 3,267                              | 4,267  |
| Options to purchase common stock  | 18,147                              | 15,955 | 18,629                             | 16,214 |
| RSUs                              | 3,665                               | 7,506  | 4,525                              | 7,936  |
|                                   | 25,079                              | 27,728 | 26,421                             | 28,417 |

## Note

## Note 3 — Revenue from Contracts with Customers

The Company generates revenue through in-app purchases within its games on smartphones and tablets, such as Apple’s iPhone and iPad and mobile devices utilizing Google’s Android operating system. Smartphone and tablet games are distributed primarily through Digital Storefronts. 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.

The users can download the Company’s free-to-play games within the Digital Storefronts and pay to acquire virtual currency which can be redeemed in the game for virtual goods. The Company sells both consumable and durable virtual goods and receives reports from the Digital Storefronts, which breakdown the various purchases made from the Company’s games over a given time period. The Company reviews these reports and determines on a per-item basis whether the purchase was a consumable virtual good or a durable virtual good. Consumable goods are items that can be purchased directly by the player through the Digital Storefront and are consumed at a predetermined time or otherwise have limitations on repeated use, while durable goods are items that remain in the game for as long as the player continues to play. The Company’s revenue from consumable virtual goods has been insignificant. Revenue 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 furniture, clothes, players or other items to enhance their game-playing experience.

The Company adopted ASC 606 and its related amendments effective January 1, 2018 using a modified retrospective method. The reported results for 2018 reflect the application of ASC 606 guidance while the reported results for 2017 were prepared under the guidance of ASC 605, Revenue Recognition (ASC 605), which is also referred to herein as

"legacy GAAP" or the "previous guidance". The adoption of ASC 606 represents a change in accounting principle that will more closely align revenue recognition with the delivery of the Company's services and will provide financial statement readers with enhanced disclosures.

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services. To achieve this core principle, the Company applies the following five steps:

1) Identify the contract with a customer

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the services to be transferred and identifies the payment terms related to these services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

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2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised services, the Company must apply judgment to determine whether promised services are capable of being distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation.

3) Determine the transaction price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer. Determining the transaction price requires significant judgment, which is discussed by revenue category in further detail below.

4) Allocate the transaction price to performance obligations in the contract

All of the Company's contracts have a single performance obligation. The entire transaction price is allocated to the single performance obligation.

5) Recognize revenue when or as the Company satisfies a performance obligation

The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised service to a customer.

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the three and nine months ended September 30, 2018:

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|  | Three Months Ended<br>September 30, 2018 | Nine Months Ended<br>September 30, 2018 |
|--|--|---|
| Micro-Transactions (Over-time revenue recognition) | \$ 85,062                                | \$ 234,066                              |
| Advertisements (point-in-time revenue recognition) | 1,916                                    | 5,705                                   |
| Offers (point-in-time recognition)                 | 12,276                                   | 30,867                                  |
| Other (point-in-time recognition)                  | 31                                       | 283                                     |
| Total Revenue                                      | \$ 99,285                                | \$ 270,921                              |

The Company reports as a single segment – mobile games. In the disaggregation above, the Company categorizes revenue by type, and by over-time or point-in-time recognition.

#### Micro-Transactions

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 initial download of the mobile game from the Digital Storefront does not create a contract under ASC 606 because of the lack of commercial substance; however, the separate election by the player to make an in-application purchase satisfies the criterion thus creating a contract under ASC 606. The Company has identified the following performance obligations in these contracts:

- (1) Ongoing game related services such as hosting of game play, storage of customer content, when and if available

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content updates, maintaining the virtual currency management engine, tracking gameplay statistics, matchmaking as it relates to multiple player gameplay, etc.

(2) Obligation to the paying player to continue displaying and providing access to the purchased virtual goods within the game.

Neither of these obligations are considered distinct since the actual mobile game and the related ongoing services are both required to purchase and benefit from the related virtual goods. As such, the Company's performance obligations represent a single combined performance obligation which is to make the game and the ongoing game related services available to the players. The transaction price, which is the amount paid for virtual currency/goods by the player, is allocated entirely to this single combined performance obligation. The Company recognizes revenue from in-application purchases of durable virtual currency/goods over the estimated average playing period of paying users. The Company's revenue from consumable virtual goods has been insignificant over the previous two years. Based on the Company's analysis, the estimated weighted average useful life of a paying user ranges from three to eight months.

## Advertisements and Offers

The Company has relationships with certain advertising service providers for advertisements within its mobile games. Revenue from these advertising service providers is generated through impressions, clickthroughs, offers and banner ads. Offers are the type of advertisements where the players are rewarded with virtual currency for completing specified actions, such as downloading another application, watching a short video, subscribing to a service or completing a survey. The Company has determined the advertising buyer to be its customer and displaying the advertisements within the mobile games is identified as the single performance obligation. Revenue from advertisements and offers are recognized at the point-in-time the advertisements are displayed in the game or the offer has been completed by the user as the customer simultaneously receives and consumes the benefits provided from these services.

## Other

Other revenue was immaterial for the three and nine months ended September 30, 2018.

## Other Estimates and Judgments

The Company estimates revenue from Digital Storefronts and advertising service providers in the current period. Certain Digital Storefronts and advertising service providers 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 revenue and therefore to recognize revenue 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 significant differences between estimated revenue and actual revenue in the reporting period when the Company determines the actual amounts. Historically, the revenue on a final revenue report has not differed significantly from the reported revenue for the period.

The Company computes its estimated average playing period of paying users at least twice each year. It has examined the playing patterns of paying users across a representative sample of its games across various genres.

The Company uses the "survival analysis" model to estimate the average playing period for paying users. This model provides for a singular approach to estimating the average playing period of paying users on a title by title basis for the Company's diverse portfolio of games. It is a statistical model that analyzes time duration until one or more events happens and is commonly used in various industries for estimating lifespans. The Company believes this is an appropriate model to estimate the average playing period of paying users for its titles as this model statistically estimates the average playing period of each title by analyzing the historical behavior patterns of paying users.

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This model requires the stratification of user data into active and inactive monetizing users on a per title basis. Active users are those who are active in the game for the past 30 days as of the evaluation date. The remaining users are considered inactive and deemed to have churned from the game. These users are treated mathematically differently in the model than those who are still active. A distribution curve is then fit to the user data to estimate the average playing period of paying users on a per title basis.

The Company has selected a threshold of 120 days from the commercial launch of a title as the minimum number of days of data required for this model. This threshold was deemed to be appropriate as the Company tested the model using lower thresholds which resulted in inconsistencies in the estimate of the average playing period of paying users. For new titles with less than 120 days of data that share similar attributes with an existing title and/or prequel titles, the average playing period is determined based on the average playing period of that existing title or prequel title, as applicable. For all other titles with less than 120 days of data, the average playing period is determined based on the average playing period of all other remaining existing titles.

While the Company believes its estimates to be reasonable based on available game player information, it may revise such estimates in the future if a titles' user characteristics change. Any adjustments arising from changes in the estimates of the average playing period for paying users would be applied to the current quarter and prospectively on the basis that such changes are caused by new information that indicates a change in user behavior patterns compared to historical titles. Any changes in the Company's estimates of the useful life of virtual goods in a certain title may result in revenue being recognized on a basis different from prior periods' and may cause its operating results to fluctuate.

## Principal Agent Considerations

The Company evaluated its Digital Storefront and advertising service provider agreements under ASC 606 in order to determine if it is acting as the principal or as an agent when selling its games or when selling advertisements within its games. The Company primarily uses Digital Storefronts for distributing its smartphone games and advertising service providers for serving advertisements within its games. The Company evaluated the following factors to assess whether it controls each specified good or service before that good or service is transferred to the customer:

- the party responsible for the fulfillment of the game or serving of advertisements;
- the party having the discretion to set pricing with the end-users; and
- the party having inventory risk before the specified good or service have been transferred to a customer.

Based on the evaluation of the above indicators, the Company determined that it has control of the services before they are transferred to the end-user. Thus, the Company is generally acting as a principal and is the primary obligor to end-users for games distributed through Digital Storefronts and advertisements served through its advertising service providers. Therefore, the Company recognizes revenue related to these arrangements on a gross basis, when the

necessary information about the gross amounts or platform fees charged, before any adjustments, are made available by the Digital Storefronts and advertising service providers. In situations where the price paid by the end-user of the advertising service provider is not known, the Company accounts for these transactions 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 or significantly incorporating licensed brands, properties or other content, and the Company plans to incorporate additional licensed content in some of its own originally branded games. As revenue 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 on the consolidated balance sheets. The deferred platform commissions

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and royalties are recognized in the consolidated statements of operations in “Cost of revenue” in the period in which the related sales are recognized as revenue.

On the date of adoption of ASC 606, the Company had \$20,446 in deferred platform commission fees of which \$261 and \$20,446 was amortized in the three and nine months ended September 30, 2018, respectively. On the date of adoption of ASC 606, the Company had \$3,575 in deferred royalties of which \$0 and \$3,575 was amortized in the three and nine months ended September 30, 2018, respectively. As of September 30, 2018, the Company had \$25,103 and \$4,288 in deferred platform commission fees and deferred royalties, respectively.

## Financial Statement Impact of Adopting ASC 606

The cumulative effect of applying the new guidance to all contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to accumulated deficit as of the adoption date. As a result of applying the modified retrospective method to adopt the new revenue guidance, the following adjustments were made to accounts on the consolidated balance sheet as of January 1, 2018:

|                     | As<br>Reported<br>December<br>31, 2017 | Adjustments | As Adjusted<br>January 1,<br>2018 |
|---------------------|--|-------------|-----------------------------------|
| Balances            |  |             |                                   |
| Deferred royalties  | \$ 4,364                               | \$ (789)    | \$ 3,575                          |
| Deferred revenue    | \$ 77,403                              | \$ (9,615)  | \$ 67,788                         |
| Accumulated deficit | \$ (436,110)                           | \$ 8,826    | \$ (427,284)                      |

## Sale of Offer Advertisements

Under the previous guidance, the fees received for offer advertisements were deferred and recognized over the average playing period of paying users. Under ASC 606, the sale of offer advertisements that result in users receiving virtual currency for redemption within a game is recognized at the time such advertisements are delivered and reported to the Company as the performance obligations are deemed to be satisfied when the advertisement has been displayed in the game.

## Income Taxes

The adoption of ASC 606 primarily resulted in an acceleration of revenue in the three and nine months ended September 30, 2018, which in turn generated additional deferred tax liabilities that ultimately reduced the Company's net deferred tax asset position. As the Company fully reserves its net deferred tax assets in the jurisdictions impacted by the adoption of ASC 606, this impact was offset by a corresponding reduction to the valuation allowance.

#### Practical Expedients

We applied the following expedients available under the cumulative effect method upon adoption of ASC 606:

1. practical expedient listed under 606-10-65-1(f)(3), and chose not to disclose the amount of consideration allocated to the remaining performance obligations or an explanation of when the Company expects to recognize that amount as revenue for all reporting periods presented before the date of the initial application i.e., January 1, 2018.
2. practical expedient listed under 606-10-65-1(h), and chose not to restate contracts that were completed contracts as of the date of initial application i.e., January 1, 2018.

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## Impacts on Financial Statement Line Items

The following table compares the reported line items in the balance sheet, statement of operations and cash flows, as of and for the three and nine months ended September 30, 2018, to the amounts that the Company would have reported had the previous guidance been in effect:

|  | As of September 30, 2018                    |             |                |
|--|---|-------------|----------------|
|  | Amounts<br>based<br>on previous<br>guidance | Adjustments | As<br>Reported |
| Balance Sheet                              |   |             |                |
| Deferred royalties                         | \$ 5,435                                    | \$ (1,147)  | \$ 4,288       |
| Total current assets                       | 164,585                                     | (1,147)     | 163,438        |
| Total assets                               | 311,182                                     | (1,147)     | 310,035        |
| Deferred revenue                           | 94,380                                      | (11,178)    | 83,202         |
| Total current liabilities                  | 140,422                                     | (11,178)    | 129,244        |
| Total liabilities                          | 149,308                                     | (11,178)    | 138,130        |
| Accumulated deficit                        | (449,192)                                   | 10,031      | (439,161)      |
| Total stockholders' equity                 | 161,874                                     | 10,031      | 171,905        |
| Total liabilities and stockholders' equity | \$ 311,182                                  | \$ (1,147)  | \$ 310,035     |

ASC 606 accelerated the recognition of revenue and royalty costs related to offer advertisements which was previously recognized over the estimated average playing period of paying players. As of September 30, 2018, the deferred revenue and deferred royalties would have been higher by \$11,178 and \$1,147, respectively had the previous guidance been in effect.

|   | Three Months Ended September 30, 2018          |             |                | Nine Months Ended September 30, 2018        |             |                |
|---|--|-------------|----------------|---|-------------|----------------|
|   | Amounts<br>based<br>on<br>previous<br>guidance | Adjustments | As<br>Reported | Amounts<br>based<br>on previous<br>guidance | Adjustments | As<br>Reported |
| Statement of Operations                   |  |             |                |   |             |                |
| Revenue                                   | \$ 97,705                                      | \$ 1,580    | \$ 99,285      | \$ 269,357                                  | \$ 1,564    | \$ 270,921     |
| Platform commissions, royalties and other | 34,300   | 84          | 34,384         | 95,579                                      | 358         | 95,937         |
| Total cost of revenue                     | 38,467   | 84          | 38,551         | 102,780                                     | 358         | 103,138        |
| Gross profit                              | 59,238   | 1,496       | 60,734         | 166,577                                     | 1,206       | 167,783        |
| Loss from operations                      | (1,730)  | 1,496       | (234)          | (12,062)                                    | 1,206       | (10,856)       |
| Loss before income taxes                  | (1,634)  | 1,496       | (138)          | (12,583)                                    | 1,206       | (11,377)       |

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|  |            |          |           |             |          |             |
|--|------------|----------|-----------|-------------|----------|-------------|
| Net loss   | \$ (1,752) | \$ 1,496 | \$ (256)  | \$ (13,083) | \$ 1,206 | \$ (11,877) |
| Net loss per common share - basic<br>and diluted | \$ (0.01)  |          | \$ (0.00) | \$ (0.09)   |          | \$ (0.08)   |

The acceleration of revenue recognition and royalty costs related to offer advertisements under ASC 606 increased revenue and royalties by \$1,580 and \$84, respectively, for the three months ended September 30, 2018.

The acceleration of revenue recognition and royalty costs related to offer advertisements under ASC 606 increased revenue by \$1,564 and increased royalty costs by \$358, respectively, for the nine months ended September 30, 2018.

The net impact of accounting for revenue and royalties under the new guidance decreased net loss and net loss per share by \$1,496 and \$0.01 per basic and diluted share, respectively, for the three months ended September 30, 2018.

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The net impact of accounting for revenue and royalties under the new guidance decreased net loss and net loss per share by \$1,206 and \$0.01 per basic and diluted share, respectively, for the nine months ended September 30, 2018.

|  | Nine Months Ended September 30, 2018        |             |                |
|--|---|-------------|----------------|
|  | Amounts<br>based<br>on previous<br>guidance | Adjustments | As<br>Reported |
| Statement of Cash Flows  |   |             |                |
| Cash flows from operating activities:  |   |             |                |
| Net loss   | \$ (13,083)                                 | \$ 1,206    | \$ (11,877)    |
| Adjustments to reconcile net loss to net cash generated from operating activities: |   |             |                |
| Deferred royalties   | (1,071)                                     | 358         | (713)          |
| Deferred revenue   | 16,978                                      | (1,564)     | 15,414         |
| Net cash generated from operating activities                                       | \$ 13,409                                   | \$ —        | \$ 13,409      |

The adoption of ASC 606 had no impact on the Company's cash flows from operations. The aforementioned impacts resulted in offsetting shifts in cash flows throughout net loss and changes in working capital balances.

## Contract Balances

The following table provides information about receivables, contracts assets, and contract liabilities from contracts with customers:

|   | September 30, 2018 | At Adoption |
|---|--------------------|-------------|
| Receivables, which are included in accounts receivable, net | \$ 38,008          | \$ 34,673   |
| Contract assets   | -                  | -           |
| Contract liabilities  | \$ 83,202          | \$ 67,788   |

The Company receives payments from customers based on billing terms established in the Company's contracts. Contract asset relates to the Company's right to consideration for its completed performance under the contract. At September 30, 2018, there were no contract assets recorded in the Company's consolidated balance sheet. Accounts receivable are recorded when the right to consideration becomes unconditional.



Deferred revenue relates to payments received in advance of performance under the contract. Deferred revenue is recognized as revenue as we perform under the contract. On the date of adoption of ASC 606, the Company had \$67,788 in deferred revenue of which \$860 and \$67,788 respectively, was earned in the three and nine months ended September 30, 2018.

ASC 606 requires an entity to disclose the revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, due to changes in transaction price). Revenue recognized relating to performance obligations satisfied in prior periods was \$0 for the three and nine months ended September 30, 2018.

The Company elects to use the practical expedient under 606-10-50-14 which states an entity need not disclose the information in paragraph 606-10-50-13 for a performance obligation if the following criteria are met:

1. the performance obligation is part of a contract that has an original expected duration of one year or less; and
2. the entity recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph 606-10-55-18 (right to invoice).

Since all of the Company's contracts have an original expected duration of one year or less, the Company elects to use this practical expedient and does not disclose the aggregate transaction price allocated to unsatisfied or partially satisfied performance obligations.

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Note 4 — Divestiture

Divestiture of Moscow Studio

On December 31, 2017, the Company entered into the following agreements related to the divestiture of its Moscow-based game development studio (the “Moscow Studio”) through the sale of its wholly-owned UK subsidiary Glu Mobile (Russia) Limited (“GMRL”):

- Share Purchase Agreement (the “SPA”) between the Company and Saber Interactive (“Saber”);
- Transitional Services Agreement (the “TSA”) among the Company, Saber and MGL. My.com (Cyprus) Limited (“MGL”); and
- Asset Purchase and License Agreement (the “APLA”) between the Company and MGL.

The total cash consideration the Company received under the SPA and APLA was \$3,226, of which \$1,726 was received in January 2018. The remaining \$1,500, net of a transition bonus payment of \$500, was received in April 2018 upon completion of the transition of the legacy titles from the Moscow Studio to the Company’s Hyderabad studio.

In connection with the activities related to the transition under the TSA, no expenses were recorded in the three months ended September 30, 2018. In connection with the activities related to the transition under the TSA, the Company recorded the following expenses in the nine months ended September 30, 2018:

- \$500 related to bonuses that became due to the employees of the Moscow Studio and GMRL;
- \$514 related to the vesting of 147 shares subject to equity awards held by certain employees of the Moscow Studio and GMRL; and
- \$515 related to the amortization of transition services assets that were capitalized as part of the transaction consideration.

The Company’s divestiture of the Moscow Studio was part of the Company’s efforts to consolidate its studio locations, focusing on a new scaled creative center in San Francisco and a low cost, repeatable location in Hyderabad, India. This divestiture was not presented in discontinued operations in the consolidated statement of operations, because it did not represent a strategic shift in the Company’s business and is not expected to have a significant effect on the Company’s operations or financial results, as the Company continued operating similar businesses after the divestiture.

## Note 5 — Fair Value Measurements

### Fair Value Measurements

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.

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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.

As of September 30, 2018, the Company's financial assets are presented below at fair value and were classified within the fair value hierarchy as follows:

|                           | Level 1   | Level<br>2 | Level 3  | September 30, 2018 |
|---------------------------|-----------|------------|----------|--------------------|
| Financial Assets          |           |            |          |                    |
| Cash and cash equivalents | \$ 80,781 | \$ —       | \$ —     | \$ 80,781          |
| Restricted cash           | 110       | —          | —        | 110                |
| Other investments         | —         | —          | 1,410    | 1,410              |
| Total Financial Assets    | \$ 80,891 | \$ —       | \$ 1,410 | \$ 82,301          |

As of December 31, 2017, the Company's financial assets are presented below at fair value and were classified within the fair value hierarchy as follows:

|                           | Level 1   | Level<br>2 | Level 3  | December 31, 2017 |
|---------------------------|-----------|------------|----------|-------------------|
| Financial Assets          |           |            |          |                   |
| Cash and cash equivalents | \$ 63,764 | \$ —       | \$ —     | \$ 63,764         |
| Restricted cash           | 602       | —          | —        | 602               |
| Other investments         | —         | —          | 1,410    | 1,410             |
| Total Financial Assets    | \$ 64,366 | \$ —       | \$ 1,410 | \$ 65,776         |

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. 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 payment or receipt of cash. The carrying value of other investments approximates fair value, as the Company purchased these investments in fiscal 2017 and there has been no events or changes in circumstances that would have had a significant effect on the fair value of these investments at September 30, 2018.

## Note 6 — Balance Sheet Components

## Accounts Receivable, net

|                                       | September 30,<br>2018 | December 31,<br>2017 |
|---------------------------------------|-----------------------|----------------------|
| Accounts receivable                   | \$ 38,008             | \$ 35,510            |
| Less: Allowance for doubtful accounts | —                     | (837)                |
|                                       | \$ 38,008             | \$ 34,673            |

Accounts receivable includes amounts billed and unbilled as of the respective balance sheet dates, but net of platform commissions paid to the Digital Storefronts. The Company had no bad debts during the three and nine months ended September 30, 2018 and 2017.

## Prepaid Expenses and Other Assets

|          | September 30,<br>2018 | December 31,<br>2017 |
|----------|-----------------------|----------------------|
| Deposits | \$ 3,540              | \$ 5,464             |
| Other    | 4,588                 | 5,269                |
|          | \$ 8,128              | \$ 10,733            |

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## Note 7 — Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the unaudited condensed consolidated balance sheets that sum to the total of the same amounts shown in the unaudited statements of cash flows:

|   | Nine Months Ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2018                               | 2017       |
| Cash and cash equivalents at beginning of period                  | \$ 63,764                          | \$ 102,102 |
| Restricted cash at beginning of the period                        | 602                                | 1,312      |
| Cash, cash equivalents and restricted cash at beginning of period | \$ 64,366                          | \$ 103,414 |
| Cash and cash equivalents at end of period                        | 80,781                             | 62,939     |
| Restricted cash at end of the period                              | 110                                | 602        |
| Cash, cash equivalents and restricted cash at end of period       | \$ 80,891                          | \$ 63,541  |

The Company's restricted cash is included in current assets as of September 30, 2018, September 30, 2017 and December 31, 2017. As of December 31, 2016, the Company's restricted cash is included in long term assets. As of September 30, 2018, restricted cash primarily includes deposits that the Company has provided for lines of credit to secure its obligations under contracts with certain brand licensors.

## Note 8 — Goodwill and Intangible Assets

## Intangible Assets

The Company's intangible assets were acquired primarily in various acquisitions as well as in connection with the purchase of certain trademarks, brand assets and licensed content. The carrying amounts and accumulated amortization expense of the acquired intangible assets, including the impact of foreign currency exchange translation, at September 30, 2018 and December 31, 2017 were as follows:

|                      | Estimated<br>Useful<br>Life | September 30, 2018           |  |                            | December 31, 2017            |  |                            |
|----------------------|-----------------------------|------------------------------|--|----------------------------|------------------------------|--|----------------------------|
|                      |                             | Gross<br>Carrying<br>Value * | Accumulated<br>Amortization<br>Expense * | Net<br>Carrying<br>Value * | Gross<br>Carrying<br>Value * | Accumulated<br>Amortization<br>Expense * | Net<br>Carrying<br>Value * |
| Intangible<br>assets |                             |                              |  |                            |                              |  |                            |

amortized to  
cost of  
revenue:

Titles, content  
and

|            |           |           |             |          |           |             |           |
|------------|-----------|-----------|-------------|----------|-----------|-------------|-----------|
| technology | 3 - 5 yrs | \$ 40,317 | \$ (30,364) | \$ 9,953 | \$ 40,317 | \$ (27,248) | \$ 13,069 |
|------------|-----------|-----------|-------------|----------|-----------|-------------|-----------|

Carrier

contract and  
related

|               |       |       |         |     |       |         |       |
|---------------|-------|-------|---------|-----|-------|---------|-------|
| relationships | 5 yrs | 5,000 | (4,148) | 852 | 5,000 | (3,398) | 1,602 |
|---------------|-------|-------|---------|-----|-------|---------|-------|

|            |       |       |         |     |       |         |     |
|------------|-------|-------|---------|-----|-------|---------|-----|
| Trademarks | 7 yrs | 5,000 | (4,643) | 357 | 5,000 | (4,107) | 893 |
|------------|-------|-------|---------|-----|-------|---------|-----|

In-process  
research and  
development

|     |   |   |   |       |   |       |
|-----|---|---|---|-------|---|-------|
| N/A | — | — | — | 2,700 | — | 2,700 |
|-----|---|---|---|-------|---|-------|

Total

intangibles

|        |  |           |             |           |           |             |           |
|--------|--|-----------|-------------|-----------|-----------|-------------|-----------|
| assets |  | \$ 50,317 | \$ (39,155) | \$ 11,162 | \$ 53,017 | \$ (34,753) | \$ 18,264 |
|--------|--|-----------|-------------|-----------|-----------|-------------|-----------|

\* Including

impact of

foreign

exchange

Acquisition-related intangibles included in the above table are finite-lived and are being amortized on a straight-line basis over their estimated lives, which approximate the pattern in which the economic benefits of the intangible assets are realized. The Company has included amortization of acquired intangible assets directly attributable to revenue-generating activities in cost of revenue.

During the three and nine months ended September 30, 2018, the Company decided not to proceed with further development of a certain game and recorded an impairment charge of \$2,700 for the related in-process research and development ("IPR&D") in Impairment and amortization of intangible assets expense in its consolidated statement of operations. No impairment charges related to intangible assets were recorded during the three and nine months ended September 30, 2017.

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During the three months ended September 30, 2018 and 2017, the Company recorded amortization and impairment expense in the amounts of \$4,167 and \$2,363, respectively, in cost of revenue. During the nine months ended September 30, 2018 and 2017, the Company recorded amortization and impairment expense in the amounts of \$7,102 and \$8,796, respectively, in cost of revenue.

As of September 30, 2018, total expected future amortization related to intangible assets was as follows:

| Year Ending December 31,  | Amortization<br>to Be<br>Included in<br>Cost of<br>Revenue |
|---------------------------|--|
| 2018 (remaining 3 months) | \$ 1,468   |
| 2019                      | 4,936  |
| 2020                      | 3,258  |
| 2021                      | 1,500  |
| Total intangible assets   | \$ 11,162  |

## Goodwill

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. The Company performs its 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 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 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.



During the three months ended September 30, 2018, the Company performed a Step 0 qualitative assessment and concluded that it was more likely than not that the fair value of the reporting unit was greater than its carrying value, and, as a result, did not proceed to further impairment testing. Accordingly, the Company did not recognize an impairment of goodwill in the three and nine months ended September 30, 2018. The Company had \$116,227 in goodwill as of September 30, 2018 and December 31, 2017.

#### Note 9 — Commitments and Contingencies

##### Leases

The Company leases office space under non-cancelable operating facility leases with various expiration dates through December 2027. Rent expense for the three months ended September 30, 2018 and 2017 was \$1,439 and \$995, respectively. Rent expense for the nine months ended September 30, 2018 and 2017 was \$4,328 and \$3,191, 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.

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In May 2017, the Company entered into a lease for approximately 57,000 square feet of office space for its San Francisco headquarters (the “Lease”). The term of the Lease began on July 1, 2017 and the Company obligation to pay rent started on December 4, 2017 (the “Rent Commencement Date”). The term of the Lease will expire on the tenth anniversary of the Rent Commencement Date.

## Minimum Guaranteed Royalties and Developer Commitments

The Company has entered into license and publishing agreements with various celebrities, Hollywood studios, athletes, sports organizations, and other well-known brands and properties to develop and publish games for mobile devices. Pursuant to some of these agreements, the Company is required to make minimum guaranteed royalty payments regardless of revenue generated by the applicable game, which may not be dependent on any deliverables. The significant majority of these minimum guaranteed royalty payments are recoupable against future royalty obligations that would otherwise become payable, or in certain circumstances, where not recoupable, are capitalized and amortized over the lesser of (1) the estimated life of the title incorporating licensed content or (2) the term of the license agreement.

At September 30, 2018, future unpaid minimum guaranteed royalty commitments were as follows:

| Year Ending December 31,  | Future<br>Minimum<br>Guarantee<br>Commitments | Future<br>Minimum<br>Developer<br>Commitments |
|---------------------------|---|---|
| 2018 (remaining 3 months) | \$ 306  | \$ 250  |
| 2019                      | 4,823   | —   |
| 2020                      | 2,300   | —   |
|                           | \$ 7,429                                      | \$ 250  |

The amounts represented in the table above reflect the Company’s minimum cash obligations for the respective calendar years, but do not necessarily represent the periods in which they will be expensed in the Company’s consolidated financial statements.

Future developer commitments as of September 30, 2018 were \$250. These developer commitments reflect the Company’s minimum cash obligations to external software developers (“third-party developers”) to design and develop its software applications but do not necessarily represent the periods in which they will be expensed. The Company advances funds to these third-party developers, in installments, payable upon the completion of specified development milestones, and expenses third-party developer commitments as services are provided.

Licensor commitments include \$7,398 of commitments due to licensors that have been recorded in current and long-term liabilities and a corresponding amount in current and long-term assets because payment is not contingent upon performance by the licensor. The classification of commitments between long-term and short-term is determined based on the timing of recoupment of earned royalties calculated on projected revenue for the licensed intellectual property games.

#### 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.

In the ordinary course of its business, the Company includes standard indemnification provisions in most of its commercial agreements with Digital Storefronts and licensors. 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, viruses, worms and other malicious software, and legal or regulatory violations. The term of these

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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 provisions is often unlimited. To date, the Company has not incurred costs to defend lawsuits or settle indemnified claims of these types. The Company had recorded no liabilities for these provisions as of September 30, 2018 and December 31, 2017.

## 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.

On March 14, 2018, Jeffrey Tseng, the former Chief Executive Officer of Crowdstar, filed a complaint in the Superior Court of the State of California for the County of Santa Clara against Time Warner Inc., Rachel Lam, Intel Capital Corporation, Middlefield Ventures Inc. and Jose Blanc (collectively, the "Non-Glu Defendants"), the Company and additional yet-to-be-named defendants. The complaint alleges (i) breach of fiduciary duty by the Non-Glu Defendants, (ii) aiding and abetting breach of fiduciary duty by the Company and (iii) intentional interference with contract, intentional interference with prospective economic advantage, negligent interference with prospective economic advantage and unfair competition by each of the defendants, in each case relating to circumstances arising from the Company's acquisition of Crowdstar and the events leading up to the acquisition. Mr. Tseng is seeking compensatory damages and exemplary damages, each in an amount to be determined at trial, along with costs of suit, reasonable attorneys' fees and such other relief as the Court may deem proper. The first Case Management Conference, was held on July 20, 2018. The Company and the Non-Glu Defendants filed demurrers in response to Mr. Tseng's complaint on August 17, 2018, Mr. Tseng filed responses to these demurrers on September 17, 2018, and the Company and the Non-Glu Defendants filed reply briefs in support of their demurrers on October 15, 2018. A hearing with respect to the demurrers is currently scheduled for November 30, 2018. Discovery in the case is stayed pending resolution of the demurrers. The Company believes that the allegations against it are without merit and intends to vigorously defend itself in this matter.

The Company does not believe it is party to any currently pending litigation, the outcome of which is reasonably possible 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 10 — Stockholders' Equity

Warrants to Purchase Common Stock

Warrants outstanding at September 30, 2018 were as follows:

|  | Number<br>of Shares<br>Outstanding<br>Under<br>Warrant | Weighted<br>Average<br>Exercise<br>Price per<br>Share | Average<br>Contractual<br>Term |
|--|--|---|--------------------------------|
| Warrants outstanding, December 31, 2017  | 3,267  | \$ 3.79   | 5.33                           |
| Granted                                  | -  | -   |                                |
| Exercised                                | -  | -   |                                |
| Warrants outstanding, September 30, 2018 | 3,267  | \$ 3.79   | 5.33                           |

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No expenses with respect to these warrants were recognized during the three months ended September 30, 2018 and 2017. During the nine months ended September 30, 2018 and 2017, the Company recognized expenses with respect to these warrants of \$1,046 and \$62, respectively.

Note 11 — Stock Option and Other Benefit Plans

2007 Equity Incentive Plan

In April 2018, the Company's Board of Directors approved, and in June 2018, the Company's stockholders approved, the fourth Amended and Restated 2007 Equity Incentive Plan (the "Fourth Amended 2007 Plan"). The Fourth Amended 2007 Plan includes an increase of 10,000 shares in the aggregate number of shares of common stock authorized for issuance under the plan. It also removed the limitation on the number of shares that can be issued in any calendar year to a participant.

Grant of Performance Options in Lieu of 2018 Cash Bonus

In October 2017, the Compensation Committee of the Board of Directors, or (the "Committee"), determined that for 2018, instead of providing the Company's senior executives and vice presidents of departments (the "Executives") with a cash-based annual bonus plan, it would provide them with the opportunity to earn an equivalent value of performance-based stock options ("PSOs") to the extent that the Company achieves certain bookings and Adjusted EBITDA (defined as non-GAAP operating income excluding depreciation and royalty impairments) targets during 2018. The Committee similarly replaced 50% of the Company's creative leaders' annual bonus opportunity with an equivalent value of PSOs.

The Executives and creative leaders will only earn the maximum amount of PSOs if the Company both (1) achieves a minimum Adjusted EBITDA goal for 2018 (the "Adjusted EBITDA Threshold") and (2) generates bookings for 2018 that equal or exceed a specified maximum level of performance (the "Maximum Bookings Goal"). If the Company does not achieve the Maximum Bookings Goal, the Executives and creative leaders can earn (1) 50% of the maximum amount of PSOs if the Company achieves the Adjusted EBITDA Threshold in 2018 and generates 2018 bookings that are approximately 5% below the Maximum Bookings Goal (the "Target Bookings Goal") and (2) 25% of the maximum amount of PSOs if the Company achieves the Adjusted EBITDA Threshold in 2018 and generates 2018 bookings that are approximately 11% below the Maximum Bookings Goal (the "Minimum Bookings Goal"). To the extent that the Company achieves the Adjusted EBITDA Threshold in 2018 and generates bookings between two of the goals, the number of PSOs earned will be calculated on a linear basis.

#### Grant of PSOs and PSUs as Part of Annual Refresh Grants

The Committee determined to award a significant portion of the value of annual equity grants to the Executives and creative leaders in PSOs and performance-based RSUs (“PSUs”). These awards will be earned to the extent that the Company achieves certain bookings and Adjusted EBITDA (defined as non-GAAP operating income excluding depreciation and royalty impairments) targets during 2018, 2019 and 2020, with one-third of the maximum shares subject to the PSOs and PSUs earnable in each of those years. There are separate and increasing Adjusted EBITDA thresholds and bookings goals for 2018, 2019 and 2020. To the extent that the Company achieves the Adjusted EBITDA threshold for a given year and generates bookings between two of the goals, the number of PSOs or PSUs earned for such year will be calculated on a linear basis. If the Company does not achieve an Adjusted EBITDA threshold or bookings goals in any year and less than the full amount of shares are earned for such year, the Executive or creative leader cannot recapture those shares through overachievement of the maximum Adjusted EBITDA thresholds and bookings goals in subsequent years.

#### Grant of PSUs to Certain Employees

In June 2018, the Committee awarded PSUs to certain employees. These awards will be earned to the extent of achievement of certain bookings targets during 2018 with shares that are earned based on the achievement of such booking targets vesting in March 2019 and in September 2019. To the extent the bookings are achieved between two bookings goals, the number of PSUs earned will be calculated on a linear basis.

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## 2007 Employee Stock Purchase Plan

In April 2017, the Company's Board of Directors approved, and in June 2017, the Company's stockholders approved, the Amended and Restated 2007 Employee Stock Purchase Plan (the "Amended 2007 Purchase Plan"). The Amended 2007 Purchase Plan includes an increase of 4,000 shares in the aggregate number of shares of common stock authorized for issuance under the plan and removal of the expiration date of the plan.

## 2018 Equity Inducement Plan

In April 2018, the Compensation Committee of the Company's Board of Directors adopted the 2018 Equity Inducement Plan (the "2018 Plan"). The 2018 Plan replaced the Company's 2008 Equity Inducement Plan that expired by its terms in March 2018, and is intended to augment the shares available for issuance under the 2007 Plan. The Company did not seek stockholder approval for the 2018 Plan. As such, awards under the Inducement Plan will be 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 Company initially reserved 400 shares of common stock for issuance under the 2018 Plan.

## RSU Activity

A summary of the Company's RSU activity for the nine months ended September 30, 2018 is as follows:

|  | Number of<br>Units<br>Outstanding | Weighted<br>Average<br>Grant Date<br>Fair Value | Aggregate<br>Intrinsic<br>Value |
|--|-----------------------------------|---|---------------------------------|
| Awarded and unvested, December 31, 2017                | 5,812                             | \$ 2.96   |                                 |
| Granted  | 162                               | 5.53  |                                 |
| Vested   | (2,166)                           | 3.20  |                                 |
| Forfeited  | (393)                             | 2.73  |                                 |
| Awarded and unvested, September 30, 2018               | 3,415                             | 2.95  |                                 |
| RSUs vested and expected to vest at September 30, 2018 | 3,415                             | \$ 2.95   | \$ 25,442                       |

## PSU Activity



A summary of the Company's PSU activity for the nine months ended September 30, 2018 is as follows:

|  | Number of<br>Units<br>Outstanding | Weighted<br>Average<br>Grant Date<br>Fair Value | Aggregate<br>Intrinsic<br>Value |
|--|-----------------------------------|---|---------------------------------|
| Awarded and unvested, December 31, 2017                | 661                               | \$ 3.59   |                                 |
| Granted  | 927                               | 4.65  |                                 |
| Vested   | -                                 | -   |                                 |
| Forfeited  | (32)                              | 3.59  |                                 |
| Awarded and unvested, September 30, 2018               | 1,556                             | 4.22  |                                 |
| PSUs vested and expected to vest at September 30, 2018 | 1,556                             | \$ 4.22   | \$ 11,589                       |

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## PSO Activity

A summary of the Company's PSO activity for the nine months ended September 30, 2018 is as follows:

|  | Number of<br>Share<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
|--|-----------------------------------|--|---------------------------------|
| Balance as of December 31, 2017  | 4,170                             | \$ 3.59                                  |                                 |
| Granted  | 545                               | 3.66                                     |                                 |
| Vested   | -                                 | -  |                                 |
| Forfeited  | (151)                             | 3.59                                     |                                 |
| Balance as of September 30, 2018   | 4,564                             | \$ 3.60                                  |                                 |
| Performance stock options vested and expected to vest at<br>September 30, 2018 | 4,564                             | \$ 3.60                                  | \$ 17,580                       |

## Stock Option Activity

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2018:

|  | Options Outstanding<br>Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Average<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|--|---|--|--|---------------------------------|
| Balances at December 31, 2017                                | 16,932  | \$ 2.78                                  | 7.63                                   |                                 |
| Options granted  | 4,445   | \$ 4.21                                  |  |                                 |
| Options canceled   | (791)   | \$ 3.79                                  |  |                                 |
| Options exercised  | (2,871)                                       | \$ 2.90                                  |  |                                 |
| Balances at September 30, 2018                               | 17,715  | \$ 3.08                                  | 8.14                                   | \$ 77,443                       |
| Options vested and expected to vest at<br>September 30, 2018 | 17,715  | \$ 3.08                                  | 8.14                                   | \$ 77,443                       |
| Options exercisable at September 30, 2018                    | 5,312   | \$ 2.77                                  | 6.69                                   | \$ 24,855                       |

The aggregate intrinsic value in the preceding table is calculated as the difference between the exercise price of the underlying awards and the quoted closing price of the Company's common stock on The NASDAQ Global Select Market of \$7.45 per share as of September 28, 2018 (the last trading day in the quarter). Cash proceeds, net of taxes, from option exercises were \$4,424 during the nine months ended September 30, 2018. Net cash proceeds from option exercises during the nine months ended September 30, 2017 were immaterial.

#### Stock-Based Compensation

The cost of RSUs and PSUs are 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. Vesting of PSOs and PSUs requires continuous services by the Executives and creative leaders and achieving adjusted EBITDA threshold and bookings goals which are solely related to the Company's own operations.

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Under ASC 718, Compensation-Stock Compensation (“ASC 718”), the Company 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 tables:

## Performance Stock Options:

|                         | Three Months<br>Ended<br>September 30,<br>2018 |   |      |   | Nine Months<br>Ended<br>September 30,<br>2018 |   |      |   |
|-------------------------|--|---|------|---|---|---|------|---|
|                         |  |   | 2017 |   |   |   | 2017 |   |
| Dividend yield          | —  | % | —    | % | —   | % | —    | % |
| Risk-free interest rate | —  | % | —    | % | 2.36  | % | —    | % |
| Expected volatility     | —  | % | —    | % | 62.60   | % | —    | % |
| Expected term (years)   | —  |   | —    |   | 5.97  |   | —    |   |

## Stock Options:

|                         | Three Months<br>Ended<br>September 30,<br>2018 |   |      |   | Nine Months<br>Ended<br>September 30,<br>2018 |   |      |   |
|-------------------------|--|---|------|---|---|---|------|---|
|                         |  |   | 2017 |   |   |   | 2017 |   |
| Dividend yield          | —  | % | —    | % | —   | % | —    | % |
| Risk-free interest rate | 2.78   | % | 1.65 | % | 2.50  | % | 1.68 | % |
| Expected volatility     | 56.4   | % | 59.7 | % | 58.4  | % | 56.2 | % |
| Expected term (years)   | 4.00   |   | 4.00 |   | 4.00  |   | 4.00 |   |

The expected term of stock options gave consideration to early exercises, post-vesting cancellations and the options’ contractual term ranging from 6 to 10 years. The Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term for the PSOs as the Company has not granted such awards in the past. As a result, the Company used the simplified method to calculate the expected term estimate based on the vesting and contractual terms of the PSOs. Under the simplified method, the expected term is equal to the average of the stock-based awards vesting period and their 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 Company based its expected volatility on its own historical volatility. The weighted-average fair value of stock options granted during

the nine months ended September 30, 2018 and 2017 was \$1.97 and \$1.04 per share, respectively.

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

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2018                                | 2017     | 2018                               | 2017      |
| Research and development               | \$ 3,062                            | \$ 1,521 | \$ 8,989                           | \$ 4,520  |
| Sales and marketing                    | 660                                 | 283      | 1,922                              | 823       |
| General and administrative             | 2,157                               | 1,771    | 6,619                              | 5,296     |
| Total stock-based compensation expense | \$ 5,879                            | \$ 3,575 | \$ 17,530                          | \$ 10,639 |

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The following table summarizes total compensation expense related to unvested awards not yet recognized as of September 30, 2018:

|   | Unrecognized<br>Compensation<br>Expense for<br>Unvested<br>Awards |
|---|---|
| Stock options                           | \$ 15,532   |
| RSUs                                    | 8,907   |
| PSUs (1)                                | 1,689   |
| PSOs (1)                                | 2,075   |
| Total unrecognized compensation expense | \$ 28,203   |

- (1) The unrecognized compensation for PSOs and PSUs vesting in FY2020 and FY2021 is excluded in the table above as the Company does not have a reasonable basis upon which to estimate the vesting probability of such awards in those future periods.

The unrecognized compensation expense related to stock options and RSUs will be recognized over a weighted average period of 2.70 years and 1.88 years, respectively. The unrecognized compensation expense related to unvested PSOs and PSUs awarded to the executives is expected to be recognized through February 2019. The unrecognized compensation expense related to PSUs awarded to certain non-executive employees is expected to be recognized through September 2019.

#### Note 12 – Income Taxes

The Company recorded an income tax expense of \$118 and \$500 for the three and nine months ended September 30, 2018, respectively, and an income tax benefit of \$1,057 and \$1,246 for the three and nine months ended September 30, 2017, respectively. The change in income tax provision was due to changes in pre-tax income (loss) in the United States and certain foreign entities. The income tax rates vary from the Federal and State statutory rates due to the valuation allowances on the Company's net operating losses, foreign tax rate differences and withholding taxes. The Company computes its quarterly income tax provision by using a forecasted annual effective tax rate and adjusts for any discrete items arising during the quarter.

The Company accounts for uncertain tax positions in accordance with ASC 740. As of September 30, 2018 and December 31, 2017, the total amount of unrecognized tax benefits was \$15,154 and \$13,391, respectively. As of September 30, 2018, and December 31, 2017, approximately \$230 and \$239, respectively, of unrecognized tax benefits, if recognized, would impact the Company's effective tax rate. The remaining balance, if recognized, would adjust the Company's deferred tax assets, which are subject to valuation allowance.

The Company's policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense. The expense related to interest on uncertain tax positions was immaterial during the three and nine months ended September 30, 2018 and 2017. As of September 30, 2018, and December 31, 2017, the Company had a liability of \$151 and \$131, respectively, related to interest and penalties for uncertain tax positions.

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, Canada, China, and India. The Company's federal tax returns are open by statute for tax years 1998 and forward and California tax returns are open by statute for tax years 2003 and forward and could be subject to examination by the tax authorities. The Company's income tax returns in its international locations are open by statute for tax years 2014 and forward.

The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are to be reinvested indefinitely outside the U.S.

On December 22, 2017, the Tax Cuts and Jobs Act ("The Act") was enacted, which made significant changes to various areas of the U.S. federal income tax law, including lowering of the U.S. corporate tax rate from 35 percent to 21 percent. GAAP accounting for income taxes requires that the Company record the impacts of any tax law change on its deferred income taxes in the quarter that the tax law change is enacted. Due to the complexities involved in accounting

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for the enactment of the Act, in January 2018, SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which is codified as Accounting Standards Update 2018-05 Income Taxes (“ASU 2018-05”), to provide guidance for companies that have not completed their accounting for the income tax effects of The Act in the period of enactment. Specifically, ASU 2018-05 states that companies that have not completed their accounting for the income tax effects of The Act by financial reporting deadlines may report provisional amounts based on reasonable estimates for items which the accounting is incomplete. Those provisional amounts will be subject to adjustment during a measurement period that begins in the reporting period that includes The Act’s enactment and ends when a company has obtained, prepared and analyzed the information needed to complete the accounting requirements under ASC 740 Income Taxes. The measurement period should not extend beyond one year from the enactment date. Furthermore ASU 2018-05 states that if a company cannot make a reasonable estimate for an income tax effect, it should not account for that effect until it can make such an estimate.

In accordance with ASU 2018-05, at December 31, 2017, the Company recorded a provisional amount of a one-time negative adjustment of \$34,900 for the re-measurement of deferred tax assets and liabilities, offset by a one-time positive adjustment of \$34,900 for the re-measurement of the valuation allowance maintained on these items. As of September 30, 2018, these estimated amounts remained as provisional as the Company believes that additional analysis of its deferred tax assets and liabilities is necessary, as well as the evaluation of potential correlative adjustments. Any subsequent adjustment to these amounts will be recorded to current tax expense in the period analysis is completed, not to exceed the fourth quarter of 2018.

Based on its initial review of the Act, the Company does not expect that the new legislation will have a material impact on its financial statements for the three and nine months ended September 30, 2018. The Company will continue to analyze the impacts of the Act on its financial statement and operations. Additional impacts will be recorded as they are identified during the measurement period as provided for in ASU 2018-05.

Note 13 — 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 Executive Officer, who is also chief operating decision maker, makes decisions and manages the Company’s operations as one operating segment. The financial information reviewed by him 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. In the case of Digital Storefronts, revenue is attributed to the geographic location where the end-user makes the purchase. The Company generates its



revenue in the following geographic regions:

|                                       | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|---------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                       | 2018                                | 2017      | 2018                               | 2017       |
| United States of America              | \$ 77,276                           | \$ 62,090 | \$ 207,207                         | \$ 156,066 |
| Americas, excluding the United States | 5,881                               | 4,423     | 15,824                             | 11,494     |
| EMEA                                  | 10,412                              | 8,845     | 30,616                             | 23,793     |
| APAC                                  | 5,716                               | 5,790     | 17,274                             | 15,262     |
|                                       | \$ 99,285                           | \$ 81,148 | \$ 270,921                         | \$ 206,615 |

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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:

|                          | September 30,<br>2018 | December 31,<br>2017 |
|--------------------------|-----------------------|----------------------|
| United States of America | \$ 11,413             | \$ 13,030            |
| Rest of the World        | 1,375                 | 1,600                |
|                          | \$ 12,788             | \$ 14,630            |

## Note 14 — Restructuring

During the three and nine months ended September 30, 2018, the Company recorded \$160 and \$240 of restructuring charges related to employee and lease termination costs in the Company's Long Beach, California office. During the three and nine months ended September 30, 2017, the Company recorded \$1,402 and \$6,040, of restructuring charges related to employee termination costs in the Company's Long Beach, San Francisco, Bellevue, and Beijing, China offices, and lease termination costs for the Company's Bellevue and Beijing, China offices.

|                                  | Restructuring<br>Workforce | Restructuring<br>Facility | Restructuring<br>Total |
|----------------------------------|----------------------------|---------------------------|------------------------|
| Balance as of January 1, 2017    | \$ —                       | \$ 271                    | \$ 271                 |
| Charges to operations            | 4,319                      | 1,700                     | 6,019                  |
| Non-cash charges/adjustments     | 146                        | 44                        | 190                    |
| Charges settled in cash          | (4,322)                    | (1,399)                   | (5,721)                |
| Balance as of December 31, 2017  | \$ 143                     | \$ 616                    | \$ 759                 |
| Charges to operations            | 160                        | 80                        | 240                    |
| Charges settled in cash          | (143)                      | (308)                     | (451)                  |
| Balance as of September 30, 2018 | \$ 160                     | \$ 388                    | \$ 548                 |

Note 15 — Subsequent Events

On October 26, 2018, Alex Malek, the former Director of Analytics of Crowdstar, filed a complaint in the Superior Court of the State of California for the County of Santa Clara against the Company, Time Warner Inc., Rachel Lam, Intel Capital Corporation, Middlefield Ventures Inc., Jose Blanc, and additional yet-to-be-named defendants. The complaint alleges (i) intentional interference with contract, (ii) intentional interference with prospective economic advantage, (iii) negligent interference with prospective economic advantage and (iv) unfair competition by each of the defendants, in each case relating to circumstances arising from the Company's acquisition of Crowdstar and the events leading up to the acquisition. Mr. Malek is seeking compensatory damages and exemplary damages, each in an amount to be determined at trial, along with costs of suit, reasonable attorneys' fees and such other relief as the Court may deem proper. The Company believes that the allegations against it are without merit and intends to vigorously defend itself in this matter.



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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with (1) the unaudited condensed consolidated financial statements and related notes contained elsewhere in this report and (2) the audited consolidated financial statements and related notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations section, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 9, 2018. The information in this discussion and elsewhere in this report 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 fact may be deemed to be forward-looking statements. For example, the words "may," "will," "believe," "anticipate," "plan," "expect," "intend," "could," "estimate," "continue" and expressions or variations 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 such a discrepancy include, but are not limited to, those discussed elsewhere in this report, particularly in the section titled "Risk Factors" set forth in Part II, Item 1A of this report. All forward-looking statements in this report are based on information available to us as of the date hereof, and we assume no obligation to update any such forward-looking statements to reflect future events or circumstances, except as required by law.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations, or 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 revenue 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 understanding our financial results for the three and nine months ended September 30, 2018, as well as our future prospects. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this report, including our unaudited condensed consolidated financial statements and accompanying notes.

## Financial Results and Trends

Revenue for the three months ended September 30, 2018 was \$99.3 million, a 22.4% increase compared to the three months ended September 30, 2017, in which we reported revenue of \$81.1 million. Revenue for the nine months ended September 30, 2018 was \$270.9 million, a 31.1% increase compared to the nine months ended September 30, 2017, in which we reported revenue of \$206.6 million. These increases were primarily related to an increase in revenue from growth and evergreen titles such as Design Home, Covet Fashion, the Tap Sports Baseball franchise and Kim Kardashian: Hollywood. These increases were partially offset by declining revenue on a year over year basis from

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catalog titles such as Restaurant Dash with Gordon Ramsay, Deer Hunter 2018 (originally launched as Deer Hunter 2016) and Racing Rivals.

We have concentrated our product development efforts towards developing games for smartphone and tablet devices. We generate the majority of our revenue from Apple's iOS platform, which accounted for 62.3% and 63.4% of our total revenue for the three months ended September 30, 2018 and 2017, respectively, and 63.6% and 62.4% for the nine months ended September 30, 2018 and 2017, respectively. We generated the majority of this iOS-related revenue through the Apple App Store, which represented 53.9% and 54.8% of our total revenue for the three months ended September 30, 2018 and 2017, respectively, and 55.4% and 53.6% for the nine months ended September 30, 2018 and 2017, respectively, with the significant majority of such revenue derived from in-app purchases. We generated the balance of our iOS-related revenue from offers and advertisements in games distributed on the Apple App Store. In addition, we generated approximately 37.5% and 36.1% of our total revenue for the three months ended September 30, 2018 and 2017, respectively, and 36.0% and 36.4% of our total revenue for the nine months ended September 30, 2018 and 2017, respectively, from the Android platform. We generated the majority of our Android-related revenue through the Google Play Store, which represented 31.7% and 30.5%, of our total revenue for the three months ended September 30, 2018 and 2017, respectively, and 30.4% and 30.7% respectively, of our total revenue for the nine months ended September 30, 2018 and 2017, respectively, with the significant majority of such revenue derived from in-app purchases. We generated the balance of our Android-related revenue from other platforms that distribute apps that run the Android operating system (e.g., the Amazon App Store) and through offers and advertisements in games distributed through the Google Play Store and other Android platforms.

We currently publish titles primarily in four genres: home décor, sports and action, fashion and celebrity, and time management. We believe these are genres in which we have already established a leadership position, are otherwise aligned with our strengths or are conducive to the establishment of a strong growth title. Across genres, we view our titles as either growth titles or catalog titles, and within the catalog group, our titles are either classified as evergreen titles or legacy titles. Growth titles are titles that we continue to update with additional content and features and which grow revenue year over year. Evergreen titles are similar to growth titles in that we continue to update them with additional content and features, but differ from growth titles in that our focus is to reduce and potentially reverse their year over year revenue declines; to the extent that we succeed in our efforts to grow annual revenue from an evergreen title, we would then consider such evergreen title to be a growth title. Legacy titles are those titles that are still published by us and earn revenue, but on which we expend little to no investment in terms of updates and enhancements.

We established our leadership position in the home décor genre with our release of Design Home in November 2016, which was the first title launched by Crowdstar Inc. ("Crowdstar") following our acquisition of Crowdstar. We have introduced key updates for Design Home in 2018, including elite events for elder players, improved series challenges and language localization in German, French and Spanish, and plan to continue to update the title with additional culturalization, augmented reality capabilities, a deeper meta game and e-commerce functionality. Our leadership in the sports and action category remains strong with our Tap Sports Baseball and Deer Hunter franchises, and we furthered our leadership with the launch of MLB Tap Sports Baseball 2018 in March 2018 which includes licensed content from Major League Baseball, or MLB, together with current and former MLB players pursuant to our continuing agreements with the Major League Baseball Players Association, and Major League Baseball Players Alumni Association. We expect to add to our portfolio of sports and action titles through the upcoming expected

worldwide release of WWE Universe. We established our leadership in the fashion and celebrity gaming genre when we launched Kim Kardashian: Hollywood in June 2014 and extended our leadership position through our acquisition of Crowdstar in November 2016 and its successful Covet Fashion title. The time management genre includes our Cooking Dash and Diner Dash franchises, and our leadership position in this genre was bolstered by our successful release of Restaurant Dash with Gordon Ramsay (which was originally branded as Gordon Ramsay DASH) in June 2016. We expect to add to our portfolio of time management titles through the upcoming release of Diner DASH Town.

We believe that our games consistently have high production values, are visually appealing and have engaging core gameplay. These characteristics have typically helped to drive installs and awareness of our games and resulted in highly positive consumer reviews. The majority of our games have been featured on Apple and Google storefronts when they were commercially released, which we believe is the result of us being a good partner of Apple and Google.



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We work closely with our celebrity and brand licensors to engage their social media audiences and build games that will resonate with their unique fan bases. For example, our Kim Kardashian: Hollywood title utilizes transmedia storytelling, leveraging Ms. Kardashian West's built-in social media fan base to drive installs and awareness of the game, and then attempting to surprise and delight those fans with real-world events and other game content based on her life. Our goal is for the game content to become entwined with Ms. Kardashian West's persona and social media presence, and to otherwise enhance interaction with her fans. We also leverage the strength of well-known brands and licensors to provide users with more realistic experiences, such as the case with MLB Tap Sports Baseball 2018 which features all MLB clubs and uniforms and current and former MLB players. We also work to build and nurture social communities in and around the games themselves, creating a new vehicle for strong, personal engagement with the brand or celebrity's fan base.

For us to continue driving installs and awareness of our games and to improve monetization and retention of our players, we must ensure that each of our games has compelling gameplay and a core monetization loop that incentivizes players to make in-app purchases. In addition, we must regularly update our games with compelling new content, deliver socio-competitive features like tournaments, contests, player-versus-player gameplay and live events, and build and nurture communities around our franchises both in-game and holistically via community features such as dedicated social channels. We have also made significant investments in our proprietary analytics and revenue technology infrastructure. With our enhanced analytics capabilities, we intend to devote resources towards segmenting and learning more about the players of each of our franchises and further monetizing our highest spending and most engaged players. We aim to connect our analytics and revenue technology infrastructure to multiple elements of our business – from marketing to merchandising – in order to improve player retention and monetization.

We also plan to continue monitoring the successful aspects of our games to drive downloads and enhance monetization and retention as part of our product strategy, whether by optimizing advertising revenue within each title, securing additional compelling licensing arrangements, building enhanced and more complex core gameplay, adding deep meta game features and additional social features, tournaments and events, offering subscriptions for in game durables and consumables to players or otherwise. Optimizing advertising revenue within our games requires us to continue taking advantage of positive trends in the mobile advertising space, particularly as brands continue to migrate budgets from web to mobile. Continuing to drive installs and awareness of our games through licensing efforts requires that we continue to partner with brands, celebrities and social influencers that resonate with potential players of our games. Partnering with desirable licensing partners and renewing our existing licenses with our most successful partners requires that we continue to develop successful games based on licensed content and are able to compete with other mobile gaming companies on financial and other terms in signing such partners. We also plan to continue introducing third-party licensed brands, properties and personalities into our games as additional licensed content, for cameo appearances or for limited time events in order to drive awareness and monetization.

Across the globe, our industry is evidencing that hit titles generally remain higher in the top grossing charts for longer. We believe this is due to the continued specialization and investment of teams and companies in their hit titles, and the live, social nature of certain games. Our strategy and the measures we have implemented to support our business position us to take advantage of these trends, as evidenced by the continued strength of our Design Home, Covet Fashion, Kim Kardashian: Hollywood, Cooking Dash, Restaurant Dash with Gordon Ramsay, and Deer Hunter 2018 titles and the year over year growth of our Tap Sports Baseball franchise. We plan to focus on regularly updating and otherwise supporting our growth and evergreen titles in order to ensure that those games monetize and retain users

for even longer periods of time and to drive a larger part of our aggregate revenue from our existing titles, which we successfully accomplished in 2017 and the first nine months. In addition, we plan to continue to invest in our creative leaders and the creative environments in which they and their teams work to increase our likelihood of creating significant hit growth titles.

Our net loss in the three months ended September 30, 2018 was \$256,000 versus a net loss of \$11.7 million in the three months ended September 30, 2017. This change was primarily due to an increase in revenue of \$18.1 million and a decrease in operating expenses of \$900,000, partially offset by an increase in cost of revenue of \$6.8 million. See “—Results of Operations—Comparison of the Three Months Ended September 30, 2018 and 2017” below for further details.

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Our net loss in the nine months ended September 30, 2018 was \$11.9 million versus a net loss of \$58.0 million in the nine months ended September 30, 2017. This change was primarily due to an increase in revenue of \$64.3 million and a decrease in operating expenses of \$2.3 million, partially offset by an increase in cost of revenue of \$18.6 million. See “—Results of Operations—Comparison of the Nine Months Ended September 30, 2018 and 2017” below for further details.

Our ability to achieve and sustain profitability depends not only on our ability to grow our revenue, but also on our ability to manage our operating expenses. We significantly increased our sales and marketing expenditures in the second half of 2017 and the first nine months of 2018. This increase largely related to Design Home, as we sought to leverage the game’s momentum and maximize its revenue potential. We expect our sales and marketing expenses to continue to be at similar levels during the remainder of 2018, which may impair our ability to achieve and sustain profitability if this spending does not result in increased revenues. Additionally, 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 have conducted several restructurings since December 2015, and as part of these restructuring efforts, we have transitioned development and live operations of our Racing Rivals title to Carbonated Inc., or Carbonated. However, the cost reductions from these restructurings were largely offset by personnel costs related to our acquisition of Crowdstar in November 2016. In December 2017, we sold our wholly owned subsidiary in Moscow and transitioned the catalog games developed and/or operated by the Moscow studio to a more cost-effective location in Hyderabad, India. In the remainder of 2018, we plan to continue hiring additional development personnel in the San Francisco Bay Area and in Hyderabad, India.

Cash, cash equivalents and restricted cash at September 30, 2018 totaled \$80.9 million, an increase of \$16.5 million from the \$64.4 million balance at December 31, 2017. This increase was primarily related to \$13.4 million of cash generated from operating activities, \$814,000 of cash provided by investing activities and \$2.5 million of cash provided by financing activities.

## Key Operating Metrics

We manage our business by tracking various non-financial operating metrics that give us insight into user behavior in our 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.

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.

ARPDau is 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. ARPDau reflects game monetization. Under our revenue recognition policy, we recognize this revenue 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 revenue. 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.

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We calculate DAU, MAU and ARPDAU for only our primary distribution platforms, Apple's App Store, the Google Play Store and Amazon's Appstore, as well as from Facebook for certain titles; 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 ARPDAU 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.

We have estimated the DAU and MAU for certain older titles because the analytics tools incorporated into those titles are incompatible with newer device operating systems (e.g., iOS 12), preventing us from collecting complete data. For these titles, we estimate DAU and MAU by extrapolating from each affected title's historical data using a fixed decay rate in light of the behavior of similar titles for which we had complete data. The table below sets forth our aggregate DAU, MAU and ARPDAU 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 ARPDAU is calculated based only on revenue 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 September 30, 2018 is aggregate daily DAU for the month of September 2018 calculated for all active smartphone free-to-play and premium titles in that month across the distribution platforms for which we calculate the metric.

|                  | Three Months Ended<br>2018              |         |          | 2017            |         |          |
|------------------|---|---------|----------|-----------------|---------|----------|
|                  | September<br>30                         | June 30 | March 31 | September<br>30 | June 30 | March 31 |
|                  | (In thousands, except aggregate ARPDAU) |         |          |                 |         |          |
| Aggregate DAU    | 3,408                                   | 3,627   | 3,585    | 3,903           | 4,627   | 4,098    |
| Aggregate MAU    | 19,415                                  | 22,817  | 24,787   | 27,585          | 32,192  | 32,523   |
| Aggregate ARPDAU | \$ 0.32                                 | \$ 0.27 | \$ 0.25  | \$ 0.23         | \$ 0.16 | \$ 0.15  |

The decrease in aggregate DAU and MAU for the three months ended September 30, 2018 as compared to the same period of the prior year was primarily related to fewer downloads across our portfolio of games.

Our aggregate ARPDAU increased for the three months ended September 30, 2018 as compared to the same period of the prior year, as we improved monetization on certain titles, particularly through increased content updates and use of social features in those games. Future increases in our aggregate DAU, MAU and ARPDAU will depend on our ability to retain current players, attract new paying players, launch new games and expand into new markets and

distribution platforms.

We rely on a very small portion of our total users for nearly all of our revenue 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 typically been less than 5%, when measured as the number of unique paying users on a given day divided by the number of unique users on that day, though this percentage fluctuates, and it may be higher than 5% for certain of our games during specific, relatively short time periods, such as immediately following worldwide launch or the week following content updates, marketing campaigns or certain other events.

#### Significant Transaction

##### Divestiture of Moscow Studio

On December 31, 2017 (the “Closing Date”) we entered into the following agreements related to the divestiture of our Moscow-based game development studio (the “Moscow Studio”) through the sale of our wholly-owned UK

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subsidiary Glu Mobile (Russia) Limited (“GMRL”):

- Share Purchase Agreement (the “SPA”) between the Company and Saber Interactive (“Saber”);
- Transitional Services Agreement (the “TSA”) among the Company, Saber and MGL. My.com (Cyprus) Limited (“MGL”); and
- Asset Purchase and License Agreement (the “APLA”) between the Company and MGL.

The total cash consideration under the SPA and APLA was \$3.2 million, of which we received \$1.7 million in January 2018. The remaining \$1.5 million, net of a transition bonus payment of \$500,000, was received in April 2018 upon completion of the transition of the legacy titles from the Moscow Studio to our Hyderabad studio.

In connection with the activities related to the transition under the TSA that occurred in the first quarter of 2018, we recorded the following expenses during the nine months ended September 30, 2018. No expenses were recorded during the three months ended September 30, 2018:

- \$500,000 related to bonuses that became due to the employees of the Moscow Studio and GMRL;
- \$514,000 related to the vesting of 147,000 shares subject to equity awards held by certain employees of the Moscow Studio and GMRL; and
- \$515,000 related to the amortization of transition services assets that were capitalized as part of the transaction consideration.

## Critical Accounting Policies and Estimates

A summary of our critical accounting policies is presented in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017. Information with respect to changes in our critical accounting policies can be found in Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements in this report, which information is incorporated herein by reference.

## Recent Accounting Pronouncements

Information with respect to recent accounting pronouncements may be found in Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements in this report, which information is incorporated herein by reference.

## 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 Three Months Ended September 30, 2018 and 2017

#### Revenue

| Revenue by Type    | Three Months Ended<br>September 30, |           |
|--------------------|-------------------------------------|-----------|
|                    | 2018                                | 2017      |
|                    | (In thousands)                      |           |
| Micro-Transactions | \$ 85,062                           | \$ 69,734 |
| Advertisements     | 1,916                               | 2,158     |
| Offers             | 12,276                              | 9,212     |
| Other              | 31                                  | 44        |
| Total revenue      | \$ 99,285                           | \$ 81,148 |

Our revenue increased \$18.2 million, or 22.4%, from \$81.1 million for the three months ended September 30, 2017 to \$99.3 million for the three months ended September 30, 2018, which was primarily comprised of a \$15.3 million



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increase in our revenue from micro-transactions (in-app purchases) and a \$3.1 million increase in offer revenues, partially offset by a \$242,000 decrease in advertisement revenues. The increase in revenue was primarily related to growth and evergreen titles such as Design Home, Covet Fashion, the Tap Sports Baseball franchise and Kim Kardashian: Hollywood. Revenue from these titles increased by \$28.7 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. These increases were partially offset by a \$7.5 million aggregate decline in revenue from Restaurant Dash with Gordon Ramsay, Racing Rivals and Deer Hunter 2018 (originally launched as Deer Hunter 2016). The decrease in advertisement revenue was primarily due to decrease in DAU for some of our catalog titles during 2018.

During the three months ended September 30, 2018, Design Home, the Tap Sports Baseball franchise, and Covet Fashion, were our top three revenue-generating games and comprised 39.3%, 23.7% and 13.4%, respectively, of our revenue for the period. No other game generated more than 10% of revenue during the quarter. During the three months ended September 30, 2017, Design Home, the Tap Sports Baseball franchise, and Covet Fashion, were our top three revenue-generating games and comprised 28.4%, 18.8%, and 12.7%, respectively, of our revenue for the period. No other game generated more than 10% of revenue during the quarter.

International revenue (defined as revenue generated from distributors, advertising service providers and carriers whose principal operations are located outside the United States or, in the case of the digital storefronts, the revenue generated from end-user purchases made outside of the United States) increased by \$2.9 million, from \$19.1 million in the three months ended September 30, 2017 to \$22.0 million in the three months ended September 30, 2018. This increase was primarily due to increases in revenue from the titles discussed above.

## Cost of Revenue

|  | Three Months Ended<br>September 30,<br>2018              2017<br>(In thousands) |   |           |   |
|--|---|---|-----------|---|
| Cost of revenue:                                       |   |   |           |   |
| Platform commissions, royalties and other              | \$ 34,384   |   | \$ 28,898 |   |
| Impairment of prepaid royalties and minimum guarantees | -   |   | 464       |   |
| Amortization and impairment of intangible assets       | 4,167   |   | 2,363     |   |
| Total cost of revenue                                  | \$ 38,551   |   | \$ 31,725 |   |
| Revenue  | \$ 99,285   |   | \$ 81,148 |   |
| Gross margin   | 61.2  | % | 60.9      | % |

Our cost of revenue increased \$6.8 million, or 21.5%, from \$31.7 million in the three months ended September 30, 2017 to \$38.6 million in the three months ended September 30, 2018. This increase was primarily due to an increase of \$4.6 million in platform commission fees resulting from a higher volume of revenue transactions through the digital

storefronts, a \$1.1 million increase in royalties associated with an increase in royalty-burdened revenue and a \$1.8 million increase in amortization and impairment of intangible assets expense primarily related to impairment of certain game related in-process research and development. These increases were partially offset by a \$464,000 decrease in impairments related to royalties to certain of our celebrity licensors and other prepaid royalties.

The royalties we paid to licensors increased by \$1.1 million, or 18.8%, from \$6.0 million in the three months ended September 30, 2017 to \$7.1 million in the three months ended September 30, 2018. The increase is due to the growth in revenue from royalty burdened titles. However, the rate of increase of our royalty payments was lower than the increase in our revenue of 22.4% from \$81.1 million in the three months ended September 30, 2017 to \$99.3 million in the three months September 30, 2018. This was due to a larger percentage of our revenue being attributable to titles, such as Design Home and Covet Fashion, that are not royalty burdened.

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## Research and Development Expenses

|                                   | Three Months Ended<br>September 30, |        |      |        |
|-----------------------------------|-------------------------------------|--------|------|--------|
|                                   | 2018                                |        | 2017 |        |
|                                   | (In thousands)                      |        |      |        |
| Research and development expenses | \$                                  | 23,839 | \$   | 22,004 |
| Percentage of revenue             |                                     | 24.0 % |      | 27.1 % |

Our research and development expenses increased \$1.8 million, or 8.3%, from \$22.0 million in the three months ended September 30, 2017 to \$23.8 million in the three months ended September 30, 2018. This was primarily attributable to an increase in stock compensation expense of \$1.5 million primarily related to performance-based equity awards granted to our executives, creative leaders and certain employees, and a \$1.1 million increase in allocated charges for equipment, facilities and depreciation. These increases were partially offset by a \$1.2 million decrease in outside services primarily related to lower external development costs and lower server expenses. As a percentage of revenue, research and development expenses decreased from 27.1% in the three months ended September 30, 2017 to 24.0% in the three months ended September 30, 2018. We expect our research and development expenditures to slightly increase in the fourth quarter of 2018.

## Sales and Marketing Expenses

|                              | Three Months Ended<br>September 30, |        |      |        |
|------------------------------|-------------------------------------|--------|------|--------|
|                              | 2018                                |        | 2017 |        |
|                              | (In thousands)                      |        |      |        |
| Sales and marketing expenses | \$                                  | 28,874 | \$   | 29,776 |
| Percentage of revenue        |                                     | 29.1 % |      | 36.7 % |

Our sales and marketing expenses decreased \$902,000, or 3.0%, from \$29.8 million in the three months ended September 30, 2017 to \$28.9 million in the three months ended September 30, 2018. This was primarily attributable to a \$1.6 million decrease in user acquisition expenditures primarily related to certain evergreen titles partially offset by slightly higher other marketing expenditures on our growth titles, a \$312,000 decrease in payroll related costs mainly due to performance-based equity awards issued to executives and creative leaders in lieu of cash bonuses and higher bonus costs incurred during the three months ended September 30, 2017 in relation to our acquisition of Crowdstar. This decrease was partially offset by an increase in stock compensation expense of \$377,000 primarily related to performance-based equity awards granted to our executives, creative leaders and certain employees and a \$430,000 increase in allocated charges for equipment, facilities and depreciation. As a percentage of revenue, sales and marketing expenses decreased from 36.7% in the three months ended September 30, 2017 to 29.1% in the three months ended September 30, 2018. We expect our sales and marketing expenses to slightly decrease in the fourth

quarter of 2018.

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## General and Administrative Expenses

|                                     | Three Months Ended<br>September 30, |       |      |       |
|-------------------------------------|-------------------------------------|-------|------|-------|
|                                     | 2018                                |       | 2017 |       |
|                                     | (In thousands)                      |       |      |       |
| General and administrative expenses | \$                                  | 8,095 | \$   | 8,698 |
| Percentage of revenue               | 8.2                                 | %     | 10.7 | %     |

Our general and administrative expenses decreased by \$603,000, or 6.9%, from \$8.7 million in the three months ended September 30, 2017 to \$8.1 million in the three months ended September 30, 2018. This was primarily attributable to a \$686,000 decrease in allocated charges for equipment, facilities and depreciation, a \$277,000 decrease in payroll related costs, and a \$296,000 decrease in professional and consulting costs. The decrease in payroll costs was mainly due to performance-based awards issued to executives in lieu of cash bonuses. These decreases were partially offset by an increase of \$385,000 in stock-based compensation expense primarily related to performance-based equity awards granted to our executives. As a percentage of revenue, general and administrative expenses decreased from 10.7 % in the three months ended September 30, 2017 to 8.2% in the three months ended September 30, 2018. We expect our general and administrative expenses to slightly increase in the fourth quarter of 2018.

## Restructuring Charges

We incurred a restructuring charge of \$160,000 in the three months ended September 30, 2018 related to certain employee termination costs. During the three months ended September 30, 2017, we recorded \$1.4 million of restructuring charges related to employee termination and lease termination costs in our Long Beach, California and San Francisco, California offices.

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

Interest and other income/(expense) changed from a net expense of \$271,000 in the three months ended September 30, 2017 to a net income of \$96,000 in the three months ended September 30, 2018. This was primarily due to the release of a cumulative translation adjustment upon substantial liquidation / winding down of one of our foreign subsidiaries recorded during the three months ended September 30, 2017.

## Income Tax Benefit/(Expense)

Our income tax provision changed from an income tax benefit of \$1.1 million in the three months ended September 30, 2017 to an income tax expense of \$118,000 in the three months ended September 30, 2018. This change was primarily due to 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, and change in foreign withholding taxes.

On December 22, 2017, the Tax Cuts and Jobs Act (“The Act”) was enacted, which made significant changes to various areas of the U.S. federal income tax law, including lowering of the U.S. corporate tax rate from 35 percent to 21 percent. GAAP accounting for income taxes requires that we record the impacts of any tax law change on our deferred income taxes in the quarter that the tax law change is enacted. Due to the complexities involved in accounting for the enactment of The Act, in January 2018, SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which is codified as Accounting Standards Update 2018-05 Income Taxes (“ASU 2018-05”), to provide guidance for companies that have not completed accounting for the income tax effects of The Act in the period of enactment. Specifically, ASU 2018-05 states that companies that have not completed their accounting for the effects of The Act by financial reporting deadlines may report provisional amounts based on reasonable estimates for items for which the accounting is incomplete. Those provisional amounts will be subject to adjustment during a measurement period that begins in the reporting period that includes The Act’s enactment date and ends when a company has obtained, prepared and analyzed the information needed to complete the accounting requirements under ASC 740 Income Taxes. The measurement period should not extend beyond one year from the

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enactment date. Furthermore, ASU 2018-05 states that if a company cannot make a reasonable estimate for an income tax effect, it should not account for that effect until it can make such an estimate.

In accordance with ASU 2018-05, at December 31, 2017, we recorded a provisional amount of a one-time negative adjustment of \$34.9 million for the re-measurement of deferred tax assets and liabilities, offset by a one-time positive adjustment of \$34.9 million for the re-measurement of valuation allowance maintained on these items. As of September 30, 2018, these estimated amounts remained as provisional as we believe that additional analysis of our deferred tax assets and liabilities is necessary, as well as the evaluation of potential correlative adjustments. Any subsequent adjustment to these amounts will be recorded to current tax expense in the period the analysis is completed, not to exceed the fourth quarter of 2018.

Based on our initial review of The Act, we do not expect that the new legislation will have a material impact on our financial statements for the three months ended September 30, 2018. We will continue to analyze the impacts of The Act on our financial statements and operations. Additional impacts will be recorded as they are identified during the measurement period as provided for in ASU 2018-05.

### Comparison of the Nine Months Ended September 30, 2018 and 2017

#### Revenue

|                    | Nine Months Ended<br>September 30, |            |
|--------------------|------------------------------------|------------|
|                    | 2018                               | 2017       |
| Revenue by Type    | (In thousands)                     |            |
| Micro-Transactions | \$ 234,066                         | \$ 175,600 |
| Advertisements     | 5,705                              | 8,267      |
| Offers             | 30,867                             | 21,435     |
| Other              | 283                                | 1,313      |
| Total revenue      | \$ 270,921                         | \$ 206,615 |

Our revenue increased \$64.3 million, or 31.1%, from \$206.6 million for the nine months ended September 30, 2017 to \$270.9 million for the nine months ended September 30, 2018, which was primarily comprised of a \$58.5 million increase in our revenue from micro-transactions (in-app purchases) and a \$9.4 million increase in offer revenues, partially offset by a \$2.6 million decrease in advertisement revenues. The increase in revenue was primarily related to growth and evergreen titles such as Design Home, Covet Fashion, the Tap Sports Baseball franchise, and Kim

Kardashian: Hollywood. Revenue from these titles increased by \$96.9 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. These increases were partially offset by a \$25.8 million aggregate decline in revenue from catalog titles such as Restaurant Dash with Gordon Ramsay, Deer Hunter 2018, Racing Rivals, Deer Hunter 2014, Kendall and Kylie and Contract Killer Sniper. The decrease in advertisement revenue was primarily due to decrease in DAU for some of our catalog titles during 2018.

During the nine months ended September 30, 2018, Design Home, the Tap Sports Baseball franchise, and Covet Fashion were our top three revenue-generating games and comprised 38.5%, 18.7% and 12.8%, respectively, of our revenue for the period. No other game generated more than 10% of revenue during the period. During the nine months ended September 30, 2017, Design Home, the Tap Sports Baseball franchise, Covet Fashion, Restaurant Dash with Gordon Ramsay were our top four revenue-generating games and comprised 20.7%, 14.8%, 12.4%, and 10.6%, respectively, of revenue for the period. No other game generated more than 10% of revenue during the period.

International revenue increased by \$13.2 million, from \$50.5 million in the nine months ended September 30, 2017 to \$63.7 million in the nine months ended September 30, 2018. This increase was primarily due to increases in revenue from titles discussed above.



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## Cost of Revenue

|  | Nine Months Ended<br>September 30,<br>2018                      2017<br>(In thousands) |   |            |   |
|--|--|---|------------|---|
| Cost of revenue:                                       |  |   |            |   |
| Platform commissions, royalties and other              | \$ 95,937  |   | \$ 74,519  |   |
| Impairment of prepaid royalties and minimum guarantees | 99   |   | 1,256      |   |
| Amortization and impairment of intangible assets       | 7,102  |   | 8,796      |   |
| Total cost of revenue                                  | \$ 103,138   |   | \$ 84,571  |   |
| Revenue  | \$ 270,921   |   | \$ 206,615 |   |
| Gross margin   | 61.9   | % | 59.1       | % |

Our cost of revenue increased \$18.5 million, or 22.0%, from \$84.6 million in the nine months ended September 30, 2017 to \$103.1 million in the nine months ended September 30, 2018. This increase was primarily due to an increase of \$17.7 million in platform commission fees due to a higher volume of revenue transactions through the digital storefronts, a \$3.0 million increase in royalties associated with an increase in royalty-burdened revenue and a \$984,000 increase in expense related to warrants issued to certain celebrities. These increases were partially offset by a \$1.7 million decrease in amortization and impairment of intangible assets and a \$1.2 million decrease in impairment of prepaid royalties and minimum guarantees.

The royalties we paid to licensors increased by \$3.0 million, or 18.6%, from \$16.2 million in the nine months ended September 30, 2017 to \$19.2 million in the nine months ended September 30, 2018. The increase is due to the growth in revenue from royalty burdened titles. However, the rate of increase of our royalty payments was lower than the increase in our revenue of 31.1% from \$206.6 million in the nine months ended September 30, 2017 to \$270.9 million in the nine months September 30, 2018. This was due to a larger percentage of our revenue being attributable to titles such as Design Home and Covet Fashion, that are not royalty burdened.

## Research and Development Expenses

Nine Months Ended  
September 30,  
2018                      2017  
(In thousands)

|                                   |           |   |           |   |
|-----------------------------------|-----------|---|-----------|---|
| Research and development expenses | \$ 69,381 |   | \$ 71,025 |   |
| Percentage of revenue             | 25.6      | % | 34.4      | % |

Our research and development expenses decreased \$1.6 million, or 2.3%, from \$71.0 million in the nine months ended September 30, 2017 to \$69.4 million in the nine months ended September 30, 2018. This was primarily attributable to a \$6.5 million decrease in payroll related costs and a \$1.7 million decrease in outside services mainly due to lower external development costs and server expenses. The decrease in payroll related costs was mainly due to performance-based equity awards issued to executives and creative leaders in lieu of cash bonuses, lower headcount resulting from various restructuring programs implemented by us during 2017, divestiture of our Moscow studio in December 2017, and higher severance and bonus costs incurred during the nine months ended September 30, 2017 in relation to our acquisition of Crowdstar. These decreases were partially offset by an increase in stock compensation expense of \$4.5 million, an increase in allocated charges for equipment, facilities and depreciation of \$1.2 million and an increase in consulting costs of \$735,000. The increase in stock based compensation was primarily related to performance-based equity awards granted to our executives, creative leaders and certain employees, and acceleration of equity awards in connection with the transition services provided by certain former employees of our Moscow studio. As a percentage of revenue, research and development expenses decreased from 34.4% in the nine months ended September 30, 2017 to 25.6% in the nine months ended September 30, 2018.

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## Sales and Marketing Expenses

|                              | Nine Months Ended<br>September 30, |   |           |   |
|------------------------------|------------------------------------|---|-----------|---|
|                              | 2018                               |   | 2017      |   |
|                              | (In thousands)                     |   |           |   |
| Sales and marketing expenses | \$ 85,425                          |   | \$ 78,015 |   |
| Percentage of revenue        | 31.5                               | % | 37.8      | % |

Our sales and marketing expenses increased \$7.4 million, or 9.5%, from \$78.0 million in the nine months ended September 30, 2017 to \$85.4 million in the nine months ended September 30, 2018. This was primarily attributable to an increase of \$5.4 million in user acquisition and other marketing expenditures on our growth titles partially offset by lower user acquisition expenditures on certain of our evergreen titles, an increase in stock compensation expense of \$1.1 million primarily related to performance-based equity awards granted to our executives, creative leaders and certain employees, and a \$1.3 million increase in allocated charges for equipment, facilities and depreciation. These increases were partially offset by a \$469,000 decrease in payroll related costs mainly related to performance-based equity awards issued to executives and creative leaders in lieu of cash bonuses, and higher bonus costs incurred during the nine months ended September 30, 2017 in relation to our acquisition of Crowdstar. As a percentage of revenue, sales and marketing expenses decreased from 37.8% in the nine months ended September 30, 2017 to 31.5% in the nine months ended September 30, 2018.

## General and Administrative Expenses

|                                     | Nine Months Ended<br>September 30, |   |           |   |
|-------------------------------------|------------------------------------|---|-----------|---|
|                                     | 2018                               |   | 2017      |   |
|                                     | (In thousands)                     |   |           |   |
| General and administrative expenses | \$ 23,593                          |   | \$ 25,873 |   |
| Percentage of revenue               | 8.7                                | % | 12.5      | % |

Our general and administrative expenses decreased by \$2.3 million, or 8.8%, from \$25.9 million in the nine months ended September 30, 2017 to \$23.6 million in the nine months ended September 30, 2018. This was primarily attributable to a \$2.5 million decrease in payroll related costs, a \$333,000 decrease in professional fees mainly related to our acquisition of Crowdstar and a \$1.3 million decrease in allocated charges for equipment, facilities and depreciation. The decrease in payroll related costs was mainly due to performance-based awards issued to executives in lieu of cash bonuses, lower headcount resulting from the closing or divestiture of some of our foreign subsidiaries during 2017, restructuring programs implemented by us during 2017 and higher bonus and severance costs incurred during the nine months ended September 30, 2017 in relation to our acquisition of Crowdstar. These decreases were partially offset by an increase of \$1.3 million in stock-based compensation expense primarily related to

performance-based equity awards granted to our executives. As a percentage of revenue, general and administrative expenses decreased from 12.5% in the nine months ended September 30, 2017 to 8.7% in the nine months ended September 30, 2018.

#### Restructuring Charges

During the nine months ended September 30, 2018, we recorded \$240,000 of restructuring charges related to certain employee termination costs and lease termination costs in our Long Beach, California office. During the nine months ended September 30, 2017, we recorded \$6 million of restructuring charges related to employee termination and lease termination costs in our Bellevue, Washington, Long Beach, California, San Francisco, California, Portland, Oregon, and Beijing, China, offices.

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

During the nine months ended September 30, 2018, we recorded net interest and other expense of \$521,000 which primarily consisted of an expense of \$481,000 of currency losses for the revaluation of certain account balances including accounts receivable and an expense of \$160,000 related to amortization of transition service assets in connection with transitioning of certain legacy titles from our Moscow studio to our Hyderabad studio.

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During the nine months ended September 30, 2017, we recorded net interest and other expense of \$340,000 which primarily consisted of expense related to release of cumulative translation adjustment upon substantial liquidation / winding down of foreign subsidiaries.

## Income Tax Benefit/(Expense)

Our income tax provision changed from an income tax benefit of \$1.2 million in the nine months ended September 30, 2017 to an income tax expense of \$500,000 in the nine months ended September 30, 2018. This change was primarily due to 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, and change in foreign withholding taxes.

Based on our initial review of The Act, we do not expect that the new legislation will have a material impact on our financial statements for the nine months ended September 30, 2018. We will continue to analyze the impacts of The Act on our financial statements and operations. Additional impacts will be recorded as they are identified during the measurement period as provided for in ASU 2018-05.

## Liquidity and Capital Resources

|  | Nine Months Ended<br>September 30,<br>2018                      2017<br>(In thousands) |             |
|--|--|-------------|
| Consolidated Statement of Cash Flows Data:                 |  |             |
| Cash flows generated from / (used in) operating activities | \$ 13,409  | \$ (33,335) |
| Cash flows provided by / (used in) investing activities    | 814  | (6,120)     |
| Cash flows provided by / (used in) financing activities    | 2,515  | (282)       |

Since our inception, we have generally incurred recurring losses and negative annual cash flows from operating activities. As of September 30, 2018, we had an accumulated deficit of \$439.2 million.

## Operating Activities

In the nine months ended September 30, 2018, net cash generated from operating activities was \$13.4 million, which was primarily due to an increase in deferred revenue of \$15.4 million mainly attributable to an increase in revenue from titles with longer useful lives, a decrease in adjustments for non-cash items including stock based compensation expense of \$17.5 million, amortization and impairment of intangible assets of \$7.1 million, depreciation of \$2.9 million and warrant expense of \$1.0 million. These increases were offset by \$11.9 million of net loss, a \$7.4 million decrease in accrued compensation, a \$2.8 million decrease in accounts payable and other accrued liabilities mainly due to the timing of payments to our vendors, a \$3.6 million increase in accounts receivable mainly due to the timing of payments from our customers, an \$860,000 increase in prepaid royalties and a \$4.7 million increase in deferred platform commission fee attributable to higher bookings.

In the nine months ended September 30, 2017, net cash used in operating activities was \$33.3 million, which was primarily due to a \$58.0 million net loss, minimum guaranteed royalty payments of \$20.9 million to celebrity and brand licensors, a \$14.4 million increase in prepaid expenses and other assets related to platform fees and outside development services, a \$12.6 million increase in accounts receivable due to the timing of payments from our customers, and \$5.4 million of cash restructuring activities. These amounts were partially offset by a \$29.5 million increase in deferred revenue mainly attributable to an increase in revenue from titles with longer useful lives and adjustments for non-cash items including stock-based compensation expense of \$10.6 million and amortization of intangible assets of \$8.8 million.

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### Investing Activities

In the nine months ended September 30, 2018, we generated \$814,000 of cash from investing activities primarily related to proceeds of \$2.7 million from the divestiture of our Moscow studio, partially offset by property and equipment purchases of \$1.9 million.

In the nine months ended September 30, 2017, we used \$5.4 million of cash for investing activities primarily related to property and equipment purchases of \$3.7 million, \$1.7 million net cash paid for acquisitions, and other investing activities of \$810,000.

### Financing Activities

In the nine months ended September 30, 2018, net cash generated from financing activities was \$2.5 million which was primarily due to \$8.1 million in proceeds received from option exercises and purchases under our employee stock purchase plan. These cash inflows were partially offset by \$5.6 million of taxes paid related to net share settlement of RSUs.

In the nine months ended September 30, 2017, net cash used in financing activities was \$282,000 due primarily to \$1.9 million of taxes paid related to net share settlement of RSUs. These cash outflows were partially offset by \$1.6 million in proceeds received from option exercises and purchases under our employee stock purchase plan.

### Sufficiency of Current Cash and Cash Equivalents

Our cash and cash equivalents were \$80.8 million as of September 30, 2018. Cash and cash equivalents held outside of the United States in various foreign subsidiaries were \$2.1 million as of September 30, 2018, most of which were held by our Canadian and Indian subsidiaries. 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, except China, because these earnings are intended to be reinvested indefinitely. However, if any such balances were to be repatriated, additional U.S. federal income tax payments could result. Computation of the potential deferred tax liabilities associated with unremitted earnings deemed to be indefinitely reinvested is not practicable.

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. We believe our cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 12 months from the date of this report; however, our cash requirements for the next 12 months may be greater than we anticipate due to, among other reasons, revenue that is 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 minimum guaranteed royalties, use of cash to pay operating lease obligations, 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. We expect to continue to use cash to fund operating lease obligations and minimum guaranteed royalty payments during the remainder of 2018 as milestone payments become due on games we publish and/or develop that incorporate third party licensed property, and may also use cash to fund investments and/or the purchase price of any acquisitions. If the games we develop based on such licensing arrangements fail to perform in accordance with our expectations, we may not fully recoup these minimum guaranteed royalty payments.

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.



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## Contractual Obligations

The following table is a summary of our contractual obligations as of September 30, 2018:

|                                   | Payments Due by Period from September 30, 2018 |                     |           |           |                      |
|-----------------------------------|--|---------------------|-----------|-----------|----------------------|
|                                   | Total  | Less than<br>1 year | 1-3 years | 3-5 years | More than<br>5 years |
|                                   | (In thousands)                                 |                     |           |           |                      |
| Operating lease obligations (1)   | \$ 45,908                                      | \$ 5,243            | \$ 10,000 | \$ 9,343  | \$ 21,322            |
| Guaranteed royalties (2)          | 7,429  | 3,129               | 4,300     | —         | —                    |
| Developer commitments (3)         | 250  | 250                 | —         | —         | —                    |
| Total contractual obligations (4) | \$ 53,587                                      | \$ 8,622            | \$ 14,300 | \$ 9,343  | \$ 21,322            |

- (1) We have entered into a sub-lease agreement for one of our U.S. offices. The future obligation amounts are net of the sub-lease payments.
- (2) We have entered into license and publishing agreements with various celebrities and other owners of brands, properties and other content to develop and publish games and other software applications for mobile devices. These agreements typically require us to make non-refundable, but recoupable payments of minimum guaranteed royalties or license fees as up-front payments or over the term of the agreement.
- (3) From time to time we enter into contracts with various external software developers to design and develop games and other software applications. We advance funds to these third-party developers, typically payable in installments upon the completion of specified development milestones.
- (4) We have omitted uncertain income tax liabilities from this table due to the inherent uncertainty regarding the timing of potential issue resolution. Specifically, either the underlying positions have not been fully developed enough under audit to quantify at this time or the years relating to the issues for certain jurisdictions are not currently under audit. At September 30, 2018, we had \$395,000 of gross unrecognized tax benefits, all of which was included in "Other long-term liabilities" in the consolidated balance sheet.

## Off-Balance Sheet Arrangements

At September 30, 2018, we did not have any significant off-balance sheet arrangements requiring disclosure under Item 303(a)(4)(ii) of Regulation S-K, other than those listed in our contractual obligations table above.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information in this section should be read in connection with the information on financial market risk related to changes in interest rates and non-U.S. currency exchange rates in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in our Annual Report on Form 10-K for the year ended December 31, 2017. Our market risk profile has not changed significantly during the three months ended September 30, 2018.

#### 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 September 30, 2018, substantially all of our cash and cash equivalents of \$80.8 million was held in operating bank and money market 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/(expense), 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 September 30, 2018, and December 31, 2017, our cash and cash equivalents were maintained by financial institutions in the United States, Canada, China, Hong Kong and India and our current deposits are likely in excess of insured limits.

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Our accounts receivable primarily relate to revenue 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 September 30, 2018, Apple Inc., or Apple, accounted for 58.3%, Google Inc., or Google, accounted for 19.8% and Tapjoy Inc., or Tapjoy, accounted for 15.1% of total accounts receivable. At December 31, 2017, Apple accounted for 58.0% and Google accounted for 17.1%, 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.

## Foreign Currency Exchange Risk

We transact business in more than 100 countries in more than 30 different currencies, and in 2017 some of these currencies fluctuated significantly. Our revenue is 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 the Indian Rupee and the Canadian Dollar. 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 U.S. Dollar, or 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 the Russian Ruble versus the USD, the Euro versus the British Pound, the Indian Rupee versus the USD and the Canadian Dollar versus the USD. 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 loss 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.

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

## 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 offset these higher

costs fully through price increases. Our inability or failure to do so could harm our business, operating results and financial condition.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures, as defined under Rule 13a-15(e) and 15d-15(e) of the Exchange Act, were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

##### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On March 14, 2018, Jeffrey Tseng, the former Chief Executive Officer of Crowdstar, filed a complaint in the Superior Court of the State of California for the County of Santa Clara against Time Warner Inc., Rachel Lam, Intel Capital Corporation, Middlefield Ventures Inc. and Jose Blanc (collectively, the “Non-Glu Defendants”), Glu and additional yet-to-be-named defendants. The complaint alleges (i) breach of fiduciary duty by the Non-Glu Defendants, (ii) aiding and abetting breach of fiduciary duty by Glu and (iii) intentional interference with contract, intentional interference with prospective economic advantage, negligent interference with prospective economic advantage and unfair competition by each of the defendants, in each case relating to circumstances arising from our acquisition of Crowdstar and the events leading up to the acquisition. Mr. Tseng is seeking compensatory damages and exemplary damages, each in an amount to be determined at trial, along with costs of suit, reasonable attorneys’ fees and such other relief as the Court may deem proper. The first Case Management Conference, was held on July 20, 2018. Glu and the Non-Glu Defendants filed demurrers in response to Mr. Tseng’s complaint on August 17, 2018, Mr. Tseng filed responses to these demurrers on September 17, 2018, and Glu and the Non-Glu Defendants filed reply briefs in support of their demurrers on October 15, 2018. A hearing with respect to the demurrers is currently scheduled to be held on November 30, 2018. Discovery in the case is stayed pending resolution of the demurrers. We believe that the allegations against us are without merit and intend to vigorously defend ourselves in this matter.

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 we believe 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 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 and sustain profitability or growth in future periods.

We have incurred significant losses since inception, including a net loss of \$97.6 million in 2017 and a net loss of \$11.9 million for the nine months ended September 30, 2018. As of September 30, 2018, we had an accumulated deficit of \$439.2 million. While we conducted several restructurings and divested our Moscow game development studio during 2017, which measures were aimed at reducing our fixed costs and operating more efficiently, our costs may continue to rise as we implement additional initiatives designed to increase revenue, potentially including: investing more heavily in our existing titles as part of our product strategy; increasing our spending on user acquisition efforts, particularly for our growth titles; hiring additional staff in our San Francisco Bay Area and Hyderabad, India locations; developing new games with greater complexity, higher production values and deeper social features; running live operations on our games; and taking other steps to strengthen our company. We anticipate that the costs of acquiring new players and otherwise marketing our new titles will continue to rise, particularly since advertising costs in our industry have generally been rising and we have encountered increasing difficulties in generating downloads of our games as users spend more time on alternative software applications, such as social media, messaging, and streaming applications. During 2017 and the first nine months of 2018, we significantly increased our strategic investment in user acquisition for our Design Home title to leverage the game's momentum and maximize its revenue potential. While we believe that we

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will more than recoup these marketing expenditures by generating additional revenues over the long term, our analysis may prove incorrect and we may not generate a positive return on investment from these expenditures. We may also continue to incur significant costs to acquire rights to third party intellectual property, including incurring significant minimum guaranteed royalty payments. If our revenue does not increase at a rate sufficient to offset these additional expenses, if the launch dates for our games are delayed, if we do not realize a sufficient return on our strategic investment in user acquisition for Design Home and our other top titles, if we experience unexpected significant increases in operating expenses or if we are required to take additional charges related to impairments or restructurings, we will continue to incur losses. For example, during the fiscal year ended December 31, 2017, we recorded a \$27.3 million impairment related to certain contractual minimum guarantee payments made to certain of our celebrity licensors and other prepaid royalties. We also recorded a \$2.7 million charge relating to impairment of acquired in process research and development during the third quarter of 2018. Additionally, we have taken restructuring charges in the past, including \$6.0 million during 2017 related to headcount reductions and other restructuring activities. Furthermore, given the declines in overall downloads of mobile gaming applications and the significant amount of time and attention users are dedicating to social media and other non-gaming applications, increasing revenue has been, and may continue to be, challenging. This industry trend has been negatively impacting us, as the number of downloads of sequels to certain of our most successful franchises, including the launches of Deer Hunter 2016 (which we have rebranded Deer Hunter 2018) and Eternity Warriors 4, as well as for many of our more recent titles, such as The Swift Life, Nicki Minaj: The Empire, Britney Spears: American Dream, Restaurant Dash with Gordon Ramsay, and Rival Fire, have downloaded at significantly lower rates as compared to previous new titles.

If we fail to develop and publish new mobile games that achieve market acceptance, as well as continue to enhance our existing games, particularly our most successful games, our revenue 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, technology, analytics and marketing to introduce new games and continue to update our successful evergreen and growth games, and we often must make decisions about these matters well in advance of a product's release to timely implement them. Our success depends, in part, on unpredictable and volatile factors beyond our control, including consumer preferences and the number of applications they are willing to download to and maintain on their devices, competing gaming and non-gaming related applications, 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. It can be difficult for us to predict with certainty when we will launch a new game as games may require longer development schedules or beta testing periods to meet our quality standards and our players' expectations. For example, we experienced delays in the development and commercial release of The Swift Life, and, following global launch, the title has not been commercially successful. We have recently decided to delay the worldwide launch dates of WWE Universe and Diner DASH Town in order to give the development teams additional time to work on these titles so that they can meet our expectations for a potential growth game. The worldwide launch of these titles might get delayed further than we anticipate, or they may not be successful when and if launched, which would likely harm our business, operating results and financial condition. Even if our games are successfully introduced in a timely fashion and initially adopted, a failure to continually 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 revenue and harm our business, operating results and financial condition, which effect would be magnified for our most successful games and, in particular, Design Home. It is difficult to predict when and how quickly the popularity and revenue of one of our games will decline. In particular, in connection with our product strategy, we have committed significant resources to updating, adding new features to and enhancing our existing titles as opposed to launching as many new titles as we have in prior years. However, we may not be successful in updating our existing titles, such as was the case with our updates of Covet Fashion in the first quarter of 2017 and Racing Rivals in the fourth quarter of 2016 and the second

quarter of 2018, which updates were received poorly by some of our players and, in the case of Racing Rivals, resulted in decreased revenue. In addition, while we currently plan to add new features to Design Home, including augmented reality, deeper game play, a richer social experience and e-commerce functionality, our efforts may not result in increased revenues and could cause a decline in the game's popularity. If rates of revenue decline are higher than expected in a particular quarterly period, our new games are not launched in a timely manner or fail to download and/or monetize as we anticipate, the expenditures we make on user acquisition do not result in increased revenues, or the enhancements we make to existing titles do not result in increased revenues or decreased rates



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of revenue decline, we may not meet our expectations or the expectations of securities analysts or investors for a given quarter. In addition, our Kim Kardashian: Hollywood game benefitted significantly from awareness of the game through media coverage and social media channels, and such viral success can be difficult to predict or to repeat in the future, or as in the case of Kendall & Kylie, may not translate into the level of sustained commercial success we experienced with Kim Kardashian: Hollywood. Furthermore, we compete for the discretionary spending of consumers, who face a vast array of entertainment choices, including social media and other non-gaming related apps, 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.

In addition to the market factors noted above, our ability to successfully develop games for mobile devices and their ability to achieve commercial success will depend on our ability to:

- achieve a positive return on investment from our marketing and user acquisition efforts;
- minimize launch delays and cost overruns on the development of new games;
- effectively monetize our games;
- release games compatible with an increasingly diverse set of mobile devices;
- minimize and quickly resolve bugs or outages; and
- acquire and successfully integrate high quality mobile game assets, personnel or companies.

These and other uncertainties make it difficult to know whether we will succeed in continuing to develop successful mobile games and launch these games in accordance with our operating plan. If we do not succeed in doing so, our business, financial condition, results of operations and reputation will suffer.

Successfully developing and monetizing free-to-play games is a challenging business model.

We face significant challenges in achieving our goal of become the leading developer and publisher of free-to-play mobile games. The most successful free-to-play games tend to include socio-competitive gameplay, deep meta game features, player versus player activities, regularly updated content and other complex technological and creative attributes. While we are working to include such features in our games through our growth and evergreen strategy, we may not successfully update our games to include these features or they may not be well received by our players. For example, the significant update to Racing Rivals that we released in the fourth quarter of 2016 was poorly received by players and led to a significant decline in revenue from this title, and our efforts to relaunch this title through a significant update in the second quarter of 2018 has not been successful to date. If we are unable to successfully implement our growth and evergreen strategy, or if we incur excessive expenses in this effort, our financial performance and ability to grow revenue would be negatively affected, and we may be unable to launch successful new titles due to a diversion of talent and resources to our existing growth and evergreen titles. Additionally, our existing games compete with our new offerings and the offerings of our competitors, and revenue from our existing games have declined over time, a trend that we have limited experience reversing on a consistent basis. Our efforts to develop new growth games and enhance our existing growth and evergreen titles may prove unsuccessful or, even if successful, it may take more time than we anticipate to achieve significant revenue because, among other reasons:

- our 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
- competition for downloads not only with other mobile games but also with social media and other non-gaming related applications;
- limits on the number of mobile applications players are willing to download to and maintain on



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their devices;

- poor consumer reviews or other negative publicity;
- ineffective or insufficient marketing efforts;
  - lack of prominent storefront featuring;
- failure to reach and maintain Top Free App Store rankings;
- the relatively large file size of some of our games, which has been exacerbated due to Apple's requirement that games released on the Apple App Store include 64-bit support; in particular, our games often utilize a significant amount of the available memory on a user's device and tend to consume additional space as players advance through our games, which may cause players to delete our games once the file size grows beyond the capacity of their devices' storage limitations; and
- the limitations set by Google and Apple, which at most only allow applications that are less than 100 or 150 megabytes, respectively, to be downloaded over a carrier's wireless network; as a result, players must download our games that exceed 100 or 150 megabytes either via a wireless Internet (wifi) connection or initially to their computer and then side-load them to their device;
- even if our games are widely downloaded, we may fail to retain users or optimize the monetization of these games, such as occurred with our Kendall & Kylie title, which may occur for a variety of reasons, including poor game design or quality, lack of social and 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, lack of differentiation from predecessor games or other competitive games, lack of innovative features that surprise and delight our players, differences in user demographics and purchasing power or our failure to effectively respond and adapt to changing user preferences through game updates;
- future licensed property games that we release may fail to resonate with consumers and may cost more to build than other titles due to the minimum guaranteed royalty payments to our licensors;
- we intend to continue to develop games based upon our own intellectual property, rather than celebrities or well-known licensed brands and properties, and we may encounter difficulties in generating sufficient consumer interest in and downloads of our original intellectual property games, particularly considering we have experienced significantly fewer downloads of more recent launches of game sequels as compared to their predecessors;
- many well-funded public and private companies have released, or plan to release, free-to-play games, including titles in the home design category or games incorporating the same licensed brands that we intend to use in our games (e.g., WWE and Disney/Pixar), and this competition will make it more difficult for us to differentiate our games and derive significant revenue from them;
- we may have difficulty hiring the experienced monetization, live operations, server technology, user experience and product management personnel that we require to support our growth and evergreen gaming strategy, or may face difficulties in developing our technology platform and incorporating it into our products or developing unique gameplay;
- 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; and
- the impact of potential regulatory issues, including:

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- various jurisdictions are assessing the legality of “loot boxes” which are commonly used in some of our top games, and in the fourth quarter of 2017 Apple updated its terms of service to require publishers to publish the odds of winning the items contained in loot boxes, which could harm the monetization of our games that utilize loot boxes;
- the Federal Trade Commission, or the FTC, has previously 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 and with Google in September 2014 on this issue, and in April 2016, a federal court granted summary judgment in favor of the FTC finding Amazon liable for unfairly billing consumers for unauthorized in-app purchases by minors), and the FTC might issue rules significantly restricting or even prohibiting in-app purchases or name us as a defendant in a future class-action lawsuit; and
- various legislators, administrative bodies and courts, primarily in Europe, have taken actions (including imposing fines) or may be considering taking actions (including antitrust enforcement) against Apple and Google, which are our primary distribution platforms, and Facebook, which is our primary user acquisition channel. For example, in July 2018, the European Union imposed a 4.34 billion euro fine on Google for abusing its power in the mobile phone market by forcing handset makers to effectively preinstall Google apps on their devices and ordered Google to stop automatically including its own apps in mobile devices within 90 days of the ruling. Google has appealed the fine, but has not asked to pause the application of the decision.

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 revenue that we derive from in-app purchases.

We rely on a very small portion of our total players for nearly all of our revenue derived from in-app purchases (as opposed to advertisements and incentivized offers) and installation rates and user-growth have declined for us with many of our most recent product launches. Since the launch of our first free-to-play titles in the fourth quarter of 2010, the percentage of unique paying players for our largest revenue-generating free-to-play games has typically been less than 5%, when measured as the number of unique paying users on a given day divided by the number of unique users on that day, though this percentage fluctuates, and it may be higher than 5% for some of our games during specific, relatively short time periods, such as immediately following worldwide launch or the week following content updates, marketing campaigns or certain other events. To significantly increase our revenue, we must increase the number of downloads of our games, increase the number of players who convert into paying players by making in-app purchases or enrolling in subscriptions, increase the amount that our paying players spend in our games and/or increase the length of time our players generally play our games. We might not succeed in our efforts to increase the monetization rates of our users, particularly if we do not increase the amount of social features in our games or otherwise succeed in our growth and evergreen gaming strategy. We have also encountered difficulties in retaining our players as the average monthly active users, or MAU, for our games declined 29.62% from 27.6 million in the third quarter of 2017 to 19.4 million in the third quarter of 2018. If we are unable to convert non-paying players into paying players, or if we are unable to retain our paying players or if the average amount of revenue that we generate from our players 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 revenue 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 revenue has historically been derived from Apple’s iOS platform, which accounted for 63.6% of our total revenue for the nine months ended September 30, 2018 compared with 62.4% of our total revenue for the nine months ended September 30, 2017. We generated the majority of this iOS-related revenue from the Apple

App Store, which represented 55.4% and 53.6% of our total revenue for the nine months ended

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September 30, 2018 and 2017, respectively, with the significant majority of such revenue derived from in-app purchases. We generated the balance of our iOS-related revenue from offers and advertisements in games distributed on the Apple App Store. In addition, we derived approximately 36.0% and 36.4% of our total revenue for the nine months ended September 30, 2018 and 2017, respectively, from the Android platform. We generated the majority of our Android-related revenue from the Google Play Store, which represented 30.4% and 30.7% of our total revenue for the nine months ended September 30, 2018 and 2017, respectively, with the significant majority of such revenue derived from in-app purchases. We believe that we have good relationships with each of Apple and Google, which have contributed to the majority of our games released in the last several years being featured on their respective storefronts upon worldwide commercial release. 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 revenue from them. We may also be required to spend significantly more on marketing campaigns to generate substantial revenue on these platforms. Additionally, our efforts to advertise through search advertisements in the Apple App Store may not be successful and may not result in additional users or monetization. In addition, currently neither Apple nor Google charge 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. For example, on March 11, 2015, the Apple App Store experienced an approximately 12-hour global outage, which resulted in players and potential players of our games being unable to both download our games and make in-app purchases within our games during such outage. If such events recur on a prolonged basis or other similar issues arise that impact our ability to generate revenue from these storefronts, it would have a material adverse effect on our revenue and operating results. In addition, if these storefront operators fail to provide high levels of service, our players' ability to access our games may be interrupted or players 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 and the advertising channels through which we acquire some of our players 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, including platform commission fees, 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 fourth quarter of 2014, Apple informed developers that beginning on February 1, 2015 all new applications, and beginning June 1, 2015 all updates to existing applications, submitted to the Apple App Store must include 64-bit support. Building our games to support 64-bit development has increased the file sizes of our games making it more difficult for players to download our games and potentially negatively impacting the number of downloads and active users of our titles, particularly for those games where we are unable to keep file sizes below 150 megabytes. More recently, in the fourth quarter of 2017, Apple updated its terms of service to require publishers to disclose a player's odds of winning the various items contained within loot boxes. Glu utilizes loot boxes in many of its current games and the games it intends to release in 2018, and it is possible that this new disclosure requirement will negatively impact the monetization of these titles. Furthermore, in January 2018, Apple enforced new guidelines relating to offerwalls which negatively impacted our revenues from offers in Design Home during the

first quarter of 2018. If Apple or Google, or any other key 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.

In addition, in the first quarter of 2014, Facebook prohibited HasOffers, whose software development kit we

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had incorporated 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 removed HasOffers' software development kit from our games and replaced it with software from a new vendor, which did not adversely impact our revenue or operations. Any similar changes or prohibitions in the future, including any changes by Facebook of its advertising platform, which we rely on for a majority of our user acquisition activities, could negatively impact our revenue or otherwise materially harm our business, and we may not receive significant or any advance warning of such changes.

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 revenue 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 revenue 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 revenue, and even a small shortfall in revenue 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 revenue in a quarter, which timing can be impacted by internal development delays, longer than anticipated beta testing periods, shifts in product strategy and how quickly digital storefront operators review and approve our games for commercial release;
- changes in the prominence of storefront featuring for our games and those of our competitors;
- the loss of, or changes to, one of our distribution platforms;
- changes to the Apple iOS platform or the Google Android platform that we are not able to adapt to our game offerings;
- fluctuations in the size and rate of growth of overall consumer demand for smartphones, tablets, games and related content;
- the amount and timing of charges related to any future impairments of goodwill, intangible assets, prepaid royalties and guarantees; for example, in 2017, we impaired \$27.3 million related to contractual minimum guarantee royalty payments made to certain celebrity licensors and other prepaid royalties, and in future periods we may be required to impair our goodwill due to further declines in our business and/or stock price, or take additional large impairments related to contractual minimum guarantee commitments if the associated games we are developing are not successful;
- changes in the mix of revenue derived from games based on original intellectual property versus licensed intellectual property;



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- changes in the mix of revenue derived from in-app purchases, advertisements and offers, which mix often depends on the nature of new titles launched during the quarter;
- changes in the mix of revenue derived from first party titles and third party titles, including revenue from Racing Rivals now that we have transitioned development for this title to Carbonated;
- 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, restructuring expenses, 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 some of our games, as well as estimates of average playing periods and player life; and
- macro-economic fluctuations in the United States and global economies, including those that impact discretionary consumer spending.

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 players, we compete primarily on the basis of game quality, brand and customer reviews. We compete for space on user's smartphones and tablet devices in terms of the number of applications on their device and the amount of storage consumed by such applications. We also compete more generally for the time and attention of users of smartphones and tablet devices who are spending ever-increasing amounts of time on social media, messaging and music, movie and television streaming applications. We compete for promotional and digital storefront placement based on our relationship with the digital storefront owner, historical performance, game quality, perception of sales potential, customer reviews and relationships with celebrities and other licensors of brands and other content. For content licensors, we compete based on royalty and other economic terms, historical financial performance of prior licensed content titles, perceptions of development quality, 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 Activision (the parent company of King Digital Entertainment), DeNA, Disney, Electronic Arts (EA Mobile), Gameloft, Gamevil, GREE, GungHo Online Entertainment, Netease, Netmarble, Nexon, Nintendo, Rovio, Warner Brothers, and Zynga and many well-funded private companies, including DoubleDown, Epic Games, Jam City, Machine Zone, Miniclip, Niantic, Peak Games, Playrix, Pocket Gems, Scopely, Storm 8/Team Lava, and Supercell. We also face competition from online game developers and distributors who are primarily focused on specific international markets. We could also face increased competition if those companies choose to compete more directly in the United States or the other markets that are significant to us or if large companies with significant online presences such as Apple, Google, Amazon, Facebook, Microsoft or Verizon, choose to enter or expand in the games space or develop competing games. In addition, we also face competition from mobile applications and websites focused on the home design market, which may include games, e-commerce titles, design applications and others seeking to displace our Design Home title which is a leading title in the currently unsaturated home design application market. Competitors in this space include, or may include, established game developers, established real estate companies, interior design companies, e-commerce companies and other well-funded

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private companies looking to enter the home design market. We also compete for downloads and time spent on mobile devices with companies that develop popular social media and messaging applications, such as Facebook (with its Facebook, Facebook Messenger, Instagram, WhatsApp and other applications), Pinterest, Reddit, Snapchat, Twitter, Vevo and YouTube, companies that develop streaming music, movie and television applications, such as Pandora, Spotify, Tidal, HBO Go, Netflix, Amazon Prime and Hulu, and with companies that create non-gaming related software applications for celebrities.

In addition, given the open nature of the development and distribution for smartphones and tablets and the relatively low barriers to entry, 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 nearly 3.3 million applications, including more than 800,000 active games, were available on Apple's U.S. App Store as of October 31, 2018. The proliferation of titles in these open developer channels makes it difficult for us to differentiate ourselves from other developers and to compete for players without substantially increasing our marketing expenses and 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;
- greater experience with free-to-play games, building and maintaining growth or evergreen titles, and building social and community features into mobile games, as well as more effective game monetization;
- stronger brand and consumer recognition regionally or worldwide;
- the capacity to leverage their marketing expenditures across a broader portfolio of mobile and non-mobile products;
- larger installed user bases from their existing mobile games;
- larger installed user 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;
- broader global distribution and presence; and
- greater talent, both in overall headcount and in terms of experience in creating successful titles.

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 players may decide to select competing forms of entertainment instead of playing our games.

We also face competition for the leisure time, attention and discretionary spending of our players. Other forms of leisure time activities, such as social media and messaging applications, personal computer and console games, television,

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movies, sports, and the Internet, are generally much larger and more well-established options for consumers. In addition, competition for the attention of players on their mobile devices is intense, as the number of apps that are available for mobile devices is increasing dramatically. In particular, non-gaming applications for mobile devices, such as social media and messaging, music, movie and television streaming, and dating applications, have become increasingly popular, making it more difficult for mobile games to generate the same level of consumer interest and number of downloads as in prior periods. If our players do not find our games to be compelling or if other leisure time activities are perceived by our players to offer greater variety, affordability, interactivity and overall enjoyment, our business could be materially and adversely affected.

Securing license agreements to develop, publish and market games based on or significantly incorporating celebrities, third-party licensed brands, properties, and other content typically requires that we make minimum guaranteed royalty and other payments to such licensors, and to the extent such payments become impaired, our operating results would be harmed.

In connection with partnerships with celebrities and other licensors of third-party brands, properties and content, we have incurred and may continue to incur significant minimum guaranteed royalty and other payments. As a result, we may incur impairments on such payments if our forecasts for these games are lower than we anticipated at the time we entered into the agreements. For example, in 2017, we impaired \$27.3 million related to contractual minimum guaranteed royalty payments made to certain of our celebrity licensors and other prepaid royalties; As of September 30, 2018, we had remaining prepaid royalty balances totaling \$10.8 million. We expect to continue to selectively license third-party licensed brands, properties and other content and to pay minimum guaranteed royalty payments in connection with such deals. As a result, we may be required to take impairments in future periods if the games we are developing that have significant contractual minimum guarantee commitments associated with them are not successful.

If we do not successfully establish and maintain awareness of our brand and games, if we fail to develop high-quality, engaging games that are differentiated from our prior games, if we incur excessive expenses promoting and maintaining our brand or our games or if our games contain 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 players 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 such new 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, including integrating the level of social and community features appropriate for a game's target audience and partnering with brands with fan bases that can support successful mobile 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. Although we make significant 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 revenue could be limited, our costs could increase and our business, operating results and financial condition could suffer.

In addition, if a game contains objectionable content, we could experience damage to our reputation and brand. Our games may contain violence or other content that some consumers may find objectionable. For example, Apple has assigned each of our shooter games 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 some of our game content and children to whom these games are not targeted may choose to play them without parental permission nonetheless. In addition, our employees or employees of outside developers could include hidden features in our games without our knowledge, which might contain profanity, graphic violence, sexually explicit or otherwise objectionable material. Users of our games, particularly games with social messaging features, may utilize these features for illegal purposes or target certain users through these features. If consumers believe that a game we published contains objectionable content or may expose

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them to nefarious individuals, it could harm our brand, consumers could refuse to download it or demand a refund for any in-app purchases and could pressure the digital storefront operators to no longer allow us to publish the game on their platforms. Similarly, if any of our games are introduced with defects or have playability issues, we may receive negative user reviews and our brand may be damaged. For example, our Racing Rivals title experienced playability and user interface issues after the release of an update in the fourth quarter of 2016 that introduced new graphics, which particularly affected users of some Android devices and harmed monetization of the game, and our attempt to relaunch the game in the second quarter of 2018 by introducing new features and resetting the economy of the game resulted in the game crashing and not being available to most users for several days. As a result, the daily active users of Racing Rivals and the revenue that we generate from this title have significantly decreased from peak levels. In addition, any issues relating to our games could be exacerbated if our customer service department does not timely and adequately address issues that our players have encountered with our games.

We have depended on a small number of games for a significant portion of our revenue in recent fiscal periods. If these games do not succeed or we do not release highly successful new games, our revenue 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 revenue comes from a limited number of games, although the games in that group have shifted over time. Our top three titles for the nine months ended September 30, 2018, Design Home, the Tap Sports Baseball franchise, and Covet Fashion, each accounted for greater than 10% of our revenue in the period and collectively generated approximately 70.0% of our revenue during the period, while our top four titles for the nine months ended September 30, 2017, Design Home, Covet Fashion, Restaurant Dash with Gordon Ramsay, and the Tap Sports Baseball franchise, collectively generated approximately 58.5% of our revenue during the period; no other game generated more than 10% of our revenue during these respective periods. We expect our dependency on a small number of games for a majority of our revenue will continue for the foreseeable future as we implement measures to make our successful games into growth or evergreen titles. In particular, our growth title Design Home has accounted for a successively larger percentage of our quarterly revenues since its launch which has increased our reliance on the success of this title. Our evergreen titles strategy is one where we hope to reduce period over period declines in revenue from our existing successful titles and position ourselves to convert these into growth titles that grow revenue on a year over year basis. While we experienced some success with this strategy during 2017 and the first nine months of 2018, in particular for Kim Kardashian: Hollywood, we may not consistently succeed in implementing or executing on it, which could cause our revenue to decline. In addition, revenue from Kim Kardashian: Hollywood is in part tied to the continued popularity of Kim Kardashian West and her marketing efforts through social media and other channels, and we have little to no control over these matters and they are hard for us to predict. Accordingly, we must continue to launch new games that generate significant revenue to continue to grow revenue in the future, which we have sometimes failed to do. For example, celebrity titles that we launched in 2015 through 2017 featuring Taylor Swift, Nicki Minaj, Britney Spears and Katy Perry all failed to generate meaningful revenue, and revenue from our Kendall & Kylie title declined significantly from its peak level following global launch in February 2016. In addition, sequels to some of our most successful game franchises have failed to download and monetize at the levels of predecessor versions, and we have experienced disappointing results from several games based on film franchises, including our James Bond: World of Espionage game. Failure to differentiate, innovate and otherwise improve our games and game franchises would lead to revenue declines.

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, unexpected technical problems, cyber attacks or any other interruption to our games, it could reduce our sales, increase costs, or result in a loss of revenue or loss of end users of our games.

We rely on digital storefronts and other third-party networks to deliver games to our players 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 we expect that our reliance on such third-party infrastructure and our technology platform will increase as we continue to add additional social features and functionality into our games. 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. In addition, Amazon has experienced brief power outages on occasion during the past several years that have affected the availability of certain of our games during such outages. While none of these

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events adversely impacted our business, a similar outage of a longer duration could. In addition, the operation of our online-only games depends on the continued functionality of our 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 our 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, in the second quarter of 2018, our efforts to relaunch Racing Rivals resulted in the game crashing and not being available to most users for several days. In addition, in the second quarter of 2017, we experienced technical issues with our Covet Fashion title that caused an extended outage and resulted in certain users receiving in-game currency erroneously. If users are unable to access and play our games for any period of time, if virtual assets are lost, or if users do not receive their purchased virtual currency, we may receive negative publicity and game ratings, we may lose players of our games, we may be required to issue refunds, 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 require us to incur substantial repair costs, distract management from operating our business and result in a loss of revenue.

Cyber attacks, security breaches, and computer viruses could harm our business, reputation, brand and operating results.

Cyber attacks, security breaches, and computer viruses have occurred on our systems in the past and may occur on our systems in the future. We store sensitive information, including personal information about our employees. In addition, our games involve the storage and transmission of players' personal information in our facilities and on our equipment, networks and corporate systems run by us or managed by third-parties including Apple, Google, and Facebook. Security breaches of our systems or the systems of third-parties on which we rely could expose us to litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation and potential liability. Our player data, corporate systems, third-party systems and security measures may be breached due to the actions of outside parties, employee error, malfeasance, a combination of these, or otherwise, and, as a result, an unauthorized party may obtain access to our data, our employees' data, our players' data or our advertisers' data. In addition, outside parties may attempt to fraudulently induce employees to disclose information in order to gain access to our data, our employees' data, our players' data or our advertisers' data. We were the victim of a cyber attack in early November 2014, when an animal rights group took down our main website and user forums, and in January 2016 another cyber attack caused us to take down our user forums for nearly a week. In May 2016, one of our employees fell victim to a spear phishing attack in which the employee uploaded sensitive employee information to a third party website. In October 2013, we were also the victim of a "CryptoLocker" ransomware attack that temporarily prevented our access to sensitive company files. Although these incidents did not result in a material loss of revenue, any future incidents, particularly of longer duration, could damage our brand and reputation and result in a material loss of revenue. Given the global nature of our business and the low cost, relative ease and proliferation of internet enabled devices, we may be at increased risk for cyber attacks and, specifically, denial of service attacks, such as the denial of service attacks that affected Dyn in October 2016. In addition, as highlighted by reports that ISIS terrorists may have used Sony's PlayStation 4 network to plan attacks, the chat and other social features in our games could potentially be used by terrorist organizations or other criminals to communicate or for other nefarious purposes, which could severely damage our brand and reputation. If an actual or perceived security breach occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose players and advertisers, and we could suffer significant legal and financial harm due to such events or in connection with remediation efforts and costs, investigation costs or penalties, litigation, regulatory and enforcement actions, changed security and system protection measures. Any of these actions could have a material and adverse effect on our business, reputation and operating results. In addition, the cost and operational consequences of investigating, remediating, eliminating and putting in

place additional information technology tools and devices designed to prevent actual or perceived security breaches, as well as the costs to comply with any notification obligations resulting from such a breach, could have a significant impact on our financial and operating results.



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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 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, nor do we control how the engine is updated or upgraded. 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, to the extent that we require any functionality that is not offered by Unity, as was the case when Apple initially announced its 64-bit requirement, we are dependent on Unity to update or upgrade its engine to offer such functionality. Furthermore, 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, if the Unity game development engine does not offer the functionality we require 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. For example, in the first quarter of 2016, we were unable to implement a significant update to our Racing Rivals title due to programming bugs in the Unity game development engine, which update we believe could have helped to increase revenue for that title during the quarter. Further, if one of our competitors acquired Unity, the acquiring company would be less likely to renew our agreement, which expires in October 2019, 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 revenue 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, if we become victim to advertising fraud or if any events occur that negatively impact the revenue we receive from these sources, it would negatively impact our operating results.

We derive revenue 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 revenue. 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 revenue, at least in the short term. In addition, we may be susceptible to various types of advertising fraud, which could reduce the effectiveness of our advertising campaigns or cause us to pay money to advertising firms for installations that were wrongly attributed to such firms. While we have implemented measures to detect and prevent advertising fraud, such measures may not prove effective, which would harm our user acquisition efforts and could harm our revenues. Furthermore, the revenue 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 revenue in the first quarter (and conversely tends to significantly increase our marketing expenses in the fourth quarter).

The actions of the storefront operators can also negatively impact the revenue that we generate from advertisements and offers. For example, in January 2018, Apple enforced new guidelines relating to certain types of incented offers which negatively impacted our revenues from offers in Design Home during the first quarter of 2018. Any similar changes in the future that impact our revenue that we generate from advertisements and offers could materially harm our business.

We rely on assumptions and estimates to calculate certain of our key metrics, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

Certain of our key metrics, including the number of our daily and monthly active users, our average revenue per daily user and the average useful life of our paying players, is calculated using internal company data from multiple

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analytics systems that have not been independently verified. While these numbers are based on what we believe to be reasonable calculations for the applicable period of measurement, there are inherent challenges in measuring these metrics across our large user base around the world. We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy, but these efforts may not prove successful and we may discover material inaccuracies. In addition, our methodology for calculating these metrics may differ from the methodology used by other companies to calculate similar metrics. For example, we currently treat an individual who plays two different Glu games on the same day or who plays the same game on two different devices during the same day (e.g., iPhone and an iPad) as two active users for each such day when we average or aggregate active users over time. As such, the calculations of our active users may not precisely reflect the actual number of people using our titles. We may also discover unexpected errors in our internal data that resulted from technical or other errors. Furthermore, our Crowdstar studio utilizes a separate analytics system from the rest of our company, which could result in internal inconsistencies or errors. If we determine that any of our metrics are not accurate, we may be required to revise or cease reporting such metrics and it may harm our reputation and business.

We may not, or may be unable to, renew our existing content licenses when they expire and may not choose to obtain additional licenses or be able to obtain new licenses on favorable terms, which could negatively impact our revenue if we fail to replace such revenue with revenue from games based on our own intellectual property.

Although we generated 93.3% of our revenue from games based on our own intellectual property during 2013, that percentage declined to 62.7% in 2014, 42.1% in 2015 and 39.7% in 2016 largely due to the majority of our revenue being generated from games that are based on or substantially incorporate third-party intellectual property, such as Kim Kardashian: Hollywood, Kendall & Kylie, Racing Rivals, the Tap Sports Baseball franchise and Restaurant Dash with Gordon Ramsay. While our revenue from our own intellectual property increased to 59.1% for the year ended December 31, 2017 and to 64.6% for nine months ended September 30, 2018, we still expect to continue to derive significant revenue from titles incorporating third-party intellectual property, such as the Tap Sports Baseball franchise and WWE Universe, and expect to continue to develop new titles featuring third-party intellectual property, such as in connection with our relationship with Disney Consumer Products and Interactive Media through which we expect to release a title in 2019. Certain of our licenses expire at various times during the next several years, and we may be unable to renew these licenses on terms favorable to us or at all, and we may have difficulties obtaining licenses from new content owners on terms acceptable to us, if at all. In addition, these licensors could decide to license to our competitors or develop and publish their own mobile games, competing with us in the marketplace. We also license certain brands and their assets for our Covet Fashion and Design Home titles without the provision of a license fee or royalty. These licensors could decide to no longer license their assets under the current terms, and to instead charge a one-time payment, ongoing royalty or both, which may adversely affect the profitability of these titles. Failure to maintain or renew our existing licenses or to obtain additional licenses would prevent us from continuing to offer our current licensed games and introducing new mobile games based on such licensed content, which could harm our business, operating results and financial condition.

We publish games developed by third parties, which exposes us to a number of potential operational and legal risks.

Publishing games developed by third parties exposes 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 guaranteed royalties in order to obtain the rights to publish their games, and we may incur significant costs marketing these games after they have been commercially launched. For example, we agreed to significant license fee and minimum guaranteed royalty payments to an affiliate of Tencent to license and publish Tencent's WeFire game in the United States and international markets outside of Asia under the title Rival Fire. Due to Rival Fire's poor performance in terms of downloads and monetization since its launch in July 2016, we impaired \$14.5 million in 2016 related to these payments. Other third-party games that we license and publish may not be commercially successful and may not generate the amount of revenue necessary for us to fully recoup minimum guaranteed royalty and license fee

payments. We and other mobile gaming companies have failed in the past to achieve commercial success in bringing successful games developed and launched in Asia to Western markets, including with respect to our efforts to publish and monetize Rival Fire. In addition, if any of the games created by third party developers with which we work infringe intellectual property owned by others, or otherwise violate any third party's rights or any applicable laws and regulations, such as laws with respect to data collection and privacy, we would be exposed to potential legal risks by

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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 attract, retain and motivate our key personnel, namely our management team, creative leaders and experienced game development personnel. In particular, we experienced a change in our management team in November 2016 which included the appointment of Nick Earl as our President and Chief Executive Officer. Mr. Earl is critical to our vision, strategic direction, products and technology, and the continued retention of the other members of our senior management team is important to our continued development. In addition, to grow our business, execute on our business strategy and replace departing employees, we must identify, hire and retain qualified personnel, particularly monetization, live operations, server technology, user experience and product management personnel to support our growth and evergreen games. Attracting and retaining key personnel is difficult in a competitive hiring market, and we may not succeed in doing so. The gaming and technology industries are also traditionally male dominated, so it may be difficult for us to recruit and retain talented female personnel who may be needed to help us optimize our games that are targeted to a more female-focused audience, including our games in the home décor, fashion and time management genres. Volatility of our stock price, changes in our compensation structure for our executive officers that relies on performance linked stock awards, the lack of success of some of our recent product launches such as The Swift Life and previous headcount reductions may make it more difficult for us to attract and retain top talent. Competition for qualified management, game development and other staff is intense, particularly in the San Francisco Bay Area where we are headquartered. In addition, attracting and retaining qualified personnel may be particularly difficult for us if our stock price declines in the future, since individuals may elect to seek employment with other companies that they believe have better long-term prospects or that present better opportunities for earning equity-based compensation. 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 and building and maintaining growth and evergreen titles, 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.

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

During the last several years we have implemented restructuring actions and cost reduction initiatives to streamline operations and improve cost efficiencies. Our most recent restructurings included reductions in personnel in Bellevue, Washington; San Francisco, California; Long Beach, California; Portland, Oregon; and Beijing, China, as well as the divestiture of our Moscow, Russia game development studio. Any restructurings or similar actions could result in disruptions to our operations and adversely affect our business. For example, in connection with the divestiture of our Moscow studio, we transitioned certain titles that were developed or operated by the Moscow studio, including Deer Hunter 2018, to our Hyderabad, India studio. We have seen a decline in revenue from Deer Hunter 2018, which may in part be related to this transition. In addition, we cannot be sure that the cost reduction and streamlining initiatives will be as successful in reducing our overall expenses as we expect or that additional costs will not offset any such reductions or streamlining. If our operating costs are higher than we expect or if we do not maintain adequate control of our costs and expenses, our operating results will suffer..

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We may not realize the benefits expected through our strategic relationship with Tencent and other aspects of the relationship could have adverse effects on our business.

In April 2015, we entered into a strategic relationship with Tencent, a leading Internet company in China and arguably the world's largest gaming company. Tencent, through a controlled affiliate, agreed to invest \$126.0 million in exchange for approximately 16.3% of our total outstanding common stock on a post-transaction basis. In November 2015, we entered into an agreement with an affiliate of Tencent to license and publish its game, WeFire, in the United States and international markets outside of Asia under the name Rival Fire, which we launched in July 2016. In light of the poor performance of the title in terms of monetization and downloads, and the related contractual prepaid royalty commitments and license fees under our agreement with the affiliate of Tencent, we impaired \$14.5 million in the third quarter of 2016. In addition, we may not succeed in entering into any other agreements or operating partnerships with Tencent in the future. Even if we do enter into additional operational partnerships, it could take months to years to fully realize the benefits of such partnerships and, to the extent such agreements involve publishing our games in China, some of our platform partners in China and other parts of Asia may view such a partnership negatively.

Tencent, through its controlled affiliates, held approximately 19.7% of the aggregate voting power of our common stock as of September 30, 2018, and could acquire up to 25.0% of the voting power through open-market purchases of our common stock. While Tencent has agreed to cause these shares to be voted with the majority recommendation of the independent members of our board of directors on most matters, Tencent could have considerable influence over matters such as approving a potential acquisition of us. Tencent was also granted the right to designate a member of our board of directors, initially appointing Tencent Senior Vice President, Steven Ma, and in January 2017 appointing Ben Feder, Tencent's President of International Partnerships (North America), as Mr. Ma's replacement on our board of directors. Mr. Feder or any future Tencent designee could have an actual or apparent conflict of interest in such matters. Tencent's investment in and position with us could also discourage others from pursuing any potential acquisition of us, which could have the effect of depriving the holders of our common stock of the opportunity to sell their shares at a premium over the prevailing market price.

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. 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 free-to-play games, particularly with regard to revenue 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 revenue. While we believe that we are now correctly accounting for our revenues, this is an area that continues to involve significant discussion among accounting professionals and the future changes to the standard may cause our operating results to fluctuate. In addition, we currently defer revenue 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 to the current quarter and 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 revenue 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 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 revenue for sales through digital storefronts. This control deficiency resulted in the misstatement of our revenue and cost of revenue, 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, and investor confidence in the accuracy and timeliness of our financial reports and the market price of our common stock could be negatively impacted.

Conversion of key internal systems and processes, particularly our ERP system, and problems with the design or implementation of these systems and processes could interfere with, and therefore harm, our business and operations.

We underwent a multi-phase project to convert certain key internal systems and processes, including our enterprise resource planning, or ERP, system to a cloud based system. In connection with the transition to our new ERP system, we shutdown certain of our legacy ERP systems in the third quarter of 2016, which affected certain of our processes in the second half of 2016 and may continue to impact our processes. While we have transitioned to our new ERP system and recently upgraded this version, we may need to resolve issues that arise in connection with this transition. We have invested, and will continue to invest, significant capital and human resources in the design and implementation of these systems and processes. Any problems in the functioning of the new systems or processes, particularly any that impact our operations, could adversely affect our ability to process payments, record and transfer information in a timely and accurate manner, recognize revenue, file SEC reports in a timely manner, or otherwise run our business. Even if we encounter these adverse effects, as noted above, the design and implementation of these new systems and processes may be more time consuming than we anticipated and could negatively impact our business, financial condition, and results of operations.

Our business will suffer if our acquisition and strategic investment activities are unsuccessful or disrupt our ongoing business, which may involve increased expenses and may present risks not contemplated at the time of the transactions.

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

- diversion of management's time and a shift of focus from operating the business to issues related to negotiation of acquisition or investment terms, integration and administration;
-



our ability to successfully integrate acquired technologies and operations into our business and maintain uniform standards, controls, policies and procedures;

- potential employee morale and retention issues resulting from any reductions in compensation, or changes in management, reporting relationships, or future prospects;

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- potential product development delays resulting from any changes and disruptions that may follow the acquisition;
- significant competition from other acquirers and investors as the gaming industry consolidates and challenges in offering attractive consideration given the volatility of our stock price and potential difficulties in obtaining alternative financing;
- challenges retaining the key employees, customers and other business partners of the acquired or investee business;
- our ability to realize synergies expected to result from an acquisition or strategic investment;
- an impairment of acquired goodwill and other intangible assets or investments in future periods would result in a charge to earnings in the period in which the write-down occurs, such as the case with the impairment charge for acquired in-process research and development recorded in the third quarter of 2018 and each of the charges we took in the second and third quarters of 2016 for our investments in Plain Vanilla;
- the internal control environment of an acquired or investee entity may not be consistent with our standards and may require significant time and resources to improve;
- in the case of foreign acquisitions or strategic investments, 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;
- liability for activities of the acquired or investee companies before the acquisition or investment, including violations of laws, rules and regulations, commercial disputes, tax liabilities, intellectual property and other litigation claims or disputes, accounting standards and other known and unknown liabilities;
- harm to our brand and reputation; and
- harm to our existing business relationships with business partners and advertisers as a result of the acquisition.

In particular, we acquired Crowdstar in the fourth quarter of 2016 in a multi-step transaction that did not involve the cooperation of Crowdstar's management, where the former Chief Executive Officer of Crowdstar did not continue with the company post-acquisition and where we did not receive customary representations, warranties or indemnities from the acquired company. While the integration of Crowdstar into our company has to date proceeded relatively smoothly and Crowdstar's top titles, *Covet Fashion* and *Design Home*, are generating significant revenue, we still face risks and uncertainties in connection with this acquisition. For example, we may not be able to retain key Crowdstar employees for a variety of reasons, including the fact that we intend to relocate the Crowdstar team from Burlingame, California to our new San Francisco headquarters during the fourth quarter of 2018, and the loss of key Crowdstar employees, or any disruption to *Covet Fashion* and *Design Home* while we complete this move, could affect revenue derived from *Covet Fashion* and *Design Home*. In addition, we continue to face other risks related to the Crowdstar acquisition, including related to the lawsuit filed by Crowdstar's former Chief Executive Officer in March 2018. For more information regarding this lawsuit, see Part II, Item 1 "Legal Proceedings."

In addition, if we issue equity securities as consideration in an acquisition or strategic investment, as we did for our acquisitions of Gryptionite, Inc., Blammo Games Inc., GameSpy Industries, Inc., PlayFirst, Inc. and Cie Games, Inc., our current stockholders' percentage ownership and earnings per share would be diluted. We may also need to raise additional capital in the event we use a significant amount of cash as consideration in an acquisition. Because acquisitions and strategic investments are inherently risky, our transactions may not be successful and may, in some cases, harm our operating results or financial condition.

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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 100 countries and in dozens of different currencies, with the Euro, Canadian Dollar and Indian Rupee 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 2016 and 2017 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 U.S. Dollar equivalent of these expenses being higher and/or the U.S. 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 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 23.5% and 24.5% of our revenue during the nine months ended September 30, 2018 and 2017, respectively. To target international markets, we develop games that are customized for consumers in those markets. We have international offices located in Canada and India. We expect to increase our international presence, as we intend to increase the number of our employees in our Hyderabad, India office. 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, such as in China where multiple governmental bodies must review and approve of any gaming application before it may be published;
- foreign exchange controls that might prevent us from repatriating income earned in countries outside the United States;
- 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 in some regions of the world;

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- restrictions on the export or import of technology;
- 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.

We may also liquidate or cease operating some of our foreign subsidiaries in the future which may raise additional risks. For example, we are in the process of winding down and liquidating certain of our subsidiaries in China. These liquidation efforts will require us to obtain approvals from various government agencies in China, which could impose taxes and penalties upon us related to such liquidations.

If we fail to deliver our games at the same time as new mobile devices are commercially introduced, our revenue 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. The mobile games market could also be disrupted by new technologies, such as the introduction of next generation virtual reality devices. Some manufacturers give us access to their new 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 revenue would likely decline, and our business, operating results and financial condition would likely suffer.

If the use of smartphones and tablet devices as game platforms and the proliferation of mobile devices generally do not increase, our business could be adversely affected.

While the number of people using mobile Internet-enabled devices, such as smartphones and tablet devices, has increased dramatically in the past few years, the mobile market, particularly the market for mobile games, is still emerging, and it may not grow as we anticipate. Our future success is substantially dependent upon the continued growth of use of mobile devices for games, as opposed to social media applications or other uses. The proliferation of mobile devices may not continue to develop at historical rates and consumers may not continue to use mobile Internet-enabled devices as platforms for games. We believe that historic rates of adoption and download of new applications in the United States will not continue to rise, and will instead decline, as the U.S. mobile application market enters a mature state. In addition, new and emerging technologies could make the mobile devices on which our games are currently released obsolete, requiring us to transition our business model to develop games for other next-generation platforms.

Changes to digital platforms' rules relating to "loot boxes," or the potential adoption of regulations or legislation impacting loot boxes, could require us to make changes to some of our games' economies or design, which could negatively impact the monetization of these games and harm our revenues.

In December 2017, Apple updated its terms of service to require publishers of applications that include “loot boxes” to disclose the odds of receiving each type of item within the loot box to customers prior to purchase. Loot boxes are a commonly used monetization technique in free-to-play mobile games in which a player can acquire a virtual loot box, typically through game play or by using virtual currency, but the player does not know which virtual item he or she will receive (which may be a common, rare or extremely rare item, and may be a duplicate of an item the player already

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has in his or her inventory) until the loot box is opened. The player will always receive one or more virtual items when he or she opens the loot box, but the player does not know exactly which item(s) until the loot box is opened. We utilize loot boxes in some of our top games including our Tap Sports Baseball franchise and Kim Kardashian Hollywood, and we intend to use loot boxes in our upcoming WWE Universe title. We have updated our applicable games to comply with Apple's new rules relating to loot boxes and do not believe that this has had a material impact on the monetization of our games that utilize loot boxes. However, in the event that Apple changes its terms of service to include more onerous requirements or if Apple (or Google) were to prohibit the use of loot boxes in games distributed on its digital platform, it would require us to redesign the economies of the affected games and would likely cause our revenues generated from these games to decline. In April 2018, each of the Belgian Gaming Commission and the Dutch Gambling Authority declared that loot boxes as implemented in certain of the games that they reviewed constituted illegal gambling under its respective laws. While neither of these bodies reviewed any of our games, we may be required to modify the implementation of loot boxes to continue utilizing loot boxes in these jurisdictions, remove loot boxes from our games published in these jurisdictions or cease publishing games containing loot boxes in these jurisdictions. In addition, various other jurisdictions, including Australia, the United Kingdom, and the states of Hawaii, Minnesota and Washington, are reviewing or have indicated that they intend to review the legality of loot boxes and whether they constitute gambling. To the extent that more jurisdictions determine that loot boxes constitute gambling, or they otherwise elect to regulate the use of loot boxes, it could require us to take similar actions to those we may be required to take in Belgium and the Netherlands, which would negatively impact our revenues.

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 principles in 2014 relating to in-app purchases in free-to-play games that are directed towards children 16 and under. In addition, in response to a request made by the European Commission, Google no longer labels free-to-play games as free in European Union countries. Similarly, in the fourth quarter of 2014, Apple changed its label for free-to-download applications from "FREE" to "GET" in the Apple App Store. The FTC 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 FTC reached settlement agreements with Apple and Google and won a lawsuit against Amazon on this subject. If the FTC 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 in the European Union (Pan European Game Information (PEGI)) 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, along with regulations that may require us to obtain approval from certain government agencies in China, including the Ministry of Culture and General Administration of Press and Publication, in order to continue to publish any of our games 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

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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 launched a version of our Frontline Commando: D-Day game utilizing the Skillz technology platform that allowed players to compete against each other in tournaments for cash prizes. We have also in the past through a partnership with Probability PLC offered a suite of Glu branded mobile slots games in the United Kingdom and 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. For example, a March 2018 ruling from the 9th Circuit found that the mobile social casino game Big Fish Casino constituted gambling under Washington state law, which ruling could impact our ability to publish a planned social casino game in Washington state. Any future 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.

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 data privacy and data security, which laws are currently in a state of flux and likely to remain so for the foreseeable future. The U.S. government, including the FTC 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. The European Union's General Data Protection Regulation, which became effective in May 2018, and the California Consumer Privacy Act of 2018, which will become effective in January 2020, and other laws, like the Brazilian Personal Data Protection Bill of Law, create new individual privacy rights and impose worldwide obligations on companies handling personal data, which has resulted, or will result, in a greater compliance burden for us and other companies and could result in us incurring substantial monetary penalties if we are found to be in violation of these laws and regulations. Various U.S. state and federal regulators have also continued to expand the scope of data elements worthy of, and subject to, privacy protections, creating a multi-layered regulation regime that may be applicable to our business and will require time and resources to address. Additionally, the Children's Online Privacy Protection Act requires companies to obtain parental consent before collecting personal information from children under the age of 13. In January 2014, the FTC announced a settlement with Apple related to in-app purchases made by minors. In April 2016, the FTC was also successful in a lawsuit against Amazon, with a Federal District Court granting summary judgment in favor of the FTC, finding Amazon liable for unfairly billing consumers for unauthorized in-app purchases by minors. 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 and foreign jurisdictions have passed laws

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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, fraudulent inducement of our employees to disclose sensitive information 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.

Some of our players may make sales or purchases of virtual goods used in our games through unauthorized or fraudulent third-party websites, which may reduce our revenue.

Virtual goods in our games have no monetary value outside of our games. Nonetheless, some of our players may make sales and/or purchases of our virtual goods, such as virtual currency for our Tap Sports Baseball games or cars for our Racing Rivals game, through unauthorized third-party sellers in exchange for real currency. These unauthorized or fraudulent transactions are usually arranged on third-party websites and the virtual goods offered may have been obtained through unauthorized means such as exploiting vulnerabilities in our games, from scamming our players with fake offers for virtual goods or other game benefits, or from credit card fraud. We do not generate any revenue from these transactions. These unauthorized purchases and sales from third-party sellers could reduce our revenues by, among other things:

- decreasing revenue from authorized transactions;
- creating downward pressure on the prices we charge players for our virtual currency;
- increasing chargebacks from unauthorized credit card transactions;
- causing us to lose revenue from dissatisfied players who stop playing a particular game;
- increasing costs we incur to develop technological measures to curtail unauthorized transactions;
- resulting in negative publicity or harm our reputation with players and partners; and
- increasing customer support costs to respond to dissatisfied players.

To discourage unauthorized purchases and sales of our virtual goods, we state in our terms of service that the buying or selling of virtual currency and virtual goods from unauthorized third party sellers may result in bans from our games or legal action. We have banned players as a result of such activities. We have also employed technological measures to help detect unauthorized transactions and continue to develop additional methods and processes by which we can identify unauthorized transactions and block such transactions. However, there can be no assurance that our efforts to prevent or minimize these unauthorized or fraudulent transactions will be successful.

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 Activision, Electronic Arts and Zynga. We also experience stock price volatility as investors monitor the performance of our games through third-party tools, such as App Annie and other measurements of the performance of our games.

In addition, The Nasdaq Global Select Market on which our common stock is listed has in the past experienced

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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 only ten issued U.S. patents and eight U.S. patent applications currently outstanding, including two that we inherited through acquisitions, so we will not be able to protect the majority of our technologies from independent invention by third parties. In addition, we have filed foreign patent applications on two of the issued U.S. patents. Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy or otherwise to 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. We believe that these tactics were employed by Hothead Games in their game Kill Shot, which we believed infringed certain Glu copyrights and trade dress contained in our Deer Hunter Classic game. We initiated litigation against Hothead Games in November 2014, and we entered into a settlement agreement with Hothead in August 2015 in which Hothead agreed to make payments to us, including ongoing payments, and we agreed to allow Hothead to continue to publish the Kill Shot game. To the extent competitors continue to copy our games, it could reduce the amount of revenue we are able to generate from any infringed 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 institute additional litigation 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, to acknowledge 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, in July 2018, SwiftLife, Inc. filed a complaint in the U.S. District Court for the Eastern District of New York against us, our wholly owned subsidiary Glu Games Inc., and Taylor Swift, Taylor Swift Productions, Inc. and TAS Rights Management, LLC. The complaint alleges eight causes of action, including that Glu and the other defendants infringe the plaintiff's federally registered trademark, SwiftLife. While we believe that the allegations asserted against us are without merit and we intend to vigorously defend ourselves in this matter, the 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. In addition, any claims brought against us in the future could result in our being enjoined from using our intellectual property or licensed intellectual property, and we might incur significant licensing fees and could be forced to develop alternative technologies. We may also be required to pay penalties, judgments, royalties or significant settlement costs. 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 be prevented from introducing new games. We might also incur substantial expenses in defending against third-party claims, regardless of their merit.

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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. For example, on March 14, 2018, Jeffrey Tseng, the former Chief Executive Officer of Crowdstar, filed a complaint in the Superior Court of the State of California for the County of Santa Clara against Glu and other defendants alleging certain claims arising out of our acquisition of Crowdstar. Mr. Tseng is seeking compensatory damages and exemplary damages, each in an amount to be determined at trial, along with costs of suit, reasonable attorneys' fees and such other relief as the Court may deem proper. While we believe that the allegations asserted against us are without merit and we intend to vigorously defend ourselves in this matter, the 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. In addition, events may occur that give rise to a potential risk of litigation. The number and significance of regulatory inquiries have increased as our business has grown and 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 doing 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 our business and future financial results.

"Cheating" programs, scam offers, black-markets and other offerings or actions by unrelated third parties that seek to exploit our games and players affect the game-playing experience and may lead players to stop playing our games or divert revenue to unrelated third parties.

Unrelated third parties have developed, and may continue to develop, "cheating" programs, scam offers, black-markets and other offerings that may decrease our revenue generated from our virtual economies, divert our players from our games or otherwise harm us. Cheating programs enable players to exploit vulnerabilities in our games to obtain virtual currency or other items that would otherwise generate in-app purchases for us, play the games in automated ways or obtain unfair advantages over other players who do play fairly. Unrelated third parties attempt to scam our players with fake offers for virtual goods or other game benefits. We devote resources to discover and disable these programs and activities, but if we are unable to do so in a prompt and timely manner, our operations may be disrupted, our reputation damaged and players may play our games less frequently or stop playing our games altogether. This may lead to lost revenue from paying players, increased cost of developing technological measures to combat these programs and activities, legal claims relating to the diminution in value of our virtual currency and goods, and increased customer service costs needed to respond to disgruntled players.

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 United States are repatriated to the United States, 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

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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. Foreign tax authorities may also interpret or change tax regulations such that we may be subject to tax liabilities upon closure or liquidation of a foreign subsidiary. 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 United States 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.

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

The trading market for our common stock is affected by the research and reports that securities or industry analysts publish about our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or lower their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our share price or trading volume to decline. In addition, our share price and the volatility of our shares can be affected by misinformed or mistaken research reports on our business.

Our common stock price may be affected by third-party data regarding our games.

Third parties publish daily data about us and other mobile gaming companies with respect to downloads of our games, daily and monthly active users and estimated revenue generated by our games. These metrics can be volatile, particularly for specific games, and in many cases do not accurately reflect the actual levels of usage of our games



across all platforms or the revenue generated by our games. To the extent that securities analysts or investors base their views of our business or prospects on such third-party data, the price of our common stock may be affected by such third party data and may not reflect the actual performance of our business.

Sales of substantial amounts of our common stock in the public markets, or the perception that such sales might occur, could reduce the price that our common stock might otherwise attain and may dilute a stockholder's voting power and ownership interest in us.

The market price of shares of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors and their affiliates, executive officers, employees and significant stockholders, under our current shelf registration statements, through a large number of shares of our common stock becoming available for sale, or the perception in the market that holders of a large number of shares intend to sell their shares. For

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example, Tencent is free to sell the 21,000,000 shares it acquired from us in the second quarter of 2015 on the open-market, subject only to our black-out periods and other limitations under our insider trading policy.

Some provisions in our certificate of incorporation and bylaws, as well as Delaware law, 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.

In addition, as a Delaware corporation, we are subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents certain stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of at least two-thirds of our outstanding common stock not held by such 15% or greater stockholder, although our board of directors waived this provision with respect to Tencent's potential acquisition of greater than 15% of our shares in connection with the transaction in which we initially sold shares of our common stock to an affiliate of Tencent.

We have no plans to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not have any plans to pay cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits listed on the Exhibit Index are incorporated by reference into this Item 6.

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## EXHIBIT INDEX

| Exhibit<br>Number | Exhibit Description  | Incorporated by Reference |             |         |                |                   |
|-------------------|--|---------------------------|-------------|---------|----------------|-------------------|
|                   |  | Form                      | File<br>No. | Exhibit | Filing<br>Date | Filed<br>Herewith |
| 31.01             | <u>Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a).</u>                  |                           |             |         |                | X                 |
| 31.02             | <u>Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a).</u>                  |                           |             |         |                | X                 |
| 32.01*            | <u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).</u> |                           |             |         |                | X                 |
| 32.02*            | <u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).</u> |                           |             |         |                | X                 |
| 101.INS           | XBRL Report Instance Document  |                           |             |         |                | X                 |
| 101.SCH           | XBRL Taxonomy Extension Schema Document  |                           |             |         |                | X                 |
| 101.CAL           | XBRL Taxonomy Calculation Linkbase Document  |                           |             |         |                | X                 |
| 101.LAB           | XBRL Taxonomy Label Linkbase Document  |                           |             |         |                | X                 |
| 101.PRE           | XBRL Presentation Linkbase Document  |                           |             |         |                | X                 |
| 101.DEF           | XBRL Taxonomy Extension Definition Linkbase Document   |                           |             |         |                | X                 |

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\* This exhibit is not deemed “filed” for purposes of Section 18 of the Exchange Act, 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 or the Exchange Act, except to the extent that Glu Mobile Inc. specifically incorporates it by reference.

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SIGNATURES

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

GLU MOBILE INC.

Date: November 8, 2018 By: /s/ Nick Earl  
Nick Earl  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 8, 2018 By: /s/ Eric R. Ludwig  
Eric R. Ludwig  
Executive Vice President, Chief Operating Officer and Chief Financial Officer  
(Principal Financial Officer)