GLU MOBILE INC
Form 10-Q
August 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2017

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

Glu Mobile Inc.

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

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

500 Howard Street, Suite 300

San Francisco, California 94105

(Address of Principal Executive Offices, including Zip Code)

(415) 800-6100

(Registrant's Telephone number, including Area Code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	(Do not check if a smaller reporting company)	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

Shares of Glu Mobile Inc. common stock, $0.0001 par value per share, outstanding as of August 1, 2017: 135,415,000

Table of Contents

GLU MOBILE INC.

FORM 10-Q

Quarterly Period Ended June 30, 2017

TABLE OF CONTENTS

PART II. OTHER INFORMATION

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GLU MOBILE INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except per share data)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 68,113	$ 102,102
Accounts receivable, net	32,211	21,477
Prepaid royalties	8,699	12,465
Restricted cash	752	—
Prepaid expenses and other assets	28,542	18,986
Total current assets	138,317	155,030
Property and equipment, net	4,414	5,640
Restricted cash	—	1,312
Long-term prepaid royalties	35,056	31,288
Other long-term assets	5,949	3,506
Intangible assets, net	19,463	25,896
Goodwill	116,863	116,832
Total assets	$ 320,062	$ 339,504
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 18,496	$ 16,298
Accrued liabilities	1,489	1,788
Accrued compensation	15,074	12,495
Accrued royalties	10,214	8,623
Accrued restructuring	713	271
Deferred revenue	69,859	44,865
Total current liabilities	115,845	84,340
Long-term accrued royalties	10,101	20,836
Other long-term liabilities	1,055	1,514
Total liabilities	127,001	106,690

Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.0001 par value; 5,000 shares authorized at June 30, 2017 and December 31, 2016; no shares issued and outstanding at June 30, 2017 and December 31, 2016	—	—
Common stock, $0.0001 par value; 250,000 shares authorized at June 30, 2017 and December 31, 2016; 135,415 and 134,001 shares issued and outstanding at June 30, 2017 and December 31, 2016	13	13
Additional paid-in capital	577,711	571,243
Accumulated other comprehensive income	210	246
Accumulated deficit	(384,873)	(338,688)
Total stockholders' equity	193,061	232,814
Total liabilities and stockholders' equity	$ 320,062	$ 339,504

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

GLU MOBILE INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$ 68,679	$ 48,363	$ 125,467	$ 102,892
Cost of revenue:				
Platform commissions, royalties and other	24,761	18,534	45,621	38,854
Impairment of prepaid royalties and minimum guarantees	—	105	792	148
Amortization of intangible assets	3,171	2,336	6,433	4,660
Total cost of revenue	27,932	20,975	52,846	43,662
Gross profit	40,747	27,388	72,621	59,230
Operating expenses:				
Research and development	23,989	20,721	49,022	41,033
Sales and marketing	30,952	10,935	48,240	23,559
General and administrative	8,678	7,096	17,175	15,081
Restructuring charge	926	2,116	4,638	2,221
Total operating expenses	64,545	40,868	119,075	81,894
Loss from operations	(23,798)	(13,480)	(46,454)	(22,664)
Interest and other expense, net:				
Interest income	13	25	20	45
Other income /(expense)	40	(4,478)	(89)	(4,030)
Interest and other income/(expense), net	53	(4,453)	(69)	(3,985)
Loss before income taxes	(23,745)	(17,933)	(46,523)	(26,649)
Income tax benefit/(expense)	177	(16)	189	151
Net loss	$ (23,568)	$ (17,949)	$ (46,334)	$ (26,498)
Net loss per common share - basic and diluted	(0.17)	(0.14)	(0.34)	(0.20)
Weighted average common shares outstanding - basic and diluted	135,065	131,198	134,700	130,185

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

Table of Contents

GLU MOBILE INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$ (23,568)	$ (17,949)	$ (46,334)	$ (26,498)
Other comprehensive loss:				
Foreign currency translation adjustments	(24)	(420)	(36)	(614)
Other comprehensive loss:	(24)	(420)	(36)	(614)
Comprehensive loss	$ (23,592)	$ (18,369)	$ (46,370)	$ (27,112)

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

Table of Contents

GLU MOBILE INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$ (46,334)	$ (26,498)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,620	1,376
Amortization of intangible assets	6,433	4,660
Change in fair value of investments	—	1,820
Stock-based compensation	7,064	6,506
Impairment of investments	—	2,540
Impairment of prepaid royalties and minimum guarantees	792	148
Other non-cash adjustments	315	(233)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(10,666)	3,347
Prepaid royalties	(10,712)	(4,711)
Prepaid expenses and other assets	(11,180)	(400)
Accounts payable and other accrued liabilities	2,115	(40)
Accrued liabilities	(158)	(63)
Accrued compensation	2,581	902
Accrued royalties	773	(1,859)
Deferred revenue	24,995	2,130
Accrued restructuring	442	628
Other long-term liabilities	(490)	(63)
Net cash used in operating activities	(32,410)	(9,810)
Cash flows from investing activities:		
Purchase of property and equipment	(751)	(906)
Decrease in restricted cash	560	336
Investments in Plain Vanilla Corp and Dairy Free Games, Inc. (Note 7)	—	(9,500)
Purchase of intangible assets (including purchase of intangible assets from a related party of $0 and $2,500 for the six months ended June 30, 2017, and June 30, 2016, respectively)	—	(2,500)
Other investing activities	(810)	—
Net cash used in investing activities	(1,001)	(12,570)
Cash flows from financing activities:		
Proceeds from exercise of stock options and purchases under the ESPP	781	1,029

Taxes paid related to net share settlement of equity awards	(1,240)	(1,301)
Proceeds from exercise of stock warrants and issuance of common stock	—	255
Net cash used in financing activities	(459)	(17)
Effect of exchange rate changes on cash	(119)	(108)
Net decrease in cash and cash equivalents	(33,989)	(22,505)
Cash and cash equivalents at beginning of period	102,102	180,542
Cash and cash equivalents at end of period	$ 68,113	$ 158,037

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

Table of Contents

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 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 ("U.S. 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, 2016 filed with the SEC on March 10, 2017. 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 June 30, 2017 and its unaudited condensed consolidated results of operations for the three and six months ended June 30, 2017 and 2016, 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, 2016 has been derived from the audited consolidated financial statements as of that date, and the unaudited condensed consolidated balance sheet presented as of June 30, 2017 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.

Revenue Recognition

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.

Revenue

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

Table of Contents

The Company sells both consumable and durable virtual goods and receives reports from the Digital Storefronts, which breakdown the various purchases made from their games over a given time period. The Company reviews these reports 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 over the previous two years. The Company recognizes revenue from consumable virtual goods immediately, since it believes that the delivery obligation has been met and there are no further implicit or explicit performance obligations related to the purchase of that consumable virtual good. 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 weapons, armor or other accessories to enhance their game-playing experience. The Company believes this represents an implied service obligation, and accordingly, recognizes the revenue from the purchase of these durable virtual goods over the estimated average playing period of paying users. Based on the Company's analysis, the estimated weighted average useful life of a paying user has been determined to range from three to eight months. If a new game is launched and only a limited period of paying player data is available, then the Company also considers other quantitative and qualitative factors, such as the playing patterns for paying users for other games with similar characteristics.

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.

At the start of the second quarter of 2017, the Company began using a new model to estimate the average playing period for paying users. As the Company continues to execute on its strategy in developing new content for its existing evergreen and growth titles, the Company re-evaluated its existing estimation methodology and concluded that the "survival analysis" 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. The new model is a statistical model that analyzes time duration until one or more events happens. It is a commonly used model 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.

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 will be 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 will be determined based on the average playing period of all other remaining existing titles. The selection of the new model is considered a change in accounting estimates which was implemented in the quarter ended June 30, 2017 and had no material impact on the estimated average playing period of paying users.

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.

Table of Contents

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

Other Estimates and Judgments

The Company estimates revenue from Digital Storefronts and advertising service providers in the current period when reasonable estimates of these amounts can be made. 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.

Principal Agent Considerations

In accordance with ASC 605-45, Revenue Recognition: Principal Agent Considerations, the Company evaluates its Digital Storefront and advertising service provider agreements in order to determine whether or not it is acting as the principal or as an agent when selling its games or when selling advertisements within its games, which it considers in determining if revenue should be reported on a gross or net basis. The Company primarily uses Digital Storefronts for distributing its smartphone games and advertising service providers for serving advertisements within its games. Key indicators that the Company evaluates to reach this determination include:

- the terms and conditions of the Company's contracts with the Digital Storefronts and advertising service providers;

- the party responsible for billing and collecting fees from the end-users, including the resolution of billing disputes;

- whether the Company is paid a fixed percentage of the arrangement's consideration or a fixed fee for each game, transaction, or advertisement;

· which party sets pricing with the end-user, has the credit risk and provides customer support; and

· which party is responsible for the fulfillment of the game or serving of advertisements and determines the specifications of the game or advertisement.

Based on the evaluation of the above indicators, the Company has determined that it is generally acting as a principal and is the primary obligor to end-users for smartphone games distributed through digital storefronts and advertisements served through our 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.

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.

Table of Contents

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 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 Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Apple	52.8 %	54.8 %	52.9 %	52.9 %
Google	31.7 %	26.1 %	30.8 %	26.8 %

At June 30, 2017, Apple Inc. ("Apple") accounted for 59.9% and Google Inc. ("Google") accounted for 17.9% of total accounts receivable. At December 31, 2016, Apple accounted for 43.9%, Google accounted for 22.3%, Jirbo, Inc. (dba AdColony) accounted for 10.8%, and Fyber GmbH accounted for 10.5%, 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

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The new guidance, which simplifies the accounting and presentation for share-based payments, provides for a number of amendments which impact the accounting for income taxes and the accounting for forfeitures. ASU 2016-09 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016 and requires varied adoption methods for each respective amendment. The Company adopted this guidance in the first quarter of 2017 and elected to change its policy on accounting for forfeitures and recognize them as they occur using the modified retrospective transition method. This resulted in a cumulative-effect adjustment of $148 between opening accumulated deficit and additional paid in capital balance as of January 1, 2017. In addition, the other amendments related to accounting for income taxes and statutory tax withholding requirements were adopted using a prospective transition method and did not have a material impact on the Company's consolidated financial statements.

In December 2016, the FASB issued ASU No. 2016-19, Technical Corrections and Improvements. The amendments in ASU No. 2016-19 represent changes to clarify the accounting standard codification, correct unintended application of guidance, or make minor improvements to the accounting standards codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. For public companies, the standard is effective immediately for amendments that do not have transition guidance. Amendments that are subject to transition guidance, the effective date is interim and annual reporting periods beginning after December 15, 2016. The Company adopted the standard immediately upon issuance for amendments that do not have transition guidance and effective January 1, 2017 for amendments that are subject to transition guidance. The adoption of the standard did not have an impact on the Company's consolidated financial statements.

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. Early adoption is permitted. The impact of the new standard on the Company's results of operations, financial condition, or cash flows subsequent to adoption will be dependent on the terms and conditions of any modifications made to share-based awards after fiscal 2017.

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 November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. The standard will be effective in the first quarter of fiscal 2018. Early adoption is permitted. The adoption of this standard is not expected to 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 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this standard is not expected to 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 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The guidance 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 is currently evaluating the effect that the updated standard will have on its 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 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 is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. Under the standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount

Table of Contents

that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. The Company does not plan to early adopt, and accordingly, will adopt the new standard effective January 1, 2018. The FASB recently issued several amendments to the standard, including clarifications on disclosure of prior-period performance obligations and remaining performance obligations.

The standard permits the use of either a full retrospective or modified retrospective transition method. The Company has concluded it will apply the modified retrospective approach when it adopts the standard in the first quarter of 2018.

The Company has completed the evaluation of the impact of the new standard in relation to the revenue recognition of micro-transactions and advertisement revenue; the assessment of the impact in relation to the revenue derived from offer advertisements is currently being evaluated by the Company. Further, the Company anticipates that it will continue to be considered the principal in its transactions and as the primary obligor to end-users for smartphone games distributed through Digital Storefronts and advertisements served through its advertising service providers. Therefore, revenue related to these arrangements will continue to be recognized on a gross basis, if the necessary information about the gross amounts or platform fees charged, before any adjustments, are made available to the Company by the Digital Storefronts and advertising service providers.

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$ (23,568)	$ (17,949)	$ (46,334)	$ (26,498)
Shares used to compute net loss per share:				
Weighted average common shares outstanding	135,065	132,517	134,700	132,194
Weighted average common shares subject to restrictions	—	(1,319)	—	(2,009)

Weighted average shares used to compute basic and diluted net loss per share	135,065	131,198	134,700	130,185
Net loss per share - basic and diluted	$ (0.17)	$ (0.14)	$ (0.34)	$ (0.20)

The weighted average of the following options to purchase common stock, warrants to purchase common stock, unvested shares of common stock subject to restrictions, 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Warrants to purchase common stock	4,267	4,267	4,267	4,267
Unvested common shares subject to restrictions	—	1,319	—	2,009
Options to purchase common stock	16,122	7,155	16,347	7,104
RSUs	8,352	7,858	8,153	7,430
	28,741	20,599	28,767	20,810

Note 3 — Business Combinations

Crowdstar Inc.

On November 2, 2016, the Company, acquired shares representing approximately 80.6% of the issued and outstanding voting power of Crowdstar Inc., a Delaware corporation ("Crowdstar"), from Time Warner Inc., Intel

Table of Contents

Capital Corporation and certain other stockholders of Crowdstar (the "Participating Stockholders"). Crowdstar is a developer of fashion and home decor genre games for mobile devices based in Burlingame, California. The Company acquired Crowdstar to leverage its casual games expertise, assembled workforce and existing mobile games in order to expand the Company's game offerings on smartphones and tablets. The Company paid approximately $40,794 in cash to the Participating Stockholders in exchange for the acquired shares. In addition, certain drag-along provisions specified in a voting agreement by and among Crowdstar and certain other stockholders of Crowdstar were triggered. Pursuant to the drag-along provisions, certain other stockholders of Crowdstar were required to tender their Crowdstar capital stock to the Company on the same terms as the Participating Stockholders. Upon acquiring over 90% of the issued and outstanding voting power of Crowdstar pursuant to the drag-along provisions, on December 6, 2016, the Company acquired the remaining issued and outstanding shares of Crowdstar in a short-form merger under the laws of the State of Delaware for an additional $4,667 for a total of $45,461 for 100% ownership of Crowdstar.

The allocation of the purchase price is based on valuations derived from estimated fair value assessments and assumptions used by the Company. While the Company believes that its estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired and liabilities assumed, and the resulting amount of goodwill. The following table summarizes the preliminary fair values of assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:	
Cash and cash equivalents	$ 4,492
Accounts receivable	3,905
Prepaid expenses	521
Other current assets	34
Fixed assets	315
Intangible assets:	
Titles, content and technology	16,000
Goodwill	28,776
Total assets	54,043
Liabilities assumed:	
Accounts payable	(584)
Accrued liabilities	(4,284)
Deferred revenue	(1,500)
Note payable - current portion	(1,279)
Long term liabilities	(935)
Total liabilities assumed	(8,582)
Net acquired assets	$ 45,461

Acquisition-related intangibles included in the above table are finite-lived and are being amortized on a straight-line basis over their estimated lives of three to five years, which approximates the pattern in which the economic benefits of the intangible assets are expected to be realized. Of the total purchase price, $16,000 was allocated to identifiable intangible assets. Pursuant to ASC 805, the Company incurred and expensed a total of $1,924 and $3,506 of transitional costs associated with the acquisition of Crowdstar during the three and six months ended June 30, 2017, respectively. These costs included $1,821 and $2,936 of research and development expense during the three and six months ended June 30, 2017, respectively, and $156 and $570 of general and administrative expense during the three and six months ended June 30, 2017, respectively.

The Company allocated the residual value of $28,776 to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with ASC 350, Intangibles – Goodwill and Other – Internal-Use Software, (“ASC 350”), goodwill will not be amortized but will be tested for impairment at least annually. Goodwill created as a result of the Crowdstar acquisition is not deductible for tax purposes.

Plain Vanilla Corp.

On December 19, 2016, the Company acquired substantially all of the intangible assets and certain other assets of Plain Vanilla Corp. (“Plain Vanilla”), the developer of the QuizUp interactive software application for mobile devices,

Table of Contents

based in Reykjavik, Iceland. The Company acquired these assets in order to expand the Company's game offerings on smartphones and tablets.

The Company forgave and canceled $7,500 in aggregate principal amount of convertible promissory notes of Plain Vanilla held by the Company, and all interest thereon, in exchange for acquiring the QuizUp assets and technology and other receivables. The deemed fair value of the consideration as of the acquisition date was determined to be $3,200. The acquired assets represent a business as defined in ASC 805, Business Combinations. The Company has integrated the acquired assets into the Company's existing business. The asset purchase agreement also contains customary representations, warranties and covenants, including non-competition and indemnification provisions.

The allocation of the purchase price is based on valuations derived from estimated fair value assessments and assumptions used by the Company. While the Company believes that its estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired. The following table summarizes the fair values of assets acquired at the date of acquisition:

Fair value of purchase consideration:	$ 3,200
Assets acquired:	
Cash	$ 1,200
Accounts receivable	183
Intangible assets:	
Title, content and technology	1,817
Total Assets acquired	$ 3,200

Acquisition-related intangibles included in the above table are finite-lived and are being amortized on a straight-line basis over their estimated lives of three years, which approximates the pattern in which the economic benefits of the intangible assets are expected to be realized. Of the total purchase price, $1,817 was allocated to identifiable intangible assets. No residual value was allocated to goodwill.

Valuation Methodology

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

The Company valued titles, content, technology, and in-process research and development primarily using the Multi-Period Excess Earnings ("MPEE") method of the income approach and key assumptions used included: projected revenue, cost of goods sold, and operating expenses for Crowdstar's legacy titles, the future amortization tax benefit of the legacy titles, and a discount rate of between 20% and 35%.

The fair value of Crowdstar's deferred revenue was determined to be $1,500 as of the valuation date. This was valued using the estimated costs including hosting fees and salaries and benefits to support the contractual obligations associated with these revenue, plus a market participant margin. The deferred revenue will be recognized on a straight-line basis over nine months from the valuation date.

As of the valuation date, Crowdstar was in process of developing Design Home, which was launched in the fourth quarter of 2016.

Pro Forma Financial Information

The results of operations for Crowdstar and Plain Vanilla and the estimated fair market values of the assets acquired and liabilities assumed have been included in the Company's unaudited consolidated financial statements since their respective dates of acquisition. The unaudited pro forma financial information in the table below summarizes the combined results of the Company's operations and those of Crowdstar and Plain Vanilla for the periods shown as if the acquisition of Crowdstar and Plain Vanilla had each occurred on January 1, 2015. The pro forma financial information

Table of Contents

includes the business combination accounting effects of the acquisition, including amortization charges from acquired intangible assets. The pro forma financial information presented below is for informational purposes only, and is subject to a number of estimates, assumptions and other uncertainties.

	Three months ended June 30, 2016	Six months ended June 30, 2016
Total pro forma revenue	$ 61,649	$ 129,149
Pro forma net loss	(21,955)	(34,565)
Pro forma net loss per share - basic	(0.17)	(0.27)
Pro forma net loss per share - diluted	(0.17)	(0.27)

Note 4 — 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.

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 June 30, 2017, the Company's financial assets and financial liabilities are presented below at fair value and were classified within the fair value hierarchy as follows (in thousands):

	Level 1	Level 2	Level 3	June 30, 2017
Financial Assets				
Cash and cash equivalents	$ 68,113	$ —	$ —	$ 68,113
Restricted cash	752	—	—	752
Total Financial Assets	$ 68,865	$ —	$ —	$ 68,865

As of December 31, 2016, the Company's financial assets and financial liabilities are presented below at fair value and were classified within the fair value hierarchy as follows (in thousands):

	Level 1	Level 2	Level 3	December 31, 2016
Financial Assets				
Cash and cash equivalents	$ 102,102	$ —	$ —	$ 102,102
Restricted cash	1,312	—	—	1,312
Total Financial Assets	$ 103,414	$ —	$ —	$ 103,414

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.

Table of Contents

Note 5 — Balance Sheet Components

Accounts Receivable

	June 30, 2017	December 31, 2016
Accounts receivable	$ 33,048	$ 22,314
Less: Allowance for doubtful accounts	(837)	(837)
	$ 32,211	$ 21,477

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 significant bad debts during the three and six months ended June 30, 2017 and 2016.

Prepaid Expenses and Other Assets

	June 30, 2017	December 31, 2016
Deferred platform commission fees	$ 18,632	$ 11,571
Deferred royalties	4,162	3,275
Other	5,748	4,140
	$ 28,542	$ 18,986

Note 6 — 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 June 30, 2017 and December 31, 2016 were as follows:

		June 30, 2017			December 31, 2016		
	Estimated Useful Life	Gross Carrying Value *	Accumulated Amortization Expense *	Net Carrying Value *	Gross Carrying Value *	Accumulated Amortization Expense *	Net Carrying Value *
Intangible assets amortized to cost of revenue:							
Titles, content and technology	3 - 5 yrs	$ 40,955	$ (24,844)	$ 16,111	$ 40,942	$ (19,255)	$ 21,687
Carrier contract and related relationships	5 yrs	14,252	(12,150)	2,102	14,029	(11,427)	2,602
Licensed content	2.5 - 5 yrs	2,392	(2,392)	—	2,334	(2,334)	—
Service provider license	9 yrs	217	(217)	—	212	(212)	—
Trademarks	7 yrs	5,120	(3,870)	1,250	5,117	(3,510)	1,607
Total intangibles assets		$ 62,936	$ (43,473)	$ 19,463	$ 62,634	$ (36,738)	$ 25,896
* 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 months ended June 30, 2017 and 2016, the Company recorded amortization expense in the amounts of $3,171 and $2,336, respectively, in cost of revenue. During the six months ended June 30, 2017 and 2016, the Company recorded amortization expense in the amounts of $6,433 and $4,660, respectively, in cost of revenue.

Table of Contents

As of June 30, 2017, total expected future amortization related to intangible assets was as follows:

Year Ending December 31,	Amortization to Be Included in Cost of Revenue
2017 (Remaining 6 months)	$ 3,839
2018	5,905
2019	4,960
2020	3,259
2021 and thereafter	1,500
	$ 19,463

Goodwill

Goodwill for the periods indicated was as follows:

	June 30, 2017
Goodwill	$ 189,943
Accumulated impairment losses	(73,111)
Balance as of December 31, 2016	116,832
Goodwill acquired during the year	—
Effects of foreign currency exchange	31
Balance as of period ended:	116,863
Goodwill	189,974
Accumulated impairment losses	(73,111)
Balance as of period ended	$ 116,863

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.

Note 7 — Investments

In January 2016, the Company announced an investment of up to $7,500 in promissory notes convertible into a minority equity stake in Plain Vanilla. $5,000 was paid in January 2016 and the remaining $2,500 was paid in May 2016. As part of the investment, the Company also received a call option to acquire all outstanding equity of Plain Vanilla for 15 months from the closing of the initial investment, unless earlier terminated by the Company, at a pre-agreed price. Plain Vanilla was the Icelandic developer of the mobile game QuizUp, and was financed primarily through equity investments prior to the Company's acquisition of all of its intangible assets and certain other assets.

The Company elected the fair value option to account for its investment in the promissory notes. The call option was recorded at cost. As of the investment date, the fair value of the promissory note and the call option was determined to be $2,600 and $2,400, respectively. As of June 30, 2016, the Company computed the fair value of the promissory notes to be $3,280 and the fair value of the call option to be $60. Due to the decrease in the fair market value of the promissory notes, the Company recorded a charge of $2,120 and $1,820 in other expense for the three and six months ended June 30, 2016, respectively. Due to a decline in the forecasted revenue and future cash flow outlook of Plain Vanilla, the fair value of the call option as of June 30, 2016 was estimated to be lower than its carrying value, which resulted in the Company recording an impairment charge of $2,340 in other expense for each of the three and six months ended June 30, 2016.

On December 19, 2016, the Company acquired substantially all of the intangible assets and certain other assets of Plain Vanilla in exchange for forgiveness and cancellation of $7,500 in aggregate principal amount of convertible promissory notes and all interest thereon. The call option agreement was terminated as of that date. See "Note 3 – Business Combinations" for additional details.

Table of Contents

Plain Vanilla, prior to acquisition of its assets by the Company, was a variable interest entity (“VIE”). However, the Company determined that it was not the primary beneficiary of this VIE since the Company did not have the power to direct the activities of this VIE that most significantly impacted its economic performance. This determination was based on the following factors: (i) the development stage of Plain Vanilla’s products; (ii) the Company's inability to exercise control or decision making power over Plain Vanilla, as well as its lack of involvement in day-to-day operations and management decisions; and (iii) the fact that the call option to acquire Plain Vanilla, before the acquisition of its assets by the Company, was significantly out of the money.

In January 2016, the Company acquired a minority equity stake and entered into a commercial agreement with Dairy Free Games Inc. (“Dairy Free”). As part of the arrangement, the Company invested $2,000 in Dairy Free’s Series A preferred stock. The Company also agreed to provide up to $1,000 of recoupable and non-refundable development funding for a mobile game under development by Dairy Free. The development funding is payable in installments upon Dairy Free achieving certain milestones. Dairy Free is the developer of mobile games and is financed primarily through equity investments.

For Dairy Free, the preferred stock investment was recorded at cost. As of the investment date and as of June 30, 2017, the preferred stock investment was recorded at $2,000 in other long-term assets. The development funding was fully recognized as research and development expense as the development activities were performed. The Company recorded $0 for the three and six months ended June 30, 2017 and $340 and $600 for the three and six months ended June 30, 2016, respectively, in research and development expense related to this arrangement.

Dairy Free is a VIE; however, the Company has determined that it is not the primary beneficiary of this VIE since the Company currently does not have the power to direct the activities of this VIE that most significantly impact its economic performance. The Company made this determination based on the following factors: (i) the development stage of Dairy Free’s products; and (ii) the Company's inability to exercise control or decision making power over Dairy Free, based on the Company's ownership percentage and voting rights, as well as its lack of involvement in day-to-day operations and management decisions.

The Company is not obligated to provide any explicit or implicit financial or other support to Dairy Free other than what was contractually agreed to in the investment agreement. The Company has no exposure to loss beyond its investments in Dairy Free. The Company evaluates its cost method investments for impairment on a quarterly basis. If the Company has not identified events or changes in circumstances that may have a significant adverse effect on the fair value of a cost method investment, then the fair value of such cost method investment is not estimated.

Note 8 — Commitments and Contingencies

Leases

The Company leases office space under non-cancelable operating facility leases with various expiration dates through November 2027. Rent expense for the three months ended June 30, 2017 and 2016 was $1,025 and $1,291, respectively. Rent expense for the six months ended June 30, 2017 and 2016 was $2,196 and $2,532, respectively. The terms of the facility leases provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

The Company has provided deposits for lines of credit totaling $602 to secure its obligations under the leases, which have been classified as restricted cash on the Company's consolidated balance sheet as of June 30, 2017.

In May 2017, the Company entered into a lease for approximately 57,000 square feet of office space for its new San Francisco headquarters (the "Lease"). The term of the Lease begins on July 1, 2017 and the obligation to pay rent will begin on the earlier to occur of (1) the date the Company begins conducting business in the leased premises or (2) 14 days following the date of Substantial Completion of the Tenant Improvements (as such terms are defined in the Lease) (the "Rent Commencement Date"). The term of the Lease will expire on the tenth anniversary of the Rent Commencement Date. The Company paid a security deposit of $1,542 in connection with the Lease which has been classified within other long term assets on the Company's consolidated balance sheet as of June 30, 2017. The security deposit will be reduced to $1,000 on or after April 1, 2019, provided the Company has generated annual bookings of at least $250,000 for two consecutive fiscal years and is otherwise not in default under the Lease.

As of June 30, 2017, future minimum lease payments under non-cancelable operating leases were as follows:

Year Ending December 31,	Minimum Operating Lease Payments
2017 (remaining 6 months)	$ 2,681
2018	6,816
2019	6,890
2020	5,876
2021	4,627
2022 and thereafter	29,146
	$ 56,036

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 June 30, 2017, future unpaid minimum guaranteed royalty commitments were as follows:

Year Ending December 31,	Future Minimum Guarantee Commitments	Future Minimum Developer Commitments
2017 (remaining 6 months)	$ 5,998	$ 1,750

2018	2,886	—
2019	5,650	—
2020	300	
	$ 14,834	$ 1,750

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 June 30, 2017, were $1,750. 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 $12,693 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.

Table of Contents

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. Accordingly, the Company had recorded no liabilities for these agreements as of June 30, 2017 and December 31, 2016.

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 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 June 30, 2017 and December 31, 2016.

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.

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 9 — Stockholders' Equity

Warrants to Purchase Common Stock

Warrants outstanding at June 30, 2017 were as follows:

	Number of Shares Outstanding Under Warrant	Weighted Average Exercise Price per Share	Average Contractual Term
Warrants outstanding, December 31, 2016	4,267	$ 3.61	4.78
Granted	-	-	
Exercised	-	-	
Warrants outstanding, June 30, 2017	4,267	$ 3.61	4.78

The amount recognized as expense with respect to these warrants was immaterial for the three and six months ended June 30, 2017 and 2016.

Table of Contents

Note 10 — Stock Option and Other Benefit Plans

2007 Equity Incentive Plan

In April 2017, the Company's Board of Directors approved, and in June 2017, the Company's stockholders approved, the Third Amended and Restated 2007 Equity Incentive Plan (the "Third Amended 2007 Plan"). The Third Amended 2007 Plan includes an increase of 8,000 shares in the aggregate number of shares of common stock authorized for issuance under the plan. It also includes (i) a minimum vesting requirement, pursuant to which each share that is subject to a stock-based award may not vest prior to the first anniversary of the date of grant of such stock-based award (subject to a carve-out of 5% of the shares reserved for issuance under the plan) and (ii) a limitation on the value of stock-based awards that may be granted to any non-employee director in any calendar year.

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.

Share-Based Awards Available for Grant

The calculation of share-based awards available for grant under the Third Amended 2007 Plan and the Company's 2008 Equity Inducement Plan for the six months ended June 30, 2017 is as follows:

	Shares Available
Balances at December 31, 2016	3,864
Increase in authorized shares	8,000
Share-based awards granted (1)	(4,694)
Share-based awards canceled (2)	3,429
Balances at June 30, 2017	10,599

(1) RSUs granted on or after June 6, 2013 but before June 4, 2015 reduced the number of shares available for grant by 1.39 shares for each share subject to an RSU award. RSUs granted on or after June 4, 2015 reduce the number of shares available for grant by 1.32 shares for each share subject to an RSU award.

(2) RSUs forfeited and returned to the pool of shares available for grant that were granted on or after June 6, 2013 but before June 4, 2015 increase the pool by 1.39 shares for each share subject to an RSU that is forfeited. RSUs forfeited and returned to the pool of shares available for grant that were granted on or after June 4, 2015 increase the pool by 1.32 shares for each share subject to an RSU that is forfeited.

Table of Contents

RSU Activity

A summary of the Company's RSU activity for the six months ended June 30, 2017 is as follows:

	Number of Units Outstanding	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Awarded and unvested, December 31, 2016	8,224	$ 3.33	
Granted	2,274	$ 2.28	
Vested	(1,471)	$ 3.57	
Forfeited	(1,062)	$ 3.19	
Awarded and unvested, June 30, 2017	7,965	$ 3.00	
Restricted stock units vested and expected to vest at June 30, 2017	7,965	$ 3.00	$ 19,912

Stock Option Activity

The following table summarizes the Company's stock option activity for the six months ended June 30, 2017:

	Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value
Balances at December 31, 2016	15,813	$ 2.74	7.38	$ —
Options granted	1,745	$ 2.20		
Options canceled	(1,467)	$ 3.38		
Options exercised	(1)	$ 2.43		
Balances at June 30, 2017	16,090	$ 2.62	7.15	$ 3,912
Options vested and expected to vest at June 30, 2017	16,090	$ 2.62	7.15	$ 3,912
Options exercisable at June 30, 2017	4,947	$ 3.46	2.57	$ 62

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 Market of $2.50 per share as of June 30, 2017 (the last trading day in the quarter). Net cash proceeds from option exercises were immaterial for the six months ended June 30, 2017 and 2016, respectively.

Stock-Based Compensation

The cost of RSUs is determined using the fair value of the Company’s common stock based on the quoted closing price of the Company’s common stock on The NASDAQ Global Market 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.

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 table.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
Dividend yield	—	%	—	%	—	%	—	%
Risk-free interest rate	1.64	%	1.08	%	1.69	%	1.14	%
Expected volatility	60.6	%	55.3	%	55.3	%	55.7	%
Expected term (years)	4.00		4.00		4.00		4.00	

Table of Contents

The Company based its expected volatility on its own historical volatility. The expected term of options gave consideration to early exercises, post-vesting cancellations and the options' contractual term ranging from six to ten years. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury Constant Maturity Rate as of the date of grant. The weighted-average fair value of stock options granted during the six months ended June 30, 2017 and 2016 was $1.13 and $1.15 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Research and development	$ 1,558	$ 837	$ 2,999	$ 2,031
Sales and marketing	178	191	540	483
General and administrative	1,787	1,933	3,525	3,992
Total stock-based compensation expense	$ 3,523	$ 2,961	$ 7,064	$ 6,506

As of June 30, 2017, the Company had $21,795 of total unrecognized compensation expense related to RSUs. As of June 30, 2017, the Company had $9,008 of total unrecognized compensation expense related to stock options. The unrecognized compensation expense related to RSUs will be recognized over a weighted average period of 2.87 years. The unrecognized compensation expense related to stock options will be recognized over a weighted average period of 3.20 years.

Note 11 — Income Taxes

The Company recorded an income tax benefit of $177 and $189 for the three and six months ended June 30, 2017, respectively and an income tax expense of $16 and an income tax benefit of $151 for the three and six months ended June 30, 2016, respectively. The change in income tax provision was due to changes in pre-tax income 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 June 30, 2017 and December 31, 2016, the total amount of unrecognized tax benefits was $11,942 and $11,011, respectively. As of June 30, 2017 and December 31, 2016, approximately $362 and $421, 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, each of which are subject to a 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 six months ended June 30, 2017 and 2016. As of June 30, 2017 and December 31, 2016, the Company had a liability of $212 and $294, 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 1997 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 China income tax returns are open by statute for tax years 2012 and forward.

The Company has not made a provision for income taxes on unremitted earnings of its foreign controlled subsidiaries, excluding China, as of June 30, 2017. 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.

Table of Contents

Note 12 — 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
United States	$ 52,019	$ 35,620	$ 93,982	$ 75,245
Americas, excluding the United States	3,883	2,069	7,066	4,407
EMEA	7,809	6,191	14,948	13,545
APAC	4,968	4,483	9,471	9,695
	$ 68,679	$ 48,363	$ 125,467	$ 102,892

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:

	June 30, 2017	December 31, 2016
United States of America	$ 2,572	$ 3,768
Rest of the World	1,842	1,872
	$ 4,414	$ 5,640

Note 13 — Restructuring

During 2016 and the first six months of 2017, the Company's management approved restructuring plans to improve the effectiveness and efficiency of its operating model and reduce operating expenses around the world. During the three and six months ended June 30, 2017, the Company recorded $926 and $4,638, respectively, of restructuring charges related to employee and lease termination costs in the Company's Bellevue, Washington; Long Beach, California; San Francisco, California; Portland, Oregon; and Beijing, China offices. The Company expects to substantially complete payments of employee and lease termination costs associated with these restructurings by the third quarter of 2017. During the three and six months ended June 30, 2016, the Company recorded $2,116 and $2,221, respectively, 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.

	Fiscal 2017 and 2016			
	Restructuring Workforce	Restructuring Facility	Restructuring Other	Restructuring Total
Balance as of January 1, 2016	$ 310	$ —	$ 31	$ 341
Charges to operations	1,491	740	48	2,279
Non-cash charges/adjustments	—	122	—	122
Charges settled in cash	(1,801)	(591)	(79)	(2,471)
Balance as of December 31, 2016	$ —	$ 271	$ —	$ 271
Charges to operations	3,458	1,180	—	4,638
Non-cash charges/adjustments	—	(178)	—	(178)
Charges settled in cash	(2,905)	(1,113)	—	(4,018)
Balance as of June 30, 2017	$ 553	$ 160	$ —	$ 713

Table of Contents

Note 14 — Related Party Transactions

The Company and an affiliate of one of the Company's principal stockholders entered into an agreement in November 2015 pursuant to which, the Company agreed, subject to certain conditions, to pay in the aggregate, up to $15,000 in recoupable advanced royalties and non-recoupable license fees which amounts were fully paid by December 31, 2016.

Table of Contents

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 10, 2017. 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 in order to understand our financial results for the three and six months ended June 30, 2017 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 June 30, 2017 was $68.7 million, a 42.0% increase compared to the three months ended June 30, 2016, in which we reported revenue of $48.4 million. Revenue for the six months ended June 30, 2017 was $125.5 million, a 21.9% increase compared to the six months ended June 30, 2016, in which we reported revenue of $102.9 million. The increase was primarily related to an increase in revenue from the launch of MLB Tap Sports Baseball 2017 in March 2017 and the addition of Covet Fashion and Design Home through our acquisition of Crowdstar in November 2016. This increase was partially offset by declining revenue on a year over year basis from catalog titles such as Kendall & Kylie, Kim Kardashian: Hollywood 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 61.5% and 64.7% of our total revenue for the three months ended June 30, 2017 and 2016, respectively, and 61.8% and 63.0% of our total revenue for the six months ended June 30, 2017 and 2016, respectively. We generated the majority of this iOS-related revenue through the Apple App Store, which represented 52.8%, and 54.8% of our total revenue for the three months ended June 30, 2017 and 2016, respectively, and 52.9% of our total revenue for each of the six months ended June 30, 2017 and 2016, 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 36.9% and 33.9% of our total revenue for the three months ended June 30, 2017 and 2016, respectively, and 36.6% and 35.8% of our total revenue for the six months ended June 30, 2017 and 2016, respectively, from the Android platform. We generated the majority of our Android-related revenue through the Google Play Store, which represented 31.7% and 26.1% of our total revenue for the three months ended June 30, 2017 and 2016, respectively, and 30.8% and 26.8% of our total revenue for the six months ended June 30, 2017 and 2016, 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 in five genres: fashion and celebrity, sports and action, food, home and social networking. 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 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. Our leadership in the sports and action category remains strong with our Tap Sports Baseball and Deer Hunter franchises and Racing Rivals title, and we have furthered our leadership with the launch of MLB Tap Sports Baseball 2017 in March 2017 which includes licensed content from Major League Baseball, or MLB, for the first time together with current and former MLB players pursuant to our continuing agreements with the Major League Baseball Players Association, or MLBPA, and Major League Baseball Players Alumni Association, or MLBPAA. The food genre includes our Cooking Dash and Diner Dash franchises, and our leadership position in this genre was bolstered by our successful release of Gordon Ramsay DASH (which we have rebranded Restaurant Dash with Gordon Ramsay) in June 2016. We established our leadership position in the home genre with our release of Design Home in November 2016, which was the first title launched by Crowdstar following the acquisition. Our social networking genre includes QuizUp, a title we acquired in our purchase of substantially all of the assets of Plain Vanilla Corp. in December 2016.

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 were featured on Apple and Google storefronts in connection with worldwide commercial release, which we believe is the result of us being a good partner of Apple and Google.

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 celebrity games utilize transmedia storytelling, leveraging the celebrity'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 the celebrity's life. Our goal is

Table of Contents

for the game content to become entwined with the celebrity's persona and social media presence, and to otherwise enhance interaction with the celebrity's 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 2017 which features all MLB clubs and uniforms and current and former MLB players. We also plan to 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. In order to capitalize on the impact of our brand and celebrity licensors, we need to differentiate each game we release and space out our launch dates in order to avoid cannibalization of revenue from our existing games and to ensure that each game resonates with our players. While we believe our strategy has proven to be successful in certain areas, we have not experienced the level of success with Katy Perry Pop, Kendall & Kylie, Britney Spears: American Dream and Nicki Minaj: The Empire that we experienced with Kim Kardashian: Hollywood, which necessitated impairments to certain contractual minimum guarantee payments made to certain of our celebrity licensors during 2016. We will need to continue our efforts to differentiate and provide innovative features in our future celebrity based titles, including user generated content and social features, if we are to succeed in our strategy.

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, whether in development or already live, 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 social media 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 monetization 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 monetization infrastructure to every element 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 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 celebrities, social influencers, organizations and brands 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 Covet Fashion, Kim Kardashian: Hollywood, Cooking Dash 2016, Gordon Ramsay DASH, and Deer Hunter 2017 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 have successfully done in the second quarter of 2017 with our Design Home title. In particular, we significantly increased our marketing expenditures for Design Home during the second quarter of 2017 in an effort to leverage the game’s momentum and maximize its revenue potential. As a result of this investment in Design Home as well as our significant marketing expenditures for MLB Tap Sports Baseball 2017 which launched at the end of the first quarter of 2017, our sales and marketing expenses significantly increased in the second quarter of 2017 compared with the first quarter of 2017. We expect our sales and marketing expenditures to decline from this peak during the remainder of 2017, but to remain above our marketing expenses from the first quarter of 2017. 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 in the remainder of 2017 and beyond.

Our net loss in the three months ended June 30, 2017 was $23.6 million versus a net loss of $17.9 million in the three months ended June 30, 2016. This change was primarily due to an increase in operating expenses of $23.7 million, which was mostly comprised of a $20.1 million increase in sales and marketing expenses, and an increase in cost of revenue of $7.0 million. These unfavorable factors were partially offset by an increase in revenue of $20.3 million and a decrease in interest and other expense of $4.5 million. See “—Results of Operations—Comparison of the Three Months Ended June 30, 2017 and 2016” below for further details.

Our net loss in the six months ended June 30, 2017 was $46.3 million versus a net loss of $26.5 million in the six months ended June 30, 2016. This increase in our net loss was primarily due to an increase in operating expenses of $37.2 million, which was mostly comprised of a $24.7 million increase in sales and marketing expenses, and an increase in cost of revenue of $9.2 million. These unfavorable factors were partially offset by an increase in revenue of $22.6 million and a decrease in interest and other expense of $3.9 million. See “—Results of Operations—Comparison of the Six Months Ended June 30, 2017 and 2016” 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. As noted above, we significantly increased our sales and marketing expenditures during the second quarter of 2017. We expect our sales and marketing expenses to decline from this peak during the remainder of 2017, but to remain above our sales and marketing expenses from the first quarter of 2017 and significantly above our sales and marketing expenses from the comparable periods of 2016. This increase on a year over year basis will impair our ability to achieve and sustain profitability if this spending does not result in increased revenues or if we cannot successfully decrease or control our other operating expenses. 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, including most recently in January 2017, reducing our headcount by more than 100 personnel. As part of these 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 and its 90 employees in November 2016. In the remainder of 2017, we intend to focus on reducing our operating costs and realigning our studios to be more efficient. These efforts may be partially offset by our plans to continue hiring additional development personnel in the San Francisco Bay Area, including additional proven creative leaders, and in Hyderabad, India.

Cash and cash equivalents at June 30, 2017 totaled $68.1 million, a decrease of $34.0 million from the $102.1 million balance at December 31, 2016. This decrease was primarily related to $32.4 million of cash used in operations, including minimum guaranteed royalty payments of $17.0 million to our licensors and $4.0 million of payments associated with restructuring activities, $1.0 million of cash used in investing activities including purchases of property and equipment and other investing activities of $1.6 million partially offset by a decrease in restricted cash of $560,000 and cash used in financing activities of $459,000 primarily related to $1.2 million in taxes paid related to net share settlement of RSUs partially offset by $781,000 received from purchases under our employee stock purchase plan and exercise of stock options.

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.

Table of Contents

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.

In addition, we also analyze social followers when determining which celebrities we might wish to partner with in developing games. Our social followers metric represents the aggregate number of individuals who follow our celebrity licensors on social media platforms (as reported by such platforms). We calculate the aggregate number of social followers of a particular celebrity by adding the total followers of such celebrity on Facebook, Twitter, Instagram, and Vevo. There is fan overlap among these social channels and among our various celebrity licensors, and such aggregate numbers have not been deduplicated. We use the number of social followers as a measure of the potential reach and engagement a particular celebrity may have with players of our games.

We calculate DAU, MAU and ARPDAU for only our primary distribution platforms, such as Apple's App Store, the Google Play Store, Amazon's Appstore and the Mac App Store; we are not able to calculate these metrics across all of our distribution channels. In addition, the platforms that we include for purposes of this calculation have changed over time, and we expect that they will continue to change as our business evolves, but we do not expect that we will adjust prior metrics to take any such additions or deletions of distribution platforms into account. We believe that calculating these metrics for only our primary distribution platforms at a given period is generally representative of the metrics for all of our distribution platforms. Moreover, we rely on the data analytics software that we incorporate into our games to calculate and report the DAU, MAU and 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 10), preventing us from collecting complete data. For these titles, we estimate DAU and MAU by extrapolating from each affected title's historical data in light of the behavior of similar titles for which complete data is available. 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 June 30, 2017 is aggregate daily DAU for the month of June 2017 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			
	2017		2016	
	June 30	March 31	June 30	March 31
	(In thousands, except aggregate ARPDAU)			
Aggregate DAU	4,951	4,221	4,126	4,935
Aggregate MAU	32,792	32,840	35,830	42,391
Aggregate ARPDAU	$ 0.18	$ 0.18	$ 0.13	$ 0.12

30

Table of Contents

The increase in aggregate DAU for the three months ended June 30, 2017 as compared to the same period of the prior year was primarily related to higher retention rates of users for our new title launches particularly for our Design Home and MLB Tap Sports 2017 titles. The decrease in aggregate MAU for the three months ended June 30, 2017 as compared to the same period of the prior year was primarily related to a decrease in the overall number of users but higher retention rates for our users, particularly for our Design Home, Covet Fashion and MLB Tap Sports 2017 titles as compared to the same period of the prior year in which a larger number of users downloaded our titles but churned out of them more quickly. Our aggregate ARPDAU increased for the three months ended June 30, 2017 as compared to the same period of the prior year, as we improved monetization on certain titles, particularly through increased 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 2%, 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 2% 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

Crowdstar Acquisition

On November 2, 2016, we, through a wholly owned subsidiary, acquired shares representing approximately 80.6% of the issued and outstanding voting power of Crowdstar, for consideration of approximately $40.8 million in cash pursuant to a transfer agreement by and among us, Crowdstar and certain stockholders of Crowdstar. Crowdstar, which is based in Burlingame, California, employs approximately 90 people and develops fashion and home decor genre games for mobile devices.

Following the initial acquisition of shares of Crowdstar by us, we exercised the right, as the holder of a majority of each of the preferred stock and all capital stock of Crowdstar, to appoint each of the five members of the board of directors of Crowdstar. In addition, certain drag-along provisions specified in a voting agreement by and among Crowdstar and certain stockholders of Crowdstar were triggered. Pursuant to the drag-along provisions, certain other stockholders of Crowdstar were required to tender their Crowdstar capital stock to us on the same terms as those specified in the transfer agreement.

On December 6, 2016, we acquired the remaining issued and outstanding shares of Crowdstar pursuant to a short-form merger and now have 100% ownership of Crowdstar. We paid an aggregate of approximately $45.5 million of cash ($40.8 million for the initial purchase of shares and an aggregate of $4.7 million in connection with purchasing shares in connection with exercising the drag-along provisions and effecting the short-form merger) to acquire 100% ownership of Crowdstar.

Our first title created by Crowdstar, Design Home, was released in November 2016.

Critical Accounting Policies and Estimates

Information with respect to Critical Accounting Policies 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.

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.

Table of Contents

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 June 30, 2017 and 2016

Revenue

	Three Months Ended June 30,	
	2017	2016
Revenue by Type	(In thousands)	
Micro-Transactions	$ 58,391	$ 39,854
Advertisements	2,826	2,854
Offers	6,743	5,053
Other	719	602
Total revenue	$ 68,679	$ 48,363

Our revenue increased $20.3 million, or 42.0%, from $48.4 million for the three months ended June 30, 2016 to $68.7 million for the three months ended June 30, 2017, which was primarily related to an $18.5 million increase in our revenue from micro-transactions (in-app purchases). These increases in revenues were primarily related to new title launches such as the releases of Design Home in November 2016, MLB Tap Sports Baseball 2017 in March 2017 and Restaurant Dash with Gordon Ramsay in June 2016, as well as the addition of Covet Fashion through our acquisition of Crowdstar in the fourth quarter of 2016, which titles generated an aggregate of $38.8 million in revenue during the second quarter of 2017. These increases were partially offset by a $12.3 million aggregate decline in revenue from Kendall and Kylie, Kim Kardashian: Hollywood, Racing Rivals and Tap Sports Baseball 2016.

We generate revenue from micro-transactions, advertisements and offers, and we sometimes change the focus of our monetization efforts among methods within a given title over the life of the title in an attempt to maximize revenue. For example, we may elect to disable advertisements within a game if we believe doing so will encourage users to play the game longer and thus increase the chance that they will make micro-transactions or complete offers, which generally result in higher revenue for us than advertisements.

During the three months ended June 30, 2017, Design Home, Covet Fashion, Restaurant Dash with Gordon Ramsay, and MLB Tap Sports Baseball 2017 were our top four revenue-generating games and comprised 21.9%, 13.3%, 11.0%, and 10.3%, respectively, of our revenue for the period. No other game generated more than 10% of revenue during the quarter. During the three months ended June 30, 2016, Kim Kardashian: Hollywood, Kendall and Kylie, Cooking Dash 2016, and Racing Rivals, were our top four revenue-generating games and comprised 18.0%, 15.9%, 15.3%, and 11.3%, respectively, of 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 $4.0 million, from $12.7 million in the three months ended June 30, 2016 to $16.7 million in the three months ended June 30, 2017. This increase was primarily related to increased revenue from new title launches.

Cost of Revenue

Table of Contents

	Three Months Ended June 30,	
	2017	2016
	(In thousands)	
Cost of revenue:		
Platform commissions, royalties and other	$ 24,761	$ 18,534
Impairment of prepaid royalties and minimum guarantees	-	105
Amortization of intangible assets	3,171	2,336
Total cost of revenue	$ 27,932	$ 20,975
Revenue	$ 68,679	$ 48,363
Gross margin	59.3 %	56.6 %

Our cost of revenue increased $7.0 million, or 33.2%, from $21.0 million in the three months ended June 30, 2016 to $28.0 million in the three months ended June 30, 2017. This was primarily due to a $5.6 million increase in platform commission fees due to a higher volume of revenue transactions through the digital storefronts, an increase of $835,000 in amortization of intangible assets and an increase of $411,000 in royalties to certain of our celebrity licensors.

Revenue attributable to games based upon original intellectual property increased as a percentage of revenue from 39.2% in the three months ended June 30, 2016 to 57.0% in the three months ended June 30, 2017. This increase was primarily due to the release of Design Home in November 2016 and the addition of Covet Fashion through our acquisition of Crowdstar. The average royalty rate that we paid on games based on licensed intellectual property, excluding royalty impairments, increased from 17.1% in the three months ended June 30, 2016 to 19.8% in the three months ended June 30, 2017. Overall royalties, including impairment of prepaid royalties and guarantees, as a percentage of total revenue decreased from 10.6% in the three months ended June 30, 2016 to 8.5% in the three months ended June 30, 2017. We expect our cost of revenue to remain relatively flat during the remainder of 2017.

Research and Development Expenses

	Three Months Ended June 30,	
	2017	2016
	(In thousands)	
Research and development expenses	$ 23,989	$ 20,721
Percentage of revenue	34.9 %	42.8 %

Our research and development expenses increased $3.3 million, or 15.8%, from $20.7 million in the three months ended June 30, 2016 to $24.0 million in the three months ended June 30, 2017. This was primarily attributable to a $2.8 million increase in payroll costs and other research and development expenses related to our recent acquisition of Crowdstar, and a $300,000 increase in outside services primarily related to external development. As a percentage of revenue, research and development expenses decreased from 42.8% in the three months ended June 30, 2016 to 34.9% in the three months ended June 30, 2017. We expect our research and development expenditures to slightly increase during the remainder of 2017, primarily due to expected increases in headcount related to the expected addition of creative leaders and members of their teams.

Sales and Marketing Expenses

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016
	(In thousands)	
Sales and marketing expenses	$ 30,952	$ 10,935
Percentage of revenue	45.1 %	22.6 %

Our sales and marketing expenses increased $20.0 million, or 183.1%, from $10.9 million in the three months ended June 30, 2016 to $31.0 million in the three months ended June 30, 2017. This was primarily attributable to an increase of $18.7 million in marketing promotions for our new title launches, in particular Design Home, and a $1.0 million increase in payroll costs related to our recent acquisition of Crowdstar. As a percentage of revenue, sales and

Table of Contents

marketing expenses increased from 22.6% in the three months ended June 30, 2016 to 45.1% in the three months ended June 30, 2017. We expect our sales and marketing expenses to decrease in the remainder of 2017 on a sequential basis but for expenses to remain above first quarter levels.

General and Administrative Expenses

	Three Months Ended June 30, 2017	2016
	(In thousands)	
General and administrative expenses	$ 8,678	$ 7,096
Percentage of revenue	12.6 %	14.7 %

Our general and administrative expenses increased $1.6 million, or 22.3%, from $7.1 million in the three months ended June 30, 2016 to $8.7 million in the three months ended June 30, 2017. This was primarily due to a $1.2 million increase in payroll costs attributable to higher attainment of employee and executive bonuses in 2017. As a percentage of revenue, general and administrative expenses decreased from 14.7% in the three months ended June 30, 2016 to 12.6% in the three months ended June 30, 2017. We expect our general and administrative expenses to remain relatively constant during the remainder of 2017.

Restructuring Charges

During the three months ended June 30, 2017, we recorded $926,000 of restructuring charges related to employee and lease termination costs in our Bellevue, Washington, Long Beach, California, San Francisco, California, Portland, Oregon, and Beijing, China offices. We have substantially completed the payments related to employee and lease termination costs associated with these restructurings as of June 30, 2017, and expect to complete the remaining payments by the third quarter of 2017. During the three months ended June 30, 2016, we recorded $2.1 million of restructuring charges related to employee termination costs in our Long Beach, California office.

Interest and Other Income/(Expense), Net

Interest and other expense decreased from $4.5 million in the three months ended June 30, 2016 to a net interest income of $53,000 in the three months ended June 30, 2017. This decrease was primarily attributable to a $2.1 million charge related to the change in fair value of our investment in promissory notes issued to us by Plain Vanilla, and a $2.3 million impairment charge related to the call option for Plain Vanilla, which was due to a decline in Plain Vanilla’s forecasted revenue and future cash flow outlook during the three months ended June 30, 2016.

Income Tax Benefit/(Expense)

Our income tax benefit/(expense) increased from a $16,000 expense in the three months ended June 30, 2016 to a $177,000 benefit in the three months ended June 30, 2017. 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 and change in foreign withholding taxes.

Comparison of the Six Months Ended June 30, 2017 and 2016

Revenues

	Six Months Ended June 30,	
	2017	2016
Revenue by Type	(In thousands)	
Micro-Transactions	$ 105,865	$ 84,371
Advertisements	6,109	5,586
Offers	12,223	12,086
Other	1,270	849
Total revenue	$ 125,467	$ 102,892

Our revenue increased $22.6 million, or 22.0%, from $102.9 million for the six months ended June 30, 2016 to $125.4 million for the six months ended June 30, 2017, which was primarily related to a $21.5 million increase in our revenue from micro-transactions (in-app purchases), a $523,000 increase in revenue from advertisements and a $421,000 increase from other sources. These increases were primarily related to increased revenue from new title launches such as the releases of Design Home in November 2016, MLB Tap Sports Baseball 2017 in March 2017 and Restaurant Dash with Gordon Ramsay in June 2016, as well as the addition of Covet Fashion through our acquisition of Crowdstar in the fourth quarter of 2016, which titles generated an aggregate of $57.3 million in revenue during the second quarter of 2017. These increases were partially offset by decreased revenue primarily related to a $24.4 million aggregate decline in revenue from Kendall and Kylie, Kim Kardashian: Hollywood, Racing Rivals and Cooking Dash 2016.

In the first six months of 2017, Design Home, Covet Fashion, Restaurant Dash with Gordon Ramsay, Cooking Dash 2016, and Kim Kardashian: Hollywood, were our top five revenue-generating games and comprised 15.7%, 12.3%, 11.9%, 10.9%, and 10.8%, respectively, of revenue for the period. No other game generated more than 10% of revenue for the period. In the first six months of 2016, Kim Kardashian: Hollywood, Racing Rivals, Cooking Dash 2016, and Kendall and Kylie, were our top four revenue-generating games and comprised 21.2%, 15.6%, 12.6%, and 10.7%, respectively, of revenue for the period. No other game generated more than 10% of revenue during the period.

International revenue increased by $3.8 million, from $27.7 million in the six months ended June 30, 2016 to $31.5 million in the six months ended June 30, 2017. This increase was primarily related to increased revenue from new title launches.

Cost of Revenue

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Cost of revenue:		
Platform commissions, royalties and other	$ 45,621	$ 38,854
Impairment of prepaid royalties and minimum guarantees	792	148
Amortization of intangible assets	6,433	4,660
Total cost of revenue	$ 52,846	$ 43,662
Revenue	$ 125,467	$ 102,892
Gross margin	57.9 %	57.6 %

Our cost of revenue increased $9.2 million, or 21.0%, from $43.7 million in the six months ended June 30, 2016 to $52.8 million in the six months ended June 30, 2017. This increase was primarily due to a $6.6 million increase in platform commission fees due to a higher volume of revenue transactions through the digital storefronts, an increase of $1.8 million in amortization of intangible assets and an increase of $644,000 in impairment of prepaid royalties. Revenue attributable to games based upon original intellectual property increased as a percentage of revenue from 43.1% in the six months ended June 30, 2016 to 54.6% in the six months ended June 30, 2017. This increase was primarily due to the release of Design Home in November 2016 and the addition of Covet Fashion through our acquisition of Crowdstar. The average royalty rate that we paid on games based on licensed intellectual property, excluding royalty impairments, increased from 17.4% in the six months ended June 30, 2016 to 19.1% in the six months ended June 30, 2017. Overall royalties, including impairment of prepaid royalties and guarantees, as a percentage of total revenue decreased from 10.0% in the six months ended June 30, 2016 to 9.3% in the six months ended June 30, 2017.

Research and Development Expenses

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Research and development expenses	$ 49,022	$ 41,033
Percentage of revenue	39.1 %	39.9 %

Table of Contents

Our research and development expenses increased $8.0 million or 19.5%, from $41.0 million in the six months ended June 30, 2016 to $49.0 million in the six months ended June 30, 2017. The increase in research and development costs was primarily due to a $5.2 million increase in payroll costs related to our recent acquisition of Crowdstar and a $2.0 million increase in outside services primarily related to external development. As a percentage of revenue, research and development expenses decreased slightly from 39.9% in the six months ended June 30, 2016 to 39.1% in the six months ended June 30, 2017.

Sales and Marketing Expenses

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Sales and marketing expenses	$ 48,240	$ 23,559
Percentage of revenue	38.4 %	22.9 %

Our sales and marketing expenses increased $24.7 million, or 104.8%, from $23.6 million in the six months ended June 30, 2016 to $48.2 million in the six months ended June 30, 2017. This was primarily attributable to an increase of $22.0 million in marketing promotions for our new title launches, in particular Design Home, and a $2.1 million increase in payroll costs related to our recent acquisition of Crowdstar. As a percentage of revenue, sales and marketing expenses increased from 22.9% in the six months ended June 30, 2016 to 38.4% in the six months ended June 30, 2017.

General and Administrative Expenses

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
General and administrative expenses	$ 17,175	$ 15,081
Percentage of revenue	13.7 %	14.7 %

Our general and administrative expenses increased $2.1 million, or 13.9%, from $15.1 million in the six months ended June 30, 2016 to $17.2 million in the six months ended June 30, 2017. The increase in general and administrative expenses was primarily due to a $1.9 million increase in payroll related costs related to our recent acquisition of

Crowdstar. As a percentage of revenue, general and administrative expenses decreased from 14.7% in the six months ended June 30, 2016 to 13.7% in the six months ended June 30, 2017.

Restructuring Charges

We incurred a restructuring charge of $4.6 million in the six months ended June 30, 2017 related to employee and lease termination costs in our Bellevue, Washington, Long Beach, California, San Francisco, California, Portland, Oregon, and Beijing, China offices. We have substantially completed payments of the employee and lease termination costs as of June 30, 2017, and expect to complete the remaining payments by the third quarter of 2017. We incurred a restructuring charge of $2.2 million in the six months ended June 30, 2016, primarily due to costs associated with employee termination costs in our Long Beach, San Francisco, Bellevue, and Beijing, China offices, and lease termination costs for our Bellevue and Beijing, China offices, in the second quarter of 2016.

Interest and Other Income/(Expense), Net

Interest and other expense, net, decreased from a net expense of $4.0 million, in the six months ended June 30, 2016 to a net expense of $69,000 in the six months ended June 30, 2017. This decrease was primarily attributable to a $1.8 million charge related to the change in fair value of our investment in promissory notes issued to us by Plain Vanilla, and a $2.3 million impairment charge related to the call option for Plain Vanilla, which was due to a decline in Plain Vanilla’s forecasted revenue and future cash flow outlook during the six months ended June 30, 2016.

Table of Contents

Income Tax Benefit/(Expense)

Our income tax benefit changed from a $151,000, tax benefit in the six months ended June 30, 2016 to a tax benefit of $189,000 in the six months ended June 30, 2017. 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.

Liquidity and Capital Resources

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Consolidated Statement of Cash Flows Data:		
Cash flows used in operating activities	(32,410)	(9,810)
Cash flows used in investing activities	(1,001)	(12,570)
Cash flows used in financing activities	(459)	(17)

Since our inception, we have generally incurred recurring losses and negative annual cash flows from operating activities. As of June 30, 2017, we had an accumulated deficit of $384.9 million.

Operating Activities

In the six months ended June 30, 2017, net cash used in operating activities was $32.4 million, which was primarily due to a $46.3 million net loss, minimum guaranteed royalty payments of $17.0 million to celebrity and brand licensors, a $10.7 million increase in accounts receivable due to the timing of payments from our customers, a $11.2 million increase in prepaid expenses and other assets related to platform fee and outside development services, and $4.0 million of cash restructuring activities. These amounts were partially offset by a $25.0 million increase in deferred revenue mainly attributable to increase in revenue from titles with longer useful lives and adjustments for non-cash items including stock-based compensation expense of $7.0 million and amortization of intangible assets of $6.4 million.

In the six months ended June 30, 2016, net cash used in operating activities was $9.8 million, which was primarily due to a $26.5 million net loss, a $4.7 million increase in prepaid royalties and a $1.9 million decrease in accrued royalties related to payments to celebrity and brand licensors. These amounts were partially offset by a $3.3 million decrease in accounts receivable attributable to the timing of payments from our customers, $2.1 million increase in deferred revenue attributable to increase in revenue from titles with longer useful lives and adjustments for non-cash items, including stock-based compensation expense of $6.5 million, amortization of intangible assets of $4.7 million, impairment of our call option for Plain Vanilla of $2.3 million, charge of $1.8 million related to the change in fair value of promissory notes issued by Plain Vanilla and depreciation expense of $1.4 million.

Investing Activities

In the six months ended June 30, 2017, we used $1 million of cash for investing activities primarily related to property and equipment purchases of $751,000 and other investing activities of $810,000. This was partially offset by a decrease in restricted cash of $560,000.

In the six months ended June 30, 2016, we used $12.6 million of cash for investing activities primarily related to investments in Plain Vanilla and Dairy Free Games, Inc. of $9.5 million in the aggregate, purchases of intangible assets of $2.5 million, and property and equipment purchases of $906,000. These increases were partially offset by a decrease in restricted cash of $336,000.

Table of Contents

Financing Activities

In the six months ended June 30, 2017, net cash used in financing activities was $459,000 due primarily to $1.2 million of taxes paid related to net share settlement of RSUs. These cash outflows were partially offset by $781,000 in proceeds received from option exercises and purchases under our employee stock purchase plan.

In the six months ended June 30, 2016, net cash used in financing activities was $17,000 due primarily to $1.3 million of taxes paid related to net share settlement of RSUs. These cash outflows were substantially offset by $1.3 million related to option exercises and purchases under our employee stock purchase plan.

Sufficiency of Current Cash and Cash Equivalents

Our cash and cash equivalents were $68.1 million as of June 30, 2017. Cash and cash equivalents held outside of the United States in various foreign subsidiaries were $4.2 million as of June 30, 2017, most of which were held by our Canadian, Chinese, Indian, and Russian 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 increasing sales and marketing initiatives, use of cash to pay minimum guaranteed royalties, 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 minimum guaranteed royalty payments during the remainder of 2017 as milestone payments become due on applications 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.

Contractual Obligations

The following table is a summary of our contractual obligations as of June 30, 2017:

	Payments Due by Period from June 30, 2017				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(In thousands)				
Operating lease obligations	$ 56,036	$ 6,424	$ 9,963	$ 10,503	$ 29,146
Guaranteed royalties (1)	14,834	8,521	6,013	300	—
Developer commitments (2)	1,750	1,750	—	—	—
Total contractual obligations (3)	$ 72,620	$ 16,695	$ 15,976	$ 10,803	$ 29,146

(1) 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.

(2) 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.

Table of Contents

(3) 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 June 30, 2017, we had 575,000 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 June 30, 2017, 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, 2016. Our market risk profile has not changed significantly during the three months ended June 30, 2017.

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 June 30, 2017, we had no short-term investments and substantially all of our cash and cash equivalents of $68.1 million was held in operating bank accounts earning nominal interest. Accordingly, we do not believe that a 10% change in interest rates would have a significant impact on our interest income/(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 June 30, 2017 and December 31, 2016, our cash and cash equivalents were maintained by financial institutions in the United States, the United Kingdom, Canada, China, Hong Kong, India, and Russia, and our current deposits are likely in excess of insured limits.

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 June 30, 2017, Apple Inc., or Apple, accounted for 59.9%, and Google Inc., or Google, accounted for 17.9% of total accounts receivable. At December 31, 2016, Apple accounted for 43.9%, Google accounted for 22.3%, Jirbo, Inc. (dba AdColony) accounted for 10.8%, and Fyber GmbH accounted for 10.5%, 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 2016 some of these currencies fluctuated significantly. Our revenue are usually denominated in the functional currency of the carrier or distributor while the operating expenses of our operations outside of the United States are maintained in their local currency, with the significant operating currencies consisting of Chinese Renminbi, Euro, Indian Rupee, and Russian Ruble. Although recording operating expenses in the local currency of our foreign operations mitigates some of the exposure of foreign currency fluctuations, variances among the currencies of our customers and our foreign operations relative to the U.S. Dollar, or USD, could have and have had a material impact on our results of operations.

Table of Contents

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, and the Indian Rupee 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.

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

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

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 June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Item 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 $87.4 million in 2016 and a net loss of $46.3 million for the first six months of 2017. As of June 30, 2017, we had an accumulated deficit of $384.9 million. While we have conducted several restructurings between December 2015 and March 2017 aimed at reducing our fixed costs and operating more efficiently, and we intend to implement further cost reductions and a more efficient studio structure in the remainder of 2017, our costs may continue to rise as we implement additional initiatives designed to increase revenue, 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, including new creative leaders and their teams; 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 obtaining downloads of our games as users spend more time on alternative software applications, such as social media, messaging, and streaming applications). During the second quarter of 2017, 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. We expect our sales and marketing expenses to decrease on a quarter over quarter basis in the remainder of 2017 but for overall marketing expenses to remain above first quarter 2017 levels and significantly above our sales and marketing expenses from the comparable periods of 2016. While we believe that we 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, 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, 2016 we recorded a $14.5 million royalty impairment related to the prepaid guaranteed royalty and license fee payments that we have made to an affiliate of Tencent Holdings Limited, or Tencent, related to our Rival Fire game and a $20.2 million impairment related to certain contractual minimum guarantee payments made to certain of our celebrity licensors and other prepaid royalties. We have also taken restructuring charges in the past, including $3.7 million during the first quarter of 2017 and $926,000 during the second quarter of 2017 related to our January 2017 restructuring. Additionally, during the year ended December 31, 2016 we

Table of Contents

recorded a charge of $2.4 million due to a decline in the fair market value of our call option for Plain Vanilla and a charge of $1.9 million due to a decrease in the fair value of the promissory notes issued to us by Plain Vanilla. Furthermore, given the declines in overall downloads of mobile gaming applications, the marked decline in gaming applications as compared to all mobile gaming applications generally, 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 2017) and Eternity Warriors 4, as well as for our more recent titles, such as 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 predecessor versions and 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 free-to-play games, and we often must make decisions about these matters well in advance of a product 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. Historically, we have focused on developing and publishing shooters and other action games primarily directed at male audiences. However, our recent releases in this genre, which includes Deer Hunter 2017 and Rival Fire, have failed to download or monetize at the same rates as some of our legacy titles, including Deer Hunter 2014 (which we have rebranded Deer Hunter Classic). While our Kim Kardashian: Hollywood, Cooking Dash 2016, and Restaurant Dash with Gordon Ramsay titles have been commercially successful, our Katy Perry Pop, Britney Spears: American Dream and Nicki Minaj: The Empire games have not been, and meeting consumer expectations could prove more challenging for us in the future as we release additional games that are primarily targeted toward female audiences, such as our upcoming title featuring Taylor Swift. Even if our games are successfully introduced 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. 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 growth and evergreen games strategy, we expect to commit more 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 in our efforts to create growth and evergreen titles, such as the case with our recent updates of Covet Fashion and Racing Rivals which were received poorly by some of our players and, in the case of Racing Rivals, resulted in decreased revenue. As a result of the life cycle of our games, our business depends on our ability to consistently and timely launch new games and updates to existing games that achieve significant popularity, and have the potential to become growth titles. If, as we anticipate, we launch fewer titles in 2017 as compared to prior years, we may be less likely to launch a game that achieves significant commercial success, and if the titles we expect to launch in 2017 are not launched on time or do not meet consumer expectations, our ability to grow revenue and our financial performance will be negatively affected. For example, we experienced delays in the introduction of Rival Fire and our upcoming Taylor Swift title, which had a negative impact on our financial results during 2016 and 2017, respectively. If rates of revenue decline are higher than expected in a particular quarterly period, the new games we launch 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 decreased rates 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

Table of Contents

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 launches of free-to-play games tend to include socio-competitive gameplay, 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 have limited experience with this strategy and we may not successfully update our games to include these features. 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. If we are unable to successfully implement this 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. In addition, following the success of our Kim Kardashian: Hollywood game, we expanded our efforts to build the premier celebrity gaming platform and partnered with A-list celebrities to selectively collaborate on future games. In 2015 and 2016, we released Katy Perry Pop, Kendall & Kylie, Britney Spears: American Dream and Nicki Minaj: The Empire. However, these titles ultimately did not achieve the level of success we experienced with Kim Kardashian: Hollywood which has resulted in a shift in our strategy away from celebrity games that are primarily role playing games. If we are unable to create innovative games that surprise and delight our players, we may continue to experience similar results with our forthcoming title featuring Taylor Swift, our revenue could be limited, and our business and operating results would suffer. Our efforts to develop free-to-play games, celebrity and other licensed property games, enhance our existing titles and our transition towards focusing on creating and maintaining successful growth 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 free-to-play strategy assumes that a large number of players will download our games because they are free and that we will then be able to effectively monetize the games; however, players may not widely download our games for a variety of reasons, including
- competition for downloads not only with other mobile games but also with social media and other non-gaming related applications;

Table of Contents

- limits on the number of mobile applications players are willing to download to and maintain on their devices;
- poor consumer reviews or other negative publicity;
- ineffective or insufficient marketing efforts;
- lack of sufficient social and community features;
- 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 inherent limitations of the smartphone platforms and telecommunications networks, which at most only allow applications that are less than 100 megabytes to be downloaded over a carrier's wireless network; as a result, players must download our games that exceed 100 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 has been the case with our Kendall & Kylie title, which may occur for a variety of reasons, including poor game design or quality, lack of socio-competitive 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 celebrity and other licensed property games that we release may fail to resonate with consumers, may cannibalize revenue from our existing games, and may cost more to build than other titles due to the minimum guaranteed royalty payments to our celebrity licensors and due to the need to differentiate gameplay among titles featuring celebrities. It is unclear whether future celebrity-based games have the potential to generate revenue at levels similar to our Kim Kardashian: Hollywood title or whether these games can be successful at all, including that the number of social media followers for a particular celebrity may have limited impact on the financial success of a title (as occurred with our Katy Perry Pop, Britney Spears: American Dream and Nicki Minaj: The Empire titles) or the number of initial downloads may not result in significant financial success on a sustained basis (as occurred with our Kendall & Kylie title);
- 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 games, particularly considering we have experienced significantly fewer downloads of 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 games incorporating celebrities or other well-known licensed brands or properties, 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 proven creative leaders and the experienced monetization, live operations,

Table of Contents

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 Federal Trade Commission, or the FTC, has indicated that it intends to review issues related to in-app purchases, particularly with respect to games that are marketed primarily to minors (for example, the FTC reached a settlement with Apple in January 2014 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.

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 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 2%, 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 2% 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 8.4% from 35.8 million in the second quarter of 2016 to 32.8 million in the second quarter of 2017. 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 61.8% of our total revenue for the six months ended June 30, 2017 compared with 63.0% of our total revenue for the six months ended June 30, 2016. We generated the majority of this iOS-related revenue from the Apple App Store, which represented 52.9% and 52.9% of our total revenue for the six months ended June 30, 2017 and 2016, 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 and, to a far lesser extent, sales of premium games. In addition, we derived approximately 36.6% and 35.8% of our total revenue for the six months ended June 30, 2017 and 2016, respectively, from the Android platform. We generated the majority of our Android-related revenue from the Google Play Store, which represented 30.8% and 26.8% of our total revenue for the six months ended June 30, 2017 and 2016, 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 in connection with 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. For example, in the second half of 2016, Apple began displaying paid search advertisements for applications in the Apple App Store search results for the first time. We have purchased, and may continue to purchase, such advertising to ensure the prominence of our games in the Apple App Store which could result in our marketing expenses increasing significantly. 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 with no prior notice to us. In addition, the agreement terms can be vague and subject to changing interpretations by the storefront operator. Further, these storefront operators typically have the right to prohibit a developer from distributing its applications on its storefront if the developer violates its standard terms and conditions. For example, in the second quarter of 2011, Apple began prohibiting virtual currency-incented advertising offers in games that directed users to download other applications from the Apple App Store in order to complete the offer. These offers accounted for approximately one-third of our smartphone revenue during the three months ended June 30, 2011, and our inability to subsequently use such offers negatively impacted our smartphone revenue thereafter. In addition, Apple informed us early in the fourth quarter of 2012 that we could no longer include links to Tapjoy's HTML5 website in our games, which negatively impacted our ability to generate revenue through incented offers. Apple has implemented restrictions related to games that include guns, including changing its game rating methodology, which has resulted in all of our games that include gun violence receiving a 17+ rating, and prohibiting some depictions of guns in game icons and other storefront art; these restrictions, could potentially negatively impact the number of people playing these "shooter" games and the revenue we generate from these games. During the second quarter of 2014, there were reports that Apple was considering prohibiting some types of virtual currency-incented video advertising in games that promoted other applications available on the Apple App Store. These incented video advertisements generate a meaningful percentage of our overall revenue, and any prohibition of these advertisements would have had a negative impact on our revenue. 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. We did not previously build our games to include 64-bit support nor did the Unity development engine that we utilize to create many of our games support 64-bit development; however, we worked with Unity to ensure that we met Apple's requirement. 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 100 megabytes, which is the maximum

Table of Contents

file size that can currently be downloaded over any carrier's wireless network (requiring download over wifi networks). In addition, we believe that Apple may have made changes to its algorithms that determine the App Store's Top Free application rankings, as games currently have a more difficult time achieving and maintaining Top Free rankings than has historically been the case. The Top Free rankings are one of the primary means for consumers to discover our games, and to the extent that algorithm changes have occurred that make it more difficult for mobile games to reach and maintain Top Free spots, it would contribute to fewer installs of our games. 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 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 use extensively as part 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, shifts in product strategy and how quickly digital storefront operators review and approve our games for commercial release, a factor which may be particularly important in 2017 as we may release as few as two new titles this year;
- 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;

Table of Contents

- 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 2016, we impaired $14.5 million related to prepaid royalty commitments and license fees paid to an affiliate of Tencent in connection with our Rival Fire title, $20.2 million related to contractual minimum guarantee royalty payments made to certain celebrity licensors and other prepaid royalties, $2.4 million related to the impairment of our call option in Plain Vanilla, and $1.9 million related to a decline in the fair value of the promissory notes issued to us by Plain Vanilla, and in future periods we may be required to impair our goodwill due to further declines in our business and/or stock price, especially if our fair value approaches our carrying value (See Note 6 to our condensed consolidated financial statements), 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 (including that we currently anticipate that a majority, and potentially all, of our title launches in 2017 will be based on or will significantly incorporate licensed intellectual property rather than being wholly original Glu intellectual property games);
- 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, including that we significantly increased our strategic investment in user acquisition for our Design Home title during the second quarter of 2017, which we expect to decline from peak second quarter levels during the remainder of 2017 but to still be above first quarter levels;
- 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

Table of Contents

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 celebrities, brands and other content licensors, we compete based on royalty and other economic terms, historical financial performance of celebrity and other third-party licensed brand and property games, perceptions of development quality, porting abilities, speed of execution, distribution breadth and relationships with storefront owners. We also compete for experienced and talented employees, which competition we expect to encounter as we execute on our strategy to hire creative leaders that have proven track record of success in 2017.

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, Warner Brothers, and Zynga and many well-funded private companies, including DoubleDown, Jam City, Machine Zone, Miniclip, Niantic, Pocket Gems, Rovio, Scopely, Storm 8/Team Lava, and Supercell. In addition, we 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. 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 more than 3.1 million applications, including more than 750,000 active games, were available on Apple’s U.S. App Store as of July 31, 2017. 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;

Table of Contents

- 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, 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 on 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. In addition, celebrities like Kim Kardashian West, Kendall Jenner and Kylie Jenner have launched their own personal media applications, and those applications, or similar applications launched by other of our celebrity partners could compete with our titles that feature such celebrities for the time, attention and spending of our players. 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 expect to continue to make significant minimum guaranteed royalty and other payments. As of June 30, 2017, we had short-term and long-term prepaid royalty balances totaling $43.8 million, of which $34.0 million related to three celebrity licensors. As a result, we may incur increased levels of impairments on such payments if our forecasts for these games are lower than we anticipated at the time we entered into the agreements or if we determine not to release titles for any of these celebrity licensors. For example, in 2016, we impaired $14.5 million related to prepaid royalty commitments and license fees paid to an affiliate of Tencent in connection with our Rival Fire title and $20.2 million related to contractual minimum guaranteed royalty payments made to certain of our celebrity licensors and other prepaid royalties. We expect that most, and potentially all, of the games we release in 2017 will be based on or otherwise incorporate celebrities or other third-party licensed brands, properties and other content as opposed to our original intellectual property games where we do not incur licensing fees and expenses. 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 or if we determine not to release titles for any of our celebrity licensors.

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

Table of Contents

purchase our products from direct-to-consumer channels and to maintaining our existing relationships with distributors and content licensors, as well as potentially developing new such relationships. Increasing awareness of our brand and recognition of our games is particularly important in connection with our strategic focus of developing games based on our own intellectual property, games based on our celebrity partners and our other games that incorporate third party brands and properties. 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 celebrities and 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 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. These issues 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 five titles for the six months ended June 30, 2017, Design Home, Restaurant Dash with Gordon Ramsay, Covet Fashion, Cooking Dash 2016 and Kim Kardashian: Hollywood, generated approximately 61.6% of our revenue during the period, while our top four titles for the six months ended June 30, 2016 (Kim Kardashian: Hollywood, Cooking Dash 2016, Racing Rivals, and Deer Hunter 2017) generated approximately 60.0% of our revenue during the period; no other game generated more than 10% of our revenue during the respective periods. In particular, Kim Kardashian: Hollywood, which was launched in June 2014, has accounted for a significant portion of our revenue, having generated 10.8% and 21.7% of our revenue for the six months ended June 30, 2017 and 2016, respectively; it was our largest revenue title in each of 2016, 2015 and 2014. 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 and plan to release fewer titles in 2017 than we have in past years. 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 the first half of 2017, we may not consistently succeed in implementing or executing on it, which could cause our revenue to decline in 2017. In addition, revenue from Kim Kardashian: Hollywood, one of our existing evergreen titles,

Table of Contents

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, the Katy Perry Pop title we launched in the fourth quarter of 2015, our Britney Spears: American Dream title that we launched in May 2016 and our Nicki Minaj: The Empire title that we launched in December 2016 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. We may similarly fail to generate significant revenue from the title featuring Taylor Swift that we expect to release in 2017. 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.

If our title featuring Taylor Swift does not succeed, our operating results and financial condition could be harmed and investors may question the viability of our celebrity product strategy.

We intend to launch a title featuring Taylor Swift in 2017, and have entered into agreements with additional celebrities to create games featuring their intellectual property. We face a number of risks in our ability to successfully develop and monetize games featuring celebrities, have encountered difficulties in doing so with respect to the titles we released in 2016 featuring celebrities and may be unable to fully recoup minimum guaranteed royalty payments made to such celebrities through the generation of ongoing revenue from our titles. For example, although Kim Kardashian: Hollywood has been a significant success and our Kendall & Kylie game achieved initial success following its worldwide launch in February 2016, we and other game developers have failed to achieve success with games featuring other celebrities, including our Katy Perry Pop, Britney Spears: American Dream and Nicki Minaj: The Empire titles. Further, we have been unable to sustain the initial success experienced by our Kendall & Kylie game while both Britney Spears: American Dream and Nicki Minaj: The Empire failed to attract a significant user base and downloads, resulting in lower than expected revenue. Our failure to generate significant revenue from our celebrity titles since Kim Kardashian: Hollywood has resulted in us impairing a significant amount related to contractual minimum guarantee payments made to certain of our celebrity licensors. Accordingly, it is possible that there is something unique about Kim Kardashian West, the nature of her celebrity and the demographics and purchasing power of her fan base that has led to the continued and sustained success of Kim Kardashian: Hollywood that will not be replicable in games featuring other celebrities, particularly musicians. It is possible that our title featuring Taylor Swift may not be commercially successful in the same manner as our prior games featuring a female musician, Katy Perry Pop, Britney Spears: American Dream and Nicki Minaj: The Empire. In addition, some of the celebrities with whom we have partnered may have similar fan bases, and any actual overlap in the audiences for our different titles featuring celebrities could result in market saturation or cannibalization of revenue of our own titles. We must also differentiate our forthcoming titles in order to ensure our offerings remain fresh and engaging and to satisfy our celebrity partners. However, differentiating our various titles that feature celebrities could lead to increased development costs, utilization of untested game economies and potential product launch delays and may result in titles that do not monetize as well as Kim Kardashian: Hollywood. If our upcoming Taylor Swift title is not successful, our business and operating results could be harmed and investors may question the viability of our celebrity product strategy.

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

Table of Contents

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 July 2014, users could not play our Kim Kardashian: Hollywood game for about six hours due to a problem with one of our servers, and on five occasions during the last two years, we experienced similar outages with respect to our Racing Rivals game. Additionally, in October 2016 we experienced a short outage affecting our Tap Sports Baseball 2016 game. In addition, at launch in September 2015, our Eternity Warriors 4 title experienced intermittent server issues that left the game temporarily inoperable. In the first quarter of 2016 we experienced technical issues with our Kendall & Kylie title that caused users to lose their game play data, including accumulated virtual currency and achieved levels. Most recently, 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. Maintaining an international presence in China and elsewhere, we may place ourselves at increased risk of cyber attacks, such as the denial of service attacks that affected Sony Pictures in the fourth quarter of 2014. The low cost, relative ease and proliferation of internet enabled devices may also place us at increased risk of 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.

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

We derive the majority of our revenue from the sale of virtual goods within our games for smartphones and tablets that run Apple's iOS or Google's Android operating system. Unlike the Apple ecosystem in which Apple controls both the device (iPhone, iPod Touch and iPad) and the storefront (Apple's App Store), the Android ecosystem is highly fragmented since a large number of OEMs manufacture and sell Android-based devices that run a variety of versions of the Android operating system, and there are many Android-based storefronts in addition to the Google Play Store. For us to sell our games to the widest possible audience of Android users, we must port our games to a significant portion of the more than 1,000 Android-based devices that are commercially available, many of which have different technical requirements. Since the number of Android-based smartphones and tablets shipped worldwide is growing significantly, with more than one billion Android based devices sold worldwide in 2014, it is important that we maintain and enhance our porting capabilities, which could require us to invest considerable resources in this area. These additional costs could harm our business, operating results and financial condition. In addition, we must continue to increase the efficiency of our porting processes or it may take us longer to port games to an equivalent number of devices, which would negatively impact our margins. If we fail to maintain or enhance our porting capabilities, our revenue and financial results could suffer. For example, the technical issues we have experienced with our Kendall & Kylie title in the first quarter of 2016 and Racing Rivals title in the fourth quarter of 2016 appear to be more pronounced on certain Android devices, and this may have harmed the revenue we are able to generate from users on Android devices.

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 2017, 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, 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. 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 significantly increases our marketing expenses in the fourth quarter).

In addition, the actions of the storefront operators can also negatively impact the revenue that we generate from advertisements and offers. For example, in the second quarter of 2011, Apple began prohibiting virtual currency-incented advertising offers in games that directed users to download other applications from the Apple App Store in order to complete the offer. These offers accounted for approximately one-third of our revenue during the three months ended September 30, 2011, and our inability to use such offers has negatively impacted our revenue. In addition, during the second quarter of 2014, there were reports that Apple was considering prohibiting certain types of virtual currency-incented video advertising in games that promoted other applications available on the Apple App Store. These incented video advertisements generate a meaningful percentage of our overall revenue, and any prohibition of these advertisements would have had a negative impact on our revenue. Any similar changes in the future that impact our revenue that we generate from advertisements and offers could materially harm our business.

We may not, or may be unable to, renew our existing celebrity, brand and other 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, 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 54.6% during the six months ended June 30, 2017 and we expect this percentage to remain relatively flat for the full fiscal year 2017, we still expect to continue to derive significant revenue from MLB Tap Sports Baseball 2017, Kim Kardashian: Hollywood, Racing Rivals and Restaurant Dash with Gordon Ramsay. 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, particularly if they fail to appeal to Western audiences, 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 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 and Niccolo de Masi as our Executive Chairman. Messrs. Earl and de Masi are both critical to our vision, strategic direction, products and technology and the continued retention of the remaining 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 creative leaders and additional game development teams to support our new product launches and monetization, live operations, server technology, user experience and product management personnel to support our growth and evergreen games. Attracting and retaining proven creative leaders is difficult in a competitive hiring market. We are actively seeking to hire additional creative leaders, but we may not be able to attract these new creative leaders or retain our existing creative leaders. 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 fashion and celebrity, food and home genres. Our currently depressed stock price, the lack of success of many of our product launches in 2016 and recent 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 continues to decline or remains at current levels, 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 certain 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 and Portland, Oregon. We plan to continue to manage costs to better and more efficiently manage our business, which efforts we expect to intensify in the remainder of 2017. This most recent restructuring plan and other such efforts could result in disruptions to our operations and adversely affect our business. 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.

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, and in fact, some partners in China may already view the fact that Tencent is a significant investor in us negatively, and we may find it more difficult to obtain featuring of our games from such partners in China going forward.

Tencent, through its controlled affiliates, held approximately 20.8% of the aggregate voting power of our common stock as of June 30, 2017, and could acquire up to 25% 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 smartphone platforms and 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 smartphone revenue, this is an area that continues to involve significant discussion among accounting professionals and which is not completely settled. It is possible that the relative application, interpretation and weighting of the factors that relate to whether we should be considered the principal in the sales transaction of games sold through digital storefronts may evolve, and we may in the future conclude that our new accounting policy for smartphone revenue, as reflected in the restated financial statements, is incorrect, which could result in another restatement of affected financial statements. In addition, we currently defer 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, particularly those relating to the way we account for our smartphone revenue, could have a significant adverse effect on our reported results although not necessarily on our cash flows.

Table of Contents

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, investor confidence in the accuracy and timeliness of our financial reports may be impacted or the market price of our common stock could be negatively impacted.

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 have underway 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 August 2016 we implemented major changes to our ERP system, which activities we expect to continue in the remainder of 2017. In connection with the transition to our new ERP system in the third quarter of 2016, 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 impact our processes in 2017. While we have transitioned to our new ERP system, 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, disruptions, delays or other issues in the design and implementation 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 much more costly than we anticipated and in the event of lengthy project delays, we may experience issues with retention of the implementation team. If we are unable to successfully design and implement these new systems and processes as planned, or if the implementation of these systems and processes is more lengthy or costly than anticipated, our business, financial condition, and results of operations could be negatively impacted.

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;

Table of Contents

- potential employee morale and retention issues resulting from any reductions in compensation, or changes in management, reporting relationships, or future prospects;
- potential product development delays resulting from any changes and disruptions that may follow the acquisition;
- significant competition from other acquirors 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 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, including the risk of retaining key employees, the loss of whom could affect revenue derived from Covet Fashion and Design Home and the risk of unknown liabilities or claims arising or being asserted.

In addition, if we issue equity securities as consideration in an acquisition or strategic investment, as we did for our acquisitions of Griptonite, 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.

Table of Contents

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, Chinese Renminbi, Russian Ruble, 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 2015 and 2016, 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. Conversely, economic issues in Russia led to a significant devaluation of the Ruble compared to the U.S. Dollar through the second quarter of 2016. While the Ruble has recovered somewhat since historic lows in the second quarter of 2016, it remains significantly devalued, which has reduced the effective salaries of our employees in our Moscow studio. As a result, we may be at risk of losing key employees to competitors who are willing to offer higher effective wages. To date, we have not engaged in exchange rate hedging activities, and we do not expect to do so in the foreseeable future.

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

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

International sales represented approximately 25.1% and 26.9% of our revenue during the six months ended June 30, 2017 and 2016, respectively. To target international markets, we develop games that are customized for consumers in those markets. We have international offices located in a number of foreign countries including Canada, China, India, Japan and Russia. 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, particularly 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, particularly China;
- potential adverse foreign tax consequences, since due to our international operations, we must pay income tax in numerous foreign jurisdictions with complex and evolving tax laws;
- political, economic and social instability, including the ongoing hostilities in Syria and the Crimea region and, in particular, any continued economic issues in Russia, which could potentially negatively impact us given that we have a development studio in Moscow;
- 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. In particular, we have over 100 employees located at our development studio in Moscow, Russia. Continuing economic issues in Russia, including the destabilization of the Ruble, could lead to unstable political conditions, civil unrest or other developments that could materially affect our business, including through distractions and potential hardships to our Russian employees, restrictions on our ability to fund our Russian operations, and other difficulties that could cause delays to our game launches or even the cancellation of a game release and otherwise affect our ability to update and maintain games operated by our Moscow studio.

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. In addition, we may face difficulties in repatriating cash from our subsidiaries in China.

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.

Table of Contents

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.

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

We are subject to a number of domestic and foreign laws and regulations that affect our business. Not only are these laws constantly evolving, which could result in their being interpreted in ways that could harm our business, but legislation is also continually being introduced that may affect both the content of our products and their distribution. In the United States, for example, numerous federal and state laws have been introduced which attempt to restrict the content or distribution of games. Legislation has been adopted in several states, and proposed at the federal level, that prohibits the sale of certain games to minors. If such legislation is adopted, it could harm our business by limiting the games we are able to offer to our customers or by limiting the size of the potential market for our games. We may also be required to modify certain games or alter our marketing strategies to comply with new and possibly inconsistent regulations, which could be costly or delay the release of our games. For example, the United Kingdom's Office of Fair Trading issued new principles in January 2014 relating to in-app purchases in free-to-play games that are directed towards children 16 and under, which principles became effective in April 2014. 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 on this subject 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 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. Any court ruling or other governmental action that imposes liability on providers of online services could result in criminal or civil liability and could harm our business.

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

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

We are subject to federal, state and foreign laws regarding privacy and the protection of the information that we collect regarding our users, which laws are currently in a state of flux and likely to remain so for the foreseeable future. The U.S. government, including the 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. For example, the European Union's General Data Protection Regulation, which will become effective in May 2018, creates new individual privacy rights and imposes worldwide obligations on companies handling personal data, which will result in a greater compliance burden for us and other companies with European users. 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 have passed laws requiring notification to users when there is a security breach for personal data, such as the 2002 amendment to California's Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to implement. Costs to comply with these laws may increase as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities. The security measures we have in place to protect our data and the personal information of our employees, customers and partners could be breached due to cyber-attacks initiated by third party hackers, employee error or malfeasance, 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.

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

The trading price of our common stock has fluctuated in the past and is expected to continue to fluctuate in the future, as a result of a number of factors, many of which are outside our control, such as changes in the operating performance and stock market valuations of other technology companies generally, or those in our industry in particular, such as Electronic Arts and Zynga. We also experience stock price volatility as investors monitor the performance of our games through third-party tools, such as App Annie, the Apple App Store's "Top Grossing" rankings and other measurements of the performance of our games.

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

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

Our intellectual property is essential to our business. We rely on a combination of patent, copyright, trademark, trade secret and other intellectual property laws and contractual restrictions on disclosure to protect our intellectual property rights. To date, we have only four issued U.S. patents (including a corresponding Patent Cooperation Treaty (PCT) international patent for three of the four U.S. patents) and only seven U.S. patent applications currently outstanding, including one that we inherited through acquisitions (and we have four corresponding PCT international patent applications), 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 three U.S. patent applications and one of the issued U.S. patents, and an additional foreign patent application for our one of our 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.

Table of Contents

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

Third parties may sue us for intellectual property infringement, or initiate proceedings to invalidate our intellectual property, which, if successful, could disrupt our business, cause us to pay significant damage awards or require us to pay licensing fees. For example, on August 20, 2014, Inventor Holdings, LLC, a Delaware limited liability company, filed a complaint in the U.S. District Court for the District of Delaware alleging that we were infringing one of its patents and seeking unspecified damages, including interest, costs, expenses and an accounting of all infringing acts, attorneys' fees and such other costs as the Court deems just and proper. In September 2015, the Court granted our motion to dismiss the case brought by Inventor Holdings. In addition, in November 2014, Telinit Technologies, LLC, a Texas company, filed a complaint in the U.S. District Court for the Eastern District of Texas, Marshall Division, alleging that we were infringing one of its patents and seeking unspecified damages, attorneys' fees and costs. We settled the dispute with Telinit for an immaterial amount in January 2015. Finally, in November 2015, Just Games Interactive LLC (d/b/a Kung Fu Factory, f/k/a Tiny Fun Studios), or Just Games, filed a complaint against us and Kristen Jenner (f/k/a Kris Kardashian) in the U.S. District Court for the Central District of California. The complaint alleged direct copyright infringement against us and seeking at least $10.0 million in damages as well as other relief, including costs, permanent and temporary injunctive relief, an accounting of profits, a constructive trust and such other costs the Court deemed just and proper. We filed a motion to dismiss the complaint on January 27, 2016. On February 1, 2016, Just Games filed a voluntary motion to dismiss their case against us without prejudice. Despite our prior successes in defending against such claims, claims 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.

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

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

We may become subject to various legal proceedings, claims and regulatory inquiries that arise out of the ordinary conduct of our business and are not yet resolved and additional claims and inquiries may arise in the future. In addition, events may 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 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

Table of Contents

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 your voting power and your 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 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.

Table of Contents

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.

ITEM 5. OTHER INFORMATION

Resignation of Principal Accounting Officer and Appointment of New Principal Accounting Officer

As previously disclosed in a Form 8-K filed on August 1, 2017, as of July 27, 2017, we have appointed Gordon Lee as our Principal Accounting Officer. Mr. Lee is currently our Vice President of Accounting and will serve in both roles. Mr. Lee replaces our previous Principal Accounting Officer, Greg Cannon, who left Glu on May 15, 2017.

ITEM 6. EXHIBITS

The exhibits listed on the Exhibit Index (following the Signatures section of this report) are incorporated by reference into this Item 6.

Table of Contents

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: August 7, 2017	By:	/s/ Nick Earl Nick Earl President and Chief Executive Officer (Principal Executive Officer)
Date: August 7, 2017	By:	/s/ Eric R. Ludwig Eric R. Ludwig Executive Vice President, Chief Operating Officer and Chief Financial Officer (Principal Financial Officer)

Table of Contents

EXHIBIT INDEX

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
10.01	2007 Employee Stock Purchase Plan, as amended and restated through June 8, 2017.					X
10.02	2007 Equity Incentive Plan, as amended and restated through June 8, 2017.					X
10.03	Lease, dated as of May 9, 2017, by and between Howard Street Associates LLC and Glu Mobile Inc.	8-K	001-33368	99.01	05/15/2017	
31.01	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a).					X
31.02	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a) /15d-14(a).					X
32.01*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).					X
32.02*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).					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

* 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.