GLU MOBILE INC
Form 10-Q
May 11, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2009

OR

o **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.)

2207 Bridgepointe Parkway, Suite 250
San Mateo, California 94404
(Address of Principal Executive Offices, including Zip Code)
(650) 532-2400
(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 þ No o

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 o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

Shares of Glu Mobile Inc. common stock, $0.0001 par value per share, outstanding as of April 30, 2009: 29,620,780 shares.

GLU MOBILE INC.
FORM 10-Q
Quarterly Period Ended March 31, 2009
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,674	$ 19,166
Accounts receivable, net of allowance of $487 and $468 at March 31, 2009 and December 31, 2008, respectively	19,681	19,826
Prepaid royalties	16,212	15,298
Prepaid expenses and other	1,885	2,704
Total current assets	52,452	56,994
Property and equipment, net	4,463	4,861
Prepaid royalties	4,428	4,349
Other long-term assets	1,024	930
Intangible assets, net	17,367	20,320
Goodwill	4,603	4,622
Total assets	$ 84,337	$ 92,076
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,065	$ 6,569
Accrued liabilities	906	686
Accrued compensation	2,252	2,184
Accrued royalties	17,644	18,193
Accrued restructuring	651	1,000
Deferred revenues	710	727
Current portion of long-term debt	15,175	14,000
Total current liabilities	43,403	43,359
Other long-term liabilities	10,744	11,798
Long-term debt, less current portion	8,326	10,125
Total liabilities	62,473	65,282
Commitments and contingencies (Note 6)		
Stockholders equity:		

Preferred stock, $0.0001 par value; 5,000 shares authorized at March 31, 2009 and December 31, 2008; no shares issued and outstanding at March 31, 2009 and December 31, 2008		
Common stock, $0.0001 par value: 250,000 authorized at March 31, 2009 and December 31, 2008; 29,621 and 29,584 shares issued and outstanding at March 31, 2009 and December 31, 2008	3	3
Additional paid-in capital	185,521	184,757
Deferred stock-based compensation		(11)
Accumulated other comprehensive income	1,222	1,170
Accumulated deficit	(164,882)	(159,125)
Total stockholders equity	21,864	26,794
Total liabilities and stockholders equity	$ 84,337	$ 92,076

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

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues	$ 20,775	$ 20,592
Cost of revenues:		
Royalties	5,813	5,488
Amortization of intangible assets	2,848	1,708
Total cost of revenues	8,661	7,196
Gross profit	12,114	13,396
Operating expenses:		
Research and development	6,397	6,520
Sales and marketing	4,112	5,782
General and administrative	4,485	5,395
Amortization of intangible assets	51	68
Restructuring charge		75
Acquired in-process research and development		1,039
Total operating expenses	15,045	18,879
Loss from operations	(2,931)	(5,483)
Interest and other income/(expense), net:		
Interest income	18	527
Interest expense	(364)	(10)
Other income/(expense), net	(461)	94
Interest and other income/(expense), net	(807)	611
Loss before income taxes	(3,738)	(4,872)
Income tax provision	(2,019)	(1,130)
Net loss	$ (5,757)	$ (6,002)
Net loss per share basic and diluted:	$ (0.19)	$ (0.21)
Weighted average common shares outstanding basic and diluted	29,595	29,146
Stock-based compensation expense included in:		
Research and development	$ 180	$ 77
Sales and marketing	151	1,301
General and administrative	433	594

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

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cash flows from operating activities:		
Net loss	$ (5,757)	$ (6,002)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and accretion	593	630
Amortization of intangible assets	2,899	1,776
Stock-based compensation	764	1,972
MIG earnout expense	656	
Interest expense on debt	276	
Amortization of loan agreement costs	38	10
Non-cash foreign currency remeasurement (gain)/loss	442	(318)
Acquired in-process research and development		1,039
(Gain)/write down of auction-rate securities		235
Changes in allowance for doubtful accounts	20	62
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(130)	(81)
Prepaid royalties	(1,034)	(1,885)
Prepaid expenses and other assets	678	30
Accounts payable	(393)	1,114
Other accrued liabilities	221	880
Accrued compensation	67	600
Accrued royalties	(482)	(213)
Deferred revenues	(8)	(146)
Accrued restructuring charge	(349)	78
Other long-term liabilities	(1,045)	1,250
Net cash provided by/(used in) operating activities	(2,544)	1,031
Cash flows from investing activities:		
Purchase of property and equipment	(305)	(2,265)
Acquisition of Superscape, net of cash acquired		(26,651)
Acquisition of MIG, net of cash acquired		(693)
Net cash used in investing activities	(305)	(29,609)
Cash flows from financing activities:		
Proceeds from line of credit	18,312	
Payments on line of credit	(13,851)	
MIG loan payments	(6,000)	
Proceeds from exercise of stock options	11	93

Proceeds from exercise of stock warrants				101
Net cash provided by/(used in) financing activities		(1,528)		194
Effect of exchange rate changes on cash		(115)		91
Net decrease in cash and cash equivalents		(4,492)		(28,293)
Cash and cash equivalents at beginning of period		19,166		57,816
Cash and cash equivalents at end of period	$	14,674	$	29,523
Supplemental disclosure of non-cash activities				
Accrued acquisition costs	$		$	1,012
Accrued interest on MIG loan payments	$	276	$	

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

GLU MOBILE INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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 creates mobile games and related applications based on third-party licensed brands and other intellectual property, as well as its own original intellectual property.

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 regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles 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, File Number 001-33368, filed with the Securities and Exchange Commission on March 13, 2009. 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 March 31, 2009 and its results of operations for the three months ended March 31, 2009 and 2008, respectively. These unaudited condensed consolidated financial statements are not necessarily indicative of the results to be expected for the entire year. The unaudited consolidated balance sheet presented as of December 31, 2008 has been derived from the audited consolidated financial statements as of that date, and the consolidated balance sheet presented as of March 31, 2009 has been derived from the unaudited condensed consolidated financial statements as of that date.

The Company s cash and cash equivalents were $14,674 as of March 31, 2009. During the three months ended March 31, 2009, the Company used $2,542 of cash in operating activities, $305 of cash in investing activities and $1,528 of cash in financing activities. The Company expects to continue to fund its operations and satisfy its contractual obligations for 2009 primarily through its cash and cash equivalents, borrowings under the Company s revolving credit facility, cash we intend to repatriate from China and cash generated by operations during the latter half of 2009. However, there can be no assurances that the Company will be able to generate positive operating cash flow during the latter half of 2009 or beyond. The Company believes its cash and cash equivalents, including cash flows from operations, borrowings under the credit facility and its ability to repatriate cash from its foreign locations will be sufficient to meet its anticipated cash needs for at least the next 12 months. However, the Company s cash requirements for the next 12 months may be greater than anticipated due to, among other reasons, lower than expected cash generated from operating activities including the impact of foreign currency rate changes, revenues that are lower than currently anticipated, greater than expected operating expenses, usage of cash to fund its foreign operations, unanticipated limitations or timing restrictions on its ability to access funds that are held in its non-U.S. subsidiaries, a deterioration of the quality of our accounts receivable, which could lower the borrowing base under our credit facility, and any failure on the Company s part to remain in compliance with the covenants under the revolving credit facility. The Company s expectations regarding cash sufficiency assume that revenues will be sufficient to enable it to comply with the credit facility EBITDA covenant. If revenues are lower than anticipated, the Company will be required to reduce its operating expenses to remain in compliance with this financial covenant. However, further reducing operating expenses will be very challenging for the Company, since it undertook restructuring activities in the fourth quarter of 2008 that reduced operating expenses significantly from second quarter 2008 levels. Should the Company be required to further reduce operating expenses, it could have the effect of reducing revenues. If the Company s cash sources are insufficient to satisfy the Company s cash requirements, the Company may be required to sell convertible debt or equity securities to raise additional capital or to increase the amount available to the Company for borrowing under the Company s credit facility. The Company may be unable to raise additional capital through the sale of securities, or to do so on terms that are favorable to it, particularly given current capital market and overall economic conditions. Any sale of convertible debt securities or additional equity securities could result in substantial dilution to the Company s stockholders. Additionally, the Company may be unable to increase the size of the Company s credit facility, or to do so on terms that are acceptable to it, particularly in light of the current credit market conditions. If the amount of cash that the Company generates from operations is less than anticipated, it could also be required to extend the term beyond its December 2010 expiration date (or replace it with an alternate loan arrangement), and resulting debt payments thereunder could further inhibit the Company s ability to achieve profitability in the future.

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Concentration of Credit Risk

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

The Company derives its accounts receivable from revenues earned from customers located in the U.S. and other locations outside of the U.S. The Company performs ongoing credit evaluations of its customers financial condition and, generally, requires no collateral from its customers. 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 collectibility on a monthly basis and all other balances quarterly. The Company charges off accounts receivable balances against the allowance when it determines that the amount will not be recovered.

The following table summarizes the revenues from customers in excess of 10% of the Company s revenues:

	Three Months Ended March 31,	
	2009	**2008**
Verizon Wireless	21.8%	22.0%
China Mobile	12.2	*
Vodafone	*	10.3

* Revenues from the customer were less than 10% during the period.

At March 31, 2009, Verizon Wireless accounted for 21.6% of total accounts receivable. At December 31, 2008, Verizon Wireless accounted for 25.7% of total accounts receivable.

Net Loss Per Share

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

	Three Months Ended March 31,	
	2009	**2008**
Net loss attributable to common stockholders	$ (5,757)	$ (6,002)
Basic and diluted shares:		
Weighted average common shares outstanding	29,596	29,189
Weighted average unvested common shares subject to repurchase	(1)	(43)
Weighted average shares used to compute basic and diluted net loss per share	29,595	29,146
Net loss per share attributable to common stockholders basic and diluted	$ (0.19)	$ (0.21)

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

Three Months Ended March 31,

	2009	2008
Warrants to purchase common stock	106	155
Unvested common shares subject to repurchase	1	43
Options to purchase common stock	5,010	4,060
	5,117	4,258

Recent Accounting Pronouncements

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (FAS 157). In February 2008, the FASB issued a staff position, FSP No. 157-2, that delays the effective date of FAS 157 for all non-financial assets and liabilities except for those recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company adopted the

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provisions of SFAS 157 for non-financial assets and non-financial liabilities effective January 1, 2009. However, adoption of SFAS 157 for non-financial assets and non-financial liabilities did not have an impact on the Company s consolidated results of operations or financial condition.

Effective January 1, 2009, the Company adopted SFAS No. 141R, *Business Combinations* (FAS 141R), which replaces SFAS No. 141, *Business Combinations* (FAS 141) and establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. FAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Although the Company did not enter into any business combinations during the first quarter of 2009, the Company believes FSP SFAS 141R may have a material impact on the Company s future consolidated financial statements, if the Company were to enter into any future business combinations depending on the size and nature of any such future transactions.

In April 2009, the FASB issued Staff Position (FSP) No. 141R-1, *Accounting for Assets and Liabilities Assumed in a Business Combination That Arise From Contingencies*, (FSP SFAS 141R-1). FSP FAS 141R-1 amends and clarifies SFAS 141R to address application issues regarding initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141R-1 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Although the Company did not enter into any business combinations during the first quarter of 2009, the Company believes FSP SFAS 141R-1 may have a material impact on the Company s future consolidated financial statements, if the Company were to enter into any future business combinations depending on the size and nature of any such future transactions.

Effective January 1, 2009, the Company adopted SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements* (FAS 160) which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (ARB 51), to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity separate and apart from the parent s equity in the consolidated financial statements. In addition to the amendments to ARB 51, this Statement amends FASB Statement No. 128, *Earnings per Share*, so that earnings-per-share data will continue to be calculated the same way those data were calculated before this Statement was issued. FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of FAS 160 did not have a material impact on the Company s consolidated results of operations and financial position.

In April 2009, the FASB issued three FSPs related to fair value measurements, disclosures and other-than-temporary impairments. FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for an asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, amends the other-than-temporary impairment guidance in U.S. GAAP to make the guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. Finally, FSP 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures About Fair Value of Financial Instruments*, amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements and also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements. The three FSPs are effective for periods ending after June 15, 2009. Early adoption is permitted for periods ending after March 15, 2009, and the Company expects to adopt the FSPs during the second quarter of 2009. The Company is still evaluating the impact, if any, these FSPs will have on its consolidated results of operations or financial condition.

Note 2 Acquisitions

Acquisition of Superscape Group plc

On March 7, 2008, the Company declared its cash tender offer for all of the outstanding shares of Superscape Group plc (Superscape) wholly unconditional in all respects when it had received 80.95% of the issued share capital of Superscape. The

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Company offered 10 pence (pound sterling) in cash for each issued share of Superscape (Superscape Shares), valuing the acquisition at approximately £18,300 (or $36,500) based on 183,098,860 Superscape Shares outstanding.

The Company acquired the net assets of Superscape in order to deepen and broaden its game library, gain access to 3-D game development and to augment its internal production and publishing resources with a studio in Moscow, Russia. These factors contributed to a purchase price in excess of the fair value of the net tangible and intangible assets acquired, and as a result, the Company recorded goodwill in connection with this transaction.

On March 21, 2008, the date the recommended cash tender offer expired, the Company owned or had received valid acceptances representing approximately 93.57% of the Superscape Shares, with an aggregate purchase price of $34,477. In May 2008, the Company acquired the remaining 6.43% of the outstanding Superscape shares on the same terms as the recommended cash offer for $2,335.

The Company s consolidated financial statements include the results of operations of Superscape from the date of acquisition, March 7, 2008. Under the purchase method of accounting, the Company allocated the total purchase price of $38,810 to the net tangible and intangible assets acquired and liabilities assumed based upon their respective estimated fair values as of the acquisition date.

The following summarizes the purchase price allocation of the Superscape acquisition:

Assets acquired:	
Cash	$ 8,593
Accounts receivable	4,353
Prepaid and other current assets	1,507
Property and equipment	182
Titles, content and technology	9,190
Carrier contracts and relationships	7,400
Trade name	330
In-process research and development	1,110
Goodwill	13,432
Total assets acquired	46,097
Liabilities assumed:	
Accounts payable	(2,567)
Accrued liabilities	(585)
Accrued compensation	(367)
Accrued restructuring	(3,768)
Total current liabilities	(7,287)
Total liabilities	(7,287)
Net acquired assets	$ 38,810

The Company recorded an estimate for costs to terminate some activities associated with the Superscape operations in accordance with the guidance of Emerging Issues Task Force Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.* This restructuring accrual of $3,768 principally related to the termination of 29 Superscape employees of $2,277, restructuring of facilities of $1,466 and other agreement termination fees of $25.

The valuation of the identifiable intangible assets acquired was based on management s estimates, currently available information and reasonable and supportable assumptions. The allocation was generally based on the fair value of these assets determined using the income and market approaches. Of the total purchase price, $16,920 was allocated to amortizable intangible assets. The amortizable intangible assets are being amortized using a straight-line method over their respective estimated useful lives of one to six years.

In conjunction with the acquisition of Superscape, the Company recorded a $1,110 expense for acquired in-process research and development (IPR&D) within operating expenses during the year ended December 31, 2008 because feasibility of the acquired technology had not been established and no future alternative uses existed. As a result of the minority interest ownership during the first quarter of 2008 only $1,039 of the IPR&D expense was recognized during the three months ended March 31, 2008. The remainder of the expense was recorded in the second quarter of 2008.

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The IPR&D is related to the development of new game titles. The Company determined the value of acquired IPR&D using the discounted cash flow approach. The Company calculated the present value of the expected future cash flows attributable to the in-process technology using a 22% discount rate.

The Company allocated the residual value of $13,432 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 SFAS 142, goodwill will not be amortized but will be tested for impairment at least annually. Goodwill is not deductible for tax purposes. Based on the Company s annual and interim goodwill impairment tests, all of the goodwill related to the Superscape acquisition that had been attributed to the Americas reporting unit was impaired during the year ended December 31, 2008.

Superscape s results of operations have been included in the Company s consolidated financial statements subsequent to the date of acquisition. The financial information in the table below summarizes the combined results of operations of the Company and Superscape, on a pro forma basis, as though the companies had been combined as of the beginning of each of the periods presented, and includes the IPR&D charge resulting from the acquisition of Superscape:

	Three Months Ended March 31, 2008
Total pro forma revenues	$23,305
Gross profit	15,296
Pro forma net loss	(6,361)
Pro forma net loss per share basic and diluted	$ (0.22)

Note 3 Short-Term Investments and Fair Value Measurements

Short-Term Investments

Marketable securities, which are classified as available-for-sale, are summarized below as of March 31, 2009 and December 31, 2008:

				Classified on Balance Sheet	
	Purchased Cost	**Realized Loss**	**Aggregate Fair Value**	**Cash and Cash Equivalents**	**Short-term Investments**
As of March 31, 2009:					
Money market funds	$ 118	$	$ 118	$ 118	$
	$ 118	$	$ 118	$ 118	$
As of December 31, 2008:					
Money market funds	$ 124	$	$ 124	$ 124	$
	$ 124	$	$ 124	$ 124	$

Fair Value Measurements

The Company s cash and investment instruments 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. The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, sovereign government obligations, and money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy.

In accordance with FAS 157, the following table represents the Company s fair value hierarchy for its financial assets (cash, cash equivalents and available for sale investments) as of March 31, 2009:

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	Aggregate Fair Value	Level 1
Money market funds	$ 118	$ 118
Total cash equivalents and marketable securities	118	
Cash	14,556	
Total cash, cash equivalents and marketable securities	$ 14,674	

Note 4 Balance Sheet Components

Accounts Receivable

	March 31, 2009	December 31, 2008
Accounts receivable	$ 20,168	$ 20,294
Less: Allowance for doubtful accounts	(487)	(468)
	$ 19,681	$ 19,826

Accounts receivable includes amounts billed and unbilled as of the respective balance sheet dates. The Company had no significant write-offs or recoveries during the three months ended March 31, 2009 and 2008.

Property and Equipment

	March 31, 2009	December 31, 2008
Computer equipment	$ 4,806	$ 4,644
Furniture and fixtures	384	386
Software	2,637	2,628
Leasehold improvements	3,061	3,055
	10,888	10,713
Less: Accumulated depreciation and amortization	(6,425)	(5,852)
	$ 4,463	$ 4,861

Depreciation expense for the three months ended March 31, 2009 and 2008 was $593 and $630, respectively.

Other Long-Term Liabilities

	March 31, 2009	December 31, 2008
Accrued royalties	$ 2,433	$ 3,409
FIN 48 obligations	4,403	4,399
Deferred income tax liability	2,450	2,461
Other	1,458	1,529

$	10,744	11,798

Note 5 Goodwill and Intangible Assets

The Company s intangible assets were acquired in connection with the acquisitions of Macrospace in 2004, iFone in 2006, MIG in 2007 and Superscape in 2008. The carrying amounts and accumulated amortization expense of the acquired intangible assets, including the impact of foreign currency exchange translation, at March 31, 2009 and December 31, 2008 were as follows:

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		March 31, 2009			December 31, 2008		
	Estimated Useful Life	Gross Carrying Value	Accumulated Amortization Expense (Including Impact of Foreign Exchange)	Net Carrying Value	Gross Carrying Value	Accumulated Amortization Expense (Including Impact of Foreign Exchange)	Net Carrying Value
Intangible assets amortized to cost of revenues:							
Titles, content and technology	2.5 yrs	$ 13,326	$ (12,190)	$ 1,136	$ 13,370	$ (10,478)	$ 2,892
Catalogs	1 yr	1,105	(1,105)		1,126	(1,126)	
ProvisionX Technology	6 yrs	182	(125)	57	185	(119)	66
Carrier contract and related relationships	5 yrs	18,403	(4,623)	13,780	18,463	(3,845)	14,618
Licensed content	5 yrs	2,731	(1,239)	1,492	2,744	(1,029)	1,715
Service provider license	9 yrs	431	(62)	369	432	(50)	382
Trademarks	3 yrs	539	(341)	198	540	(285)	255
		36,717	(19,685)	17,032	36,860	(16,932)	19,928
Other intangible assets amortized to operating expenses:							
Emux Technology	6 yrs	1,179	(844)	335	1,201	(809)	392
Noncompete agreement	2 yrs	516	(516)		525	(525)	
		1,695	(1,360)	335	1,726	(1,334)	392
Total intangibles assets		$ 38,412	$ (21,045)	$ 17,367	$ 38,586	$ (18,266)	$ 20,320

Additions to intangible assets during the year ended December 31, 2008 of $16,920 are a result of the Superscape acquisition (see Note 2).

The Company has included amortization of acquired intangible assets directly attributable to revenue-generating activities in cost of revenues. The Company has included amortization of acquired intangible assets not directly attributable to revenue-generating activities in operating expenses. During the three months ended March 31, 2009 and 2008, the Company recorded amortization expense in the amounts of $2,848 and $1,708, respectively, in cost of revenues. During the three months ended March 31, 2009 and 2008, the Company recorded amortization expense in the amounts of $51 and $68, respectively, in operating expenses.

As of March 31, 2009, the total expected future amortization related to intangible assets was as follows:

	Amortization	Amortization

Period Ending December 31,	Included in Cost of Revenues	Included in Operating Expenses	Total Amortization Expense
2009 (remaining nine months)	$ 4,203	$ 147	$ 4,350
2010	4,208	188	4,396
2011	2,852		2,852
2012	2,736		2,736
2013	2,669		2,669
2014 and thereafter	364		364
	$ 17,032	$ 335	$ 17,367

Goodwill

The Company attributes all of the goodwill resulting from the Macrospace acquisition to its EMEA reporting unit. The goodwill resulting from the iFone acquisition is evenly attributed to the Americas and EMEA reporting units. The Company attributes all of the goodwill resulting from the MIG acquisition to its APAC reporting unit and all of the goodwill resulting from the Superscape acquisition to the Americas reporting unit. The goodwill allocated to the Americas reporting unit is denominated in United States Dollars (USD), the goodwill allocated to the EMEA reporting unit is denominated in Pounds Sterling (GBP) and the goodwill allocated to the APAC reporting unit is denominated in Chinese Renminbi (RMB). As a result, the goodwill attributed to the EMEA and APAC reporting units are subject to foreign currency fluctuations.

Goodwill by geographic region is as follows:

	January 1, 2008	Goodwill Acquired	Adjustments	Effects of Foreign Currency Exchange	Impairment of Goodwill	December 31, 2008	Goodwill Acquired	Adjustments	Effects of Foreign Currency Exchange	Impairment of Goodwill	March 31, 2009
Americas	$ 11,426	$ 13,445	$	$	$ (24,871)	$	$	$	$	$	$
EMEA	27,860			(2,506)	(25,354)						
APAC	7,976		15,510	409	(19,273)	4,622			(19)		4,603
Total	$ 47,262	$ 13,445	$ 15,510	$ (2,097)	$ (69,498)	$ 4,622	$	$	$ (19)	$	$ 4,603

Goodwill was acquired during 2008 as a result of the Superscape acquisition (see Note 2). The net adjustment increase to goodwill in 2008 of $15,510 was a result of additional purchase consideration for MIG of $14,536 due to the restructuring in the fourth quarter of 2008 of the MIG earnout payments and additional professional fees of $974 related to the MIG acquisition. In 2008, the Company recorded an aggregate goodwill impairment of $69,498 as the fair values of the Americas, APAC and EMEA reporting units were determined to be below their respective carrying values.

Note 6 Commitments and Contingencies

Leases

The Company leases office space under non-cancelable operating facility leases with various expiration dates through July 2013. Rent expense for the three months ended March 31, 2009 and 2008 was $666 and $949, respectively. The terms of the facility leases provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid. The deferred rent balance was $536 and $606 at March 31, 2009 and December 31, 2008, respectively, and was included within other long-term liabilities.

At March 31, 2009, future minimum lease payments under non-cancelable operating leases were as follows:

Period Ending December 31,	Minimum Operating Lease Payments	Sub-lease Income	Net Lease Payments
2009 (remaining nine months)	$ 2,786	$ 162	$ 2,624
2010	2,288		2,288
2011	1,807		1,807
2012	989		989
2013	147		147
	$ 8,017	$ 162	$ 7,855

Minimum Guaranteed Royalties

The Company has entered into license and development agreements with various owners of brands and other intellectual property to develop and publish games for mobile handsets. Pursuant to some of these agreements, the Company is required to pay minimum royalties over the term of the agreements regardless of actual game sales. Future minimum royalty payments for those agreements as of March 31, 2009 were as follows:

Minimum Guaranteed

Period Ending December 31,	Royalties
2009 (remaining nine months)	$ 7,889
2010	3,780
2011	344
2012	364
2013	
2014 and thereafter	50
	$ 12,427

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Commitments in the above table include $11,682 of guaranteed royalties to licensors that are included in the Company s consolidated balance sheet as of March 31, 2009 because the licensors do not have any significant performance obligations. These commitments are included in both current and long-term prepaid and accrued royalties.

Income Taxes

As of March 31, 2009, unrecognized tax benefits and potential interest and penalties are classified within Other long-term liabilities on the Company s condensed consolidated balance sheets. As of March 31, 2009, the settlement of the Company s income tax liabilities cannot be determined, however, the liabilities are not expected to become due within the next 12 months.

Indemnification Agreements

The Company has entered into agreements under which it indemnifies each of its officers and directors during his or her lifetime for certain events or occurrences while the officer or director is or was serving at the Company s request in that capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. Accordingly, the Company had recorded no liabilities for these agreements as of March 31, 2009 or December 31, 2008.

In the ordinary course of its business, the Company includes standard indemnification provisions in most of its license agreements with carriers and other distributors. Pursuant to these provisions, the Company generally indemnifies these parties for losses suffered or incurred in connection with its games, including as a result of intellectual property infringement and viruses, worms and other malicious software. The term of these indemnity provisions is generally perpetual after execution of the corresponding license agreement, and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions is generally unlimited. The Company has never incurred costs to defend lawsuits or settle indemnified claims of these types. As a result, the Company believes the estimated fair value of these indemnity provisions is minimal. Accordingly, the Company had recorded no liabilities for these provisions as of March 31, 2009 or December 31, 2008.

Contingencies

From time to time, the Company is subject to various claims, complaints and legal actions in the normal course of business. For example, the Company is engaged in a contractual dispute with a licensor, Skinit, Inc., related to, among other claims, alleged underpayment of royalties and failure to perform under a distribution agreement, pursuant to which Skinit previously claimed that it is owed approximately $600,000. Recently, Skinit filed a complaint against the Company and other defendants, seeking unspecified damages plus attorney s fees and costs. The complaint, filed in the Superior Court of California in Orange County (case number 30-2009) on April 21, 2009, alleges breach of contract, interference with economic relations, conspiracy and misrepresentation of fact. The Company does not believe it is party to any currently pending litigation, the outcome of which will 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 7 Debt

MIG Notes

In December 2008, the Company amended the MIG merger agreement to acknowledge the full achievement of the earnout milestones and at the same time entered into secured promissory notes in the aggregate principal amount of $20,000 payable to the former MIG shareholders (the Earnout Notes) as full satisfaction of the MIG earnout. The Earnout Notes require that the Company pay off the principal and interest in installments with aggregate principal payments scheduled as follows:

January 15, 2009	$ 6,000
April 1, 2009	$ 3,000
July 1, 2009	$ 5,000
March 31, 2010	$ 1,500
June 30, 2010	$ 1,500
September 30, 2010	$ 1,500
December 31, 2010	$ 1,500
	20,000

The Earnout Notes are secured by a lien on substantially all of the Company s assets, and are subordinated to the Company s obligations to the lender under the Company s Loan and Security Agreement, dated as of February 15, 2007, as amended (the Credit Facility), and any replacement credit facility that meets certain conditions. The Earnout Notes began accruing simple interest on April 1, 2009 at the rate of 7% compounded annually, payable in arrears, and may be prepaid without penalty. A change of control of the Company accelerates the payment of principal and interest under the Earnout Notes.

In January 2009, the Company paid $6,000 of principal to the MIG shareholders related to the Earnout Notes.

In December 2008, the Company also entered into secured promissory notes in the aggregate principal amount of $5,000 payable to two former shareholders of MIG (the Special Bonus Notes) as full satisfaction of the special bonus provisions of their employment agreements. The Special Bonus Notes provide for cash payments as follows:

March 31, 2010	$ 937
June 30, 2010	$ 937
September 30, 2010	$ 1,563
December 31, 2010	$ 1,563
	5,000

The Special Bonus Notes are guaranteed by the Company and the Company s obligations are secured by a lien on substantially all of the Company s assets. The Special Bonus Notes are subordinated to the Credit Facility and any replacement credit facility that meets certain conditions. The Special Bonus Notes began accruing simple interest on April 1, 2009 at the rate of 7% compounded annually, payable in arrears, and may be paid off in advance without penalty. A change of control of the Company accelerates the payment of principal and interest under the Earnout Notes. The Company has recorded a cumulative $4,781 of the Special Bonus Notes as of March 31, 2009 as one of the former MIG shareholders must continue to provide services to the Company through June 30, 2009 to be fully vested in the special bonus. The remaining $219 of compensation expense and note payable will be recorded in the second quarter of 2009.

As of March 31, 2009, the Company s current portion of long-term debt related to the Earnout and Special Bonus Notes was $10,714 and the long-term portion was $8,326.

Based on the borrowing rates currently available to the Company with similar terms and maturities, the carrying value of the debt of $23,501 approximates fair value.

Credit Facility

In December 2008, the Company entered into the Credit Facility, which Credit Facility amends and supersedes the Loan and Security Agreement entered into in February 2007, as amended. The Credit Facility provides for borrowings of up to $8,000, subject to a borrowing base equal to 80% of the Company s eligible accounts receivable. The Company s obligations under the Credit Facility are guaranteed by certain of the Company s domestic and foreign subsidiaries and are secured by substantially all of the Company s assets, including all of the capital stock of certain of the Company s domestic subsidiaries and 65% of the capital stock of certain of its foreign subsidiaries.

The interest rate for the Credit Facility is the lender s prime rate, plus 1.0%, but no less than 5.0%. Interest is due monthly, with all outstanding obligations due at maturity. The Company must also pay the lender a monthly unused revolving line facility fee of 35 bps on the unused portion of the $8,000 commitment. In addition, the Company paid the lender a non-refundable commitment fee of $55 in December 2008 and will pay an additional $55 in December 2009. The Credit Facility limits the Company and certain of its subsidiaries ability to, among other things, dispose of assets, make acquisitions, incur additional indebtedness, incur liens, pay dividends and make other distributions, and make investments. The Credit Facility requires the Company to establish a separate account at the lender for collection of its accounts receivables. All deposits into this account are automatically applied by the lender to the Company s outstanding obligations under the Credit Facility.

In addition, under the Credit Facility, the Company must comply with the following financial covenants:

(a) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). The Company must maintain, measured on consolidated basis as of the end of each of the following periods, EBITDA of at least the following:

October 1, 2008 through December 31, 2008	$(1,672)
October 1, 2008 through March 31, 2009	$(2,832)
January 1, 2009 through June 30, 2009	$ (812)
April 1, 2009 through September 30, 2009	$ 1,572
July 1, 2009 through December 31, 2009	$ 4,263
October 1, 2009 through March 31, 2010	$ 5,092
January 1, 2010 through June 30, 2010	$ 5,257
April 1, 2010 through September 30, 2010	$ 5,298
July 1, 2010 through December 31, 2010	$ 6,073

For purposes of the above covenant, EBITDA means (a) the Company s consolidated net income, determined in accordance with U.S. Generally accepted accounting principles, plus (b) interest expense, plus (c) to the extent deducted in the calculation of net income, depreciation expense and amortization expense, plus (d) income tax expense, plus (e) non-cash stock compensation expense, plus (f) non-cash goodwill and other intangible assets and royalty impairments, plus (g) non-cash foreign exchange translation charges, minus (h) all non-cash income of the Company and its subsidiaries for such period.

(b) Minimum Domestic Liquidity: The Company must maintain at the lender an amount of cash, cash equivalents and short-term investments of not less than the greater of: (a) 20% of the Company s total consolidated unrestricted cash, cash equivalents and short-term investments, or (b) 15% of outstanding obligations under the Credit Facility.

The Company s failure to comply with the financial or operating covenants in the Credit Facility would not only prohibit the Company from borrowing under the facility, but would also constitute a default, permitting the lender to, among other things, declare any outstanding borrowings, including all accrued interest and unpaid fees, becoming immediately due and payable. A change in control of the Company (as defined in the Credit Facility) also constitutes an event of default, permitting the lender to accelerate the indebtedness and terminate the Credit Facility. The Credit Facility also contains other customary events of default.

The Credit Facility matures on December 29, 2010, when all amounts outstanding will be due. If the Credit Facility is terminated prior to maturity by the Company or by the lender after the occurrence and continuance of an event of default, then the Company will owe a termination fee equal to $80, or 1.00% of the total commitment.

As of March 31, 2009, the Company was in compliance with all covenants of the Credit Facility and had outstanding obligations of $4,461.

Note 8 Stockholders Equity

Common Stock

In March 2007, the Company completed its IPO of common stock in which it sold and issued 7,300 shares of common stock at an issue price of $11.50 per share. The Company raised a total of $83,950 in gross proceeds from the IPO, or approximately $74,758 in net proceeds after deducting underwriting discounts and commissions of $5,877 and other offering costs of $3,315. Upon the closing of the IPO, all shares of redeemable convertible preferred stock outstanding automatically converted into 15,680 shares of common stock.

In April 2007, the underwriters exercised a portion of the over-allotment option as to 199 shares, all of which were sold by stockholders and not by the Company.

Early Exercise of Options

Stock options granted under the Company s stock option plan provide certain director and employee option holders the right to elect to exercise unvested options in exchange for shares of restricted common stock. Unvested shares, in the amounts of 1 and 1 at March 31, 2009 and December 31, 2008, respectively, were subject to a repurchase right held by the Company at the original issuance price in the event the optionees employment is terminated either voluntarily or involuntarily. For exercises of employee options, this right generally lapses as to 25% of the shares subject to the option on the first anniversary of the vesting start date and as to 1/48th of the shares monthly thereafter. These repurchase terms are considered to be a forfeiture provision and do not result in variable accounting. The restricted shares issued upon early exercise of stock options are legally issued and outstanding and have been reflected in stockholders equity. The Company treats cash received from employees for exercise of unvested options as a refundable deposit shown as a liability in its consolidated financial statements. As of March 31, 2009 and December 31, 2008, the Company included cash received for early exercise of options of $5 and $6, respectively, in accrued liabilities. Amounts from accrued liabilities are transferred into common stock and additional paid-in capital as the shares vest.

Warrants to Purchase Common Stock

In March 2008, a holder of warrants elected to net exercise warrants to purchase 18 shares of the Company s common stock, which were converted to 10 shares of common stock. Also in March 2008, a holder of warrants elected to exercise warrants to purchase 53 shares of the Company s common stock at $1.92 per share for total cash consideration of $101.

Warrants outstanding as of March 31, 2009 were as follows:

Issue Date	Term (Years)	Exercise Price per Share	Number of Shares Outstanding Under Warrant
May 2006	7	$9.03	106

Note 9 Stock Option and Other Benefit Plans

2001 Stock Plan

In December 2001, the Company adopted the 2001 Stock Option Plan (the 2001 Plan). The 2001 Plan provides for the granting of stock options to employees, directors, consultants, independent contractors and advisors of the Company.

As provided by the 2007 Equity Incentive Plan, 195 shares, representing all remaining shares reserved for issuance under the 2001 Plan were transferred to the 2007 Plan upon closing of the IPO. However, the plan will continue to govern the terms and conditions of the outstanding awards previously granted under the 2001 Plan.

2007 Equity Incentive Plan

In January 2007, the Company s Board of Directors adopted, and in March 2007 the stockholders approved, the 2007 Equity Incentive Plan (the 2007 Plan). At the time of adoption, there were 1,766 shares of common stock authorized for issuance under the 2007 Plan plus 195 shares of common stock from the 2001 Plan that were unissued. On each January 1 of each of 2008 through 2011, the aggregate number of shares of the Company s common stock reserved for issuance under the plan will be increased automatically by the number of shares equal to 3% of the total number of outstanding shares of the Company s common stock on the immediately preceding December 31, provided that the Board of Directors may reduce the amount of the increase in any particular year. In addition, shares not issued or subject to outstanding grants under the 2001 Plan on the date of adoption of the 2007 Plan and any shares issued under the 2001 Plan that are forfeited or repurchased by the Company or that are issuable upon exercise of options that expire or become unexercisable for any reason without having been exercised in full, will be available for grant and issuance under the 2007 Plan.

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

The 2007 Plan also provides the Board of Directors the ability to grant restricted stock awards, stock appreciation rights, restricted stock units, performance shares and stock bonuses.

As of March 31, 2009, 1,749 shares were available for future grants under the 2007 Plan.

2007 Employee Stock Purchase Plan

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

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

As of March 31, 2009, 1,012 shares were available for issuance under the 2007 Purchase Plan.

2008 Equity Inducement Plan

In March 2008, the Company s Board of Directors adopted the 2008 Equity Inducement Plan (the Inducement Plan) to augment the shares available under its existing 2007 Equity Incentive Plan. The Inducement Plan did not require the approval of the Company s stockholders. The Company has reserved 600 shares of its common stock for grant and issuance under the Inducement Plan. The Company may only grant non-qualified stock options (NSOs) under the Inducement Plan. Grants under the Inducement Plan may only be made to persons not previously an employee or director of the Company, or following a bona fide period of non-employment, as an inducement material to such individual s entering into employment with the Company and to provide incentives for such persons to exert maximum efforts for the Company s success. The Company may grant NSOs under the Inducement Plan at prices less than 100% of the fair value of the shares on the date of grant, at the discretion of its Board of Directors. The fair value of the Company s common stock is determined by the last sale price of such stock on the NASDAQ Global Market on the date of determination. The Inducement Plan does not provide the Board of Directors the ability to grant restricted stock awards, stock appreciation rights, restricted stock units, performance shares or stock bonuses.

As of March 31, 2009, 339 shares were available for future grants under the 2008 Inducement Plan.

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Stock Option Activity

The following table summarizes the Company s stock option activity for the three months ended March 31, 2009:

		Options Outstanding			
	Shares Available	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value
Balances at December 31, 2008	935	5,130	5.18		
Increase in authorized shares	887				
Options granted	(57)	57	0.64		
Options canceled	323	(323)	6.52		
Options exercised		(37)	0.30		
Balances at March 31, 2009	2,088	4,827	$5.07	5.45	$ 2
Options vested and expected to vest at March 31, 2009		4,256	$5.26	5.45	$ 1
Options exercisable at March 31, 2009		2,076	$6.05	5.26	$ 1

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 of $0.48 per share as of March 31, 2009. Consolidated net cash proceeds from option exercises were $11 and $93 for the three months ended March 31, 2009 and 2008, respectively. The Company realized no income tax benefit from stock option exercises during the three months ended March 31, 2009 or 2008. As required, the Company presents excess tax benefits from the exercise of stock options, if any, as financing cash flows rather than operating cash flows.

The Company applies the fair value provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123R). Under SFAS 123R, 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 March 31,	
	2009	2008
Dividend yield	%	%
Risk-free interest rate	1.52%	2.46%
Expected volatility	50.4%	44.2%
Expected term (years)	3.88	4.08

The Company based its expected volatility on the historical volatility of a peer group of publicly traded entities. The expected term of options gave consideration to early exercises, post-vesting cancellations and the options contractual term, which was extended for all options granted subsequent to September 12, 2005 but prior to October 25, 2007 from five to ten years. Stock options granted on or after October 25, 2007 have a contractual term of six 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 three months ended March 31, 2009 and 2008 was $0.25 and $1.79, respectively.

The Company calculated employee stock-based compensation expense recognized in the three months ended March 31, 2009 and 2008 based on awards ultimately expected to vest and reduced it for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

	Three Months Ended March 31,	
	2009	**2008**
Research and development	$ 180	$ 77
Sales and marketing	151	1,301
General and administrative	433	594
Total stock-based compensation expense	$ 764	$ 1,972

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As of March 31, 2009, the Company had $5,393 of total unrecognized compensation expense under SFAS No. 123R, net of estimated forfeitures, which will be recognized over a weighted average period of 2.65 years. As permitted by SFAS No. 123R, the Company has deferred the recognition of its excess tax benefit from non-qualified stock option exercises.

Restricted Stock

The Company did not grant any restricted stock during the three months ended March 31, 2009 and 2008.

Note 10 Income Taxes

The Company recorded an income tax provision of $2,019 and $1,130 for the three months ended March 31, 2009 and 2008, respectively, related to foreign withholding taxes and income taxes in some foreign jurisdictions. 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.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Tax* (FIN 48). The total amount of unrecognized tax benefits as of the date of adoption was $575. As of March 31, 2009 and December 31, 2008, the total amount of unrecognized tax benefits was $3,569 and $2,406, respectively. As of March 31, 2009, approximately $59 of unrecognized tax benefits, if recognized, would impact the Company s effective tax rate. The remaining balance, if recognized, would adjust the Company s goodwill from acquisitions or would adjust the Company s deferred tax assets 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 Company recorded $57 and $26 of interest on uncertain tax positions during the three months ended March 31, 2009 and 2008, respectively. As of March 31, 2009, the Company had a liability of $3,100 related to interest and penalties for uncertain tax positions.

The Company is subject to taxation in the U.S. and various foreign jurisdictions. The material jurisdictions subject to examination by tax authorities are primarily the U.S., California, United Kingdom and the People s Republic of China (PRC). The Company s Federal tax return is open by statute for tax years 2001 and forward and could be subject to examination by the tax authorities. The Company s California income tax returns are open by statute for tax years 2001 and forward. The statute of limitations for the Company s 2006 tax return in the United Kingdom will close in 2009. The Company s PRC tax returns are open by statute for tax years 2002 and forward.

Note 11 Segment Reporting

Statement of Financial Accounting Statements No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments. It defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company s chief operating decision- maker is its Chief Executive Officer. The Company s Chief Executive Officer reviews financial information on a geographic basis, however these aggregate into one operating segment for purposes of allocating resources and evaluating financial performance.

Accordingly, the Company reports as a single operating segment mobile games. It attributes revenues to geographic areas based on the country in which the carrier s principal operations are located.

The Company generates its revenues in the following geographic regions:

	Three Months Ended March 31,	
	2009	2008
United States of America	$ 10,023	$ 9,508
United Kingdom	798	1,613
China	2,544	1,789
Americas, excluding the USA	2,154	1,853
EMEA, excluding the United Kingdom	4,769	5,079
Other	487	750
	$ 20,775	$ 20,592

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:

	March 31, 2009	December 31, 2008
Americas	$ 2,999	$ 3,208
EMEA	709	790
Other	755	863
	$ 4,463	$ 4,861

Note 11 Restructuring

During 2008, 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 months ended March 31, 2009 the Company paid $100 of severance and $248 of facility related charges.

As of March 31, 2009 the Company s remaining restructuring liability of $651 was comprised of facility related costs that are expected to be paid over the remainder of the lease terms of one to three years. However, any changes in the assumptions used in the Company s vacated facility accrual could result in additional charges in the future.

Note 11 Subsequent Events

On April 22, 2009, the Company launched a voluntary stock option exchange program (the Exchange Program) pursuant to which its eligible U.S. and U.K. employees (Eligible Employees) have the right to exchange all options to purchase shares of its common stock outstanding prior to the Exchange Program launch date having an exercise price equal to or greater than $1.25 per share (Eligible Options) granted under the 2007 Plan or the 2001 Plan for new nonqualified stock options to be granted under the 2007 Plan (New Options). Eligible Options that are tendered for New Options will be cancelled and returned to the 2007 Plan for re-issuance thereunder. The Company s executive officers and its non-employee directors are not eligible to participate in the Exchange Program. Eligible employees will receive a New Option for each tendered Eligible Option, depending on the exercise price of the Eligible Option tendered, in accordance with the exchange ratios set forth in the table below:

Exercise Price	Exchange Ratio (New Options-for-Eligible Options)
$1.25 - $1.99	1-for-1

2.00 - 3.99	1-for-2
4.00 - 5.94	1-for-3
5.95 or greater	1-for-4

The exercise price of the New Options will equal the closing sale price of the Company s common stock as reported on The NASDAQ Global Market on the first trading day following the close of Exchange Program (which the Company expects will be May 21, 2009). The New Options will vest over three years in 36 equal monthly installments and have a six-year term. The Company expects that the Exchange Program will expire on May 20, 2009 at 5:30 p.m., Pacific Time, unless extended by the Company.

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

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, and Section 21E of the Securities Exchange Act of 1934, as amended. 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 similar expressions or variations are intended to identify forward-looking statements. In this report, forward-looking statements include, without limitation, the following:

our expectations and beliefs regarding future conduct and growth of the business;

our expectations regarding competition and our ability to compete effectively;

our expectations regarding development of future products;

our expectations regarding our expenses for 2009;

our assumptions underlying our Critical Accounting Policies and Estimates, including forecasts, comparable companies and other assumptions used to estimate the fair value of our goodwill;

our assumptions regarding the impact of Recent Accounting Pronouncements applicable to us;

our assessments and estimates that determine our effective tax rate and valuation allowance;

our belief that our cash and cash equivalents, borrowings under our revolving credit facility, cash flows from operations and our ability to repatriate cash from foreign locations will be sufficient to meet our working capital needs, contractual obligations, debt service obligations, capital expenditure requirements and similar commitments;

our expectation that we will generate cash from operations in the latter half of 2009;

our expectation that we will be able to maintain compliance with the financial and other covenants in our credit facility; and

our assessments and beliefs regarding the future outcome of pending legal proceedings and the liability, if any, that we may incur as a result of those proceedings.

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 in Risk Factors elsewhere in this report. All forward-looking statements in this document 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.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes contained elsewhere in this report. Our Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) includes the following sections:

Overview that discusses at a high level our operating results and some of the trends that affect our business;

Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments underlying our financial statements;

Recent Accounting Pronouncements;

Results of Operations, including a more detailed discussion of our revenues and expenses; and

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Liquidity and Capital Resources, which discusses key aspects of our statements of cash flows, changes in our balance sheets and our financial commitments.

Overview

This overview provides a high-level discussion of our operating results and some of the trends that affect our business. We believe that an understanding of these trends is important to understand our financial results for the first quarter of 2009, 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 consolidated financial statements and accompanying notes.

Financial Results and Trends

Revenues for the three months ended March 31, 2009 were $20.8 million, a 1% increase or $0.2 million as compared to the three months ended March 31, 2008, in which we reported revenues of $20.6 million. This increase was primarily driven by three months of revenue recorded for Superscape in 2009 as compared to three weeks of Superscape revenue recorded in 2008 and by $700,000 of one-time revenue from an APAC customer but offset by a decrease in growth of our sales in our carrier-based business, resulting primarily from a decrease in the growth of handset unit sales, which in turn led to a decrease in the growth in the number of games that we sold and the adverse impact of foreign currency exchange rates on our 2009 revenues. Our revenue growth rate will continue to depend significantly on continued growth in the mobile games market and our ability to continue to attract new end users in that market, purchases of new mobile handsets, and the overall strength of the economy, particularly in the U.S. Our future revenues would be adversely affected if there were a continued slowdown in the growth of our carrier business, which we expect will generate the vast majority of our revenues in 2009. In addition, our revenue growth rate may be adversely impacted by decisions by our carriers to alter their customer terms for downloading our games. For example, Verizon Wireless, our largest carrier, imposes a data surcharge to download content on those Verizon customers who have not otherwise subscribed to a data plan. Our revenues depend on a variety of other factors, including our relationships with our carriers and licensors. Even if mobile games based on licensed content or brands remain popular with end users, any of our licensors could decide not to renew our existing license or not to license additional intellectual property to us and instead license to our competitors or develop and publish their own mobile games or other applications, competing with us in the marketplace. The loss of any key relationships with our carriers, other distributors or licensors could impact our revenues in the future. We expect our 2009 revenues to be lower than our 2008 revenues, and in future periods, our revenues could continue to decline.

Our net loss in the three months ended March 31, 2009 was $5.8 million versus a net loss of $6.0 million in the three months ended March 31, 2008. This decrease was driven primarily by a reduction in our operating expenses by $3.8 million but offset by an increase in costs of revenues of $1.5 million, a decrease in other income/(expense), net of $1.4 million and an increase in income taxes of $889,000. If our revenues are lower than we anticipate, we will be required to further reduce our operating expenses to remain in compliance with the financial covenants under our revolving credit facility. However, reducing our operating expenses will be very challenging for us, since we undertook restructuring activities in the fourth quarter of 2008 that reduced our operating expenses significantly from second quarter 2008 levels. Should we be required to further reduce operating expenses, it could have the effect of reducing our revenues.

We expect that our expenses to develop and port games for new mobile platforms will increase as we enhance our existing titles and develop new titles to take advantage of the additional functionality offered by these platforms. Our ability to attain profitability will be affected by our ability to grow our revenues and the extent to which we must incur additional expenses to expand our sales, marketing, development, and general and administrative capabilities to grow our business. The largest component of our recurring expenses is personnel costs, which consist of salaries, benefits and incentive compensation, including bonuses and stock-based compensation, for our employees. We expect that our cash expenses will remain relatively constant compared to the first quarter of 2009 in terms of absolute dollars for the balance of the year.

Cash and cash equivalents at March 31, 2009 totaled $14.7 million, a decrease of $4.5 million from $19.2 million at December 31, 2008. This decrease is primarily due to $6.0 million paid in January 2009 to the MIG shareholders, $1.0 million paid for royalty advances during the quarter and a $1.0 million reduction in our other long-term payables. These cash outflows were offset by the net proceeds of $4.5 million from the borrowings under our credit facility.

Significant Transactions

In December 2008, we renegotiated and extended our credit facility. The credit facility provides for borrowings of up to $8.0 million, subject to a borrowing base equal to 80% of our eligible accounts receivable.

In March 2008, we acquired Superscape, a global publisher of mobile games, to deepen and broaden our game library, gain access to 3-D game development resources and to augment our internal production and publishing resources with a studio in Moscow, Russia. We paid 10 pence (pound sterling) in cash for each issued share of Superscape for a total purchase price of $38.8 million, consisting of cash consideration of $36.8 million and transaction costs of $2.1 million. Due to decreases in our long-term forecasts and current market capitalization the entire goodwill resulting from the Superscape acquisition was impaired during the year ended December 31, 2008.

In December 2007, we acquired MIG to accelerate our presence in China, deepen our relationship with China Mobile, the largest wireless carrier in China, acquire access and rights to leading franchises for the Chinese market, and augment our internal production and publishing resources with a studio in China. We purchased all of MIG s then outstanding shares for a total purchase price of $30.5 million, consisting of cash consideration to MIG shareholders of $14.7 million and transaction costs of $1.3 million. As a result of the attainment of the revenue and operating income milestones in 2008 by MIG, we were committed to pay the $20.0 million in additional consideration to the MIG shareholders and the $5.0 million of bonuses to two officers of MIG. In December 2008, we restructured the timing and nature of these payments and issued to former shareholders of MIG an aggregate of $25.0 million in promissory notes, which are due in 2009 and 2010. Due to decreases in our long-term forecasts and current market capitalization a portion of the goodwill resulting from the MIG acquisition was impaired during the year ended December 31, 2008.

Critical Accounting Policies and Estimates

There have been no significant changes in our Critical Accounting Policies and Estimates during the three months ended March 31, 2009 as compared to the Critical Accounting Policies and Estimates disclosed in Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Recent Accounting Pronouncements

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

Results of Operations

Comparison of the Three Months Ended March 31, 2009 and 2008

Revenues

	Three Months Ended March 31,	
	2009	**2008**
	(in thousands)	
Revenues	$20,775	$20,592

Our revenues increased $0.2 million, or 1.0%, from $20.6 million for the three months ended March 31, 2008 to $20.8 million for the three months ended March 31, 2009, due primarily to three months of revenue recorded for Superscape in 2009 as compared to three weeks of Superscape revenue recorded in 2008 and by $700,000 of one-time revenue from an APAC customer but offset by a decrease in growth of our sales in our carrier-based business, resulting primarily from a decrease in the growth of handset unit sales, which in turn led to a decrease in the growth in the number of games that we sold. International revenues (defined as revenues generated from carriers whose principal operations are located outside the United States) decreased by $332,000, from $11.1 million in the three months ended March 31, 2008 to $10.8 million in the three months ended March 31, 2009. The decrease in international revenues was primarily a result of decreased unit sales in EMEA but offset by increased unit sales in China and other developing markets, including Latin America. We expect our 2009 revenues to be lower than our 2008 revenues as a result of the decrease in growth of our carrier-based business.

Cost of Revenues

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	Three Months Ended March 31,	
	2009	2008
	(in thousands)	
Cost of revenues:		
Royalties	$ 5,813	$ 5,488
Amortization of intangible assets	2,848	1,708
Total cost of revenues	$ 8,661	$ 7,196
Revenues	$ 20,775	$ 20,592
Gross margin	58.3%	65.1%

Our cost of revenues increased $1.5 million, or 20.4%, from $7.2 million in the three months ended March 31, 2008 to $8.7 million in the three months ended March 31, 2009. The increase resulted primarily from the commencement of amortization of intangible assets acquired in 2008 from Superscape. Revenues attributable to games based upon branded intellectual property decreased as a percentage of revenues from 81.3% in the three months ended March 31, 2008 to 75.9% in the three months ended March 31, 2009, primarily due to sales of games developed by MIG and Superscape based on their respective original intellectual property. The average royalty rate that we paid on games based on licensed intellectual property increased from 33.2% in the three months ended March 31, 2008 to 36.9% in the three months ended March 31, 2009 due to increased sales of titles with higher royalty rates. Overall royalties, including impairment of prepaid royalties and guarantees, as a percentage of total revenues increased from 26.7% to 28.0% due to the increase in the average royalty we paid on games based on licensed intellectual property but offset by an increase in revenue from games based on our intellectual property, especially sales of MIG and Superscape titles.

Research and *Development Expenses*

	Three Months Ended March 31,	
	2009	2008
	(in thousands)	
Research and development expenses	$6,397	$6,520
Percentage of revenues	30.8%	31.7%

Our research and development expenses decreased $0.1 million, or 1.9%, from $6.5 million in the three months ended March 31, 2008 to $6.4 million in the three months ended March 31, 2009. The decrease in research and development costs was primarily due to a decrease in facility and overhead costs due to reduced headcount in higher cost locations and a reduction in third-party outside services costs for porting and external development but was offset by increases in salaries and benefits.

Research and development staff increased by 26 employees to a total of 422 as of March 31, 2009 as compared to the same period in 2008, and salaries and benefits increased as a result. This growth in headcount was due primarily to the continued growth of our development studios in Brazil and China. Research and development expenses included $180,000 of stock-based compensation expense in the three months ended March 31, 2009 and $77,000 in the three months ended March 31, 2008. As a percentage of revenues, research and development expenses remained relatively consistent year over year at 30.8% for the three months ended March 31, 2009 compared to 31.7% for the three months ended March 31, 2008 due to the growth in headcount of our research and development studios in our lower cost locations.

Sales and Marketing Expenses

	Three Months Ended March 31,	
	2009	2008
	(in thousands)	
Sales and marketing expenses	$4,112	$5,782
Percentage of revenues	19.8%	28.1%

Our sales and marketing expenses decreased $1.7 million, or 28.9%, from $5.8 million in the three months ended March 31, 2008 to $4.1 million in the three months ended March 31, 2009. The decrease was primarily due to a $1.2 million decrease in stock-based compensation due primarily to the quarterly accrual related to the MIG stock-based compensation earnout no longer being recorded, a $384,000 decrease in salaries and benefits as we reduced our sales and marketing headcount from 74 at March 31, 2008 to 67 at March 31, 2009, a $132,000 decrease in travel and entertainment and a $124,000 decrease in facility and overhead costs due to the reduced headcount. As a percentage of revenues, sales and marketing expenses decreased from 28.1% in the three months ended March 31, 2008 to 19.8% in the three months ended March 31, 2009 primarily due to the reduction in stock-based compensation related to the MIG earnout and the decrease in salaries and benefits. Sales and marketing expenses included $151,000 of stock-based compensation expense in the three months ended March 31, 2009 and $1.3 million in the three months ended March 31, 2008.

General and Administrative Expenses

	Three Months Ended March 31,	
	2009	**2008**
	(in thousands)	
General and administrative expenses	$4,485	$5,395
Percentage of revenues	21.6%	26.2%

Our general and administrative expenses decreased $910,000, or 16.9%, from $5.4 million in the three months ended March 31, 2008 to $4.5 million in the three months ended March 31, 2009. The decrease in general and administrative expenses was primarily the result of a $590,000 decrease in salaries and benefits, a $204,000 decrease in professional fees and a $161,000 decrease in stock-based compensation. We decreased our general and administrative headcount from 91 at March 31, 2008 to 68 at March 31, 2009 and salaries and benefits and stock-based compensation decreased as a result. As a percentage of revenues, general and administrative expenses decreased from 26.2% in the three months ended March 31, 2008 to 21.6% in the three months ended March 31, 2009 as a result of our reduction in headcount and related expenses. General and administrative expenses included $433,000 of stock-based compensation expense in the three months ended March 31, 2009 and $594,000 in the three months ended March 31, 2008.

Other Operating Expenses

Our restructuring charge decreased from $75,000 during the three months ended March 31, 2008 to zero during the three months ended March 31, 2009 as we undertook activities to relocate our operations in France from Nice to Paris during 2008. The resulting restructuring charge principally consisted of costs associated with employee termination benefits.

Our IPR&D decreased from $1.0 million in the three months ended March 31, 2008 to zero in the three months ended March 31, 2009. The IPR&D charge recorded in 2008 related to the in-process development of new 2D and 3D games by Superscape at the date of acquisition. We determined the value of acquired IPR&D from Superscape using a discounted cash flows approach. We calculated the present value of expected future cash flows attributable to the in-process technology using a 22% discount rate. This rate took into account the percentage of completion of the development effort ranging from approximately 20% to 50% and the risks associated with our developing technology given changes in trends and technology in our industry. As of December 31, 2008, all acquired IPR&D projects had been completed at a cost similar to the original projections.

Other Expenses

Interest and other income/(expense), net, decreased from a net income of $611,000 during the three months ended March 31, 2008 to a net expense of $807,000 in the three months ended March 31, 2009. This change was primarily due to an increase in foreign currency losses of $779,000, a decrease in interest income of $510,000 resulting from lower cash balances as a result of the MIG and Superscape acquisitions and an increase of $354,000 in interest expense related to the MIG notes and borrowings under our credit facility. We expect to generate minimal interest income during 2009 as a result of lower cash balances and lower yields on our investments, which are predominately in cash or cash equivalent securities bearing minimal interest. We also expect to incur interest expense on the MIG notes and borrowings under our credit facility through 2010.

Income Tax Provision

Income tax provision increased from $1.1 million in the three months ended March 31, 2008 to $2.0 million in the three months ended March 31, 2009 primarily as a result of increased income tax in certain foreign entities. We expect our effective tax rate in 2009 to fluctuate on a quarterly basis. The effective tax rate could be affected by changes in the valuation of our deferred tax assets, changes in actual results versus our estimates, or by changes in tax laws, regulations, accounting principles, or interpretations thereof.

Liquidity and Capital Resources

	Three Months Ended March 31,	
	2009	**2008**
	(in thousands)	
Consolidated Statement of Cash Flows Data:		
Capital expenditures	$ 305	$ 2,265
Depreciation and amortization	3,492	2,406
Cash flows provided by/(used in) operating activities	(2,544)	1,031
Cash flows provided by/(used in) investing activities	(305)	(29,609)
Cash flows provided by financing activities	(1,528)	194

Since our inception, we have incurred recurring losses and negative annual cash flows from operating activities, and we had an accumulated deficit of $164.9 million and $159.1 million as of March 31, 2009 and December 31, 2008, respectively. Prior to our IPO, our primary sources of liquidity had been private placements of shares of our preferred stock with aggregate proceeds of $57.4 million and borrowings under our credit facilities with aggregate proceeds of $12.0 million. In the quarter ended March 31, 2007, we raised $74.8 million of proceeds, net of underwriting discounts and estimated expenses, in our IPO. In the future, we anticipate that our primary sources of liquidity will be our cash and cash equivalents, cash generated from our operating activities and borrowing under our revolving credit facility.

Operating Activities

For the three months ended March 31, 2009, net cash used in operating activities was $2.5 million, primarily due to our net loss of $5.8 million and the net change in our operating assets and liabilities of $2.5 million but offset by adjustments for non-cash items including amortization expense of $2.9 million, stock-based compensation expense of $764,000, MIG earnout expense of $656,000, depreciation expense of $593,000 and non-cash foreign currency translation loss of $442,000.

For the three months ended March 31, 2008, net cash provided by operating activities was $1.0 million, primarily due to the net change in operating assets and liabilities of $1.6 million, adjustments for non-cash items including amortization expense of $1.8 million, stock-based compensation expense of $1.9 million, acquired IPR&D of $1.0 million and depreciation expense of $630,000 but offset by our net loss of $6.0 million.

We may decide to enter into new licensing arrangements for existing or new licensed intellectual properties that may require us to make royalty payments at the outset of the agreement. If we do sign these agreements, this could significantly increase our future use of cash used in operating activities.

Investing Activities

In the three months ended March 31, 2009, we used $305,000 of cash for investing activities resulting primarily from purchases of property and equipment, all of which related to additional network and server equipment.

In the three months ended March 31, 2008, we used $29.6 million of cash for investing activities. This net cash usage resulted from the acquisition of Superscape, net of cash acquired, of $26.7 million, additional cash payments of $693,000 for professional fees related to the acquisition of MIG and purchases of property and equipment of $2.3 million primarily related to moving our corporate headquarters.

Financing Activities

In the three months ended March 31, 2009, net cash used in financing activities was $1.5 million due to the payment of $6.0 million related to the MIG notes but offset by the net proceeds from borrowings under our credit facility of $4.5 million.

In the three months ended March 31, 2008, our financing activities provided $194,000 of cash, substantially all of which came from the proceeds from the exercise of stock options and warrants.

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Sufficiency of Current Cash and Cash Equivalents

Our cash and cash equivalents were $14.7 million as of March 31, 2009. During the quarter ended March 31, 2009, we used $4.5 million of cash. We expect to continue to fund our operations and satisfy our contractual obligations for 2009 primarily through our cash and cash equivalents, borrowings under our revolving credit facility, cash we intend to repatriate from China and cash generated by operations during the latter half of 2009. However, there can be no assurances that we will be able to generate positive operating cash flow during the latter half of 2009 or beyond. We believe our cash and cash equivalents, including cash flows from operations, borrowings under our credit facility and our ability to repatriate cash from our foreign locations will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, our cash requirements for the next 12 months may be greater than we anticipate due to, among other reasons, lower than expected cash generated from operating activities including the impact of foreign currency rate changes, revenues that are lower than we currently anticipate, greater than expected operating expenses, usage of cash to fund our foreign operations, unanticipated limitations or timing restrictions on our ability to access funds that are held in our non-U.S. subsidiaries, a deterioration of the quality of our accounts receivable, which could lower the borrowing base under our credit facility, and any failure on our part to remain in compliance with the covenants under our revolving credit facility. Our expectations regarding cash sufficiency assume that our revenues will be sufficient to enable us to comply with our credit facility EBITDA covenant discussed below. If our revenues are lower than we anticipate, we will be required to reduce our operating expenses to remain in compliance with this financial covenant. However, further reducing our operating expenses will be very challenging for us, since we undertook restructuring activities in the fourth quarter of 2008 that reduced our operating expenses significantly from second quarter 2008 levels. Should we be required to further reduce operating expenses, it could have the effect of reducing our revenues.

Our cash needs include our requirement to repay $19.0 million of principal under the MIG Notes, $8.0 million of which is payable in 2009 and $11.0 million of which is payable in 2010. (See Note 7 of Notes to Unaudited Consolidated Financial Statements included in Item I of this report for more information regarding our debt.) Our anticipated cash requirements during 2009 also include payments for prepaid royalties and guarantees, of which approximately a portion is related to anticipated new license agreements (for which there is no existing contractual commitment), which amount we may elect to reduce if we require more working capital than we currently anticipate. (See Note 6 of Notes to Unaudited Consolidated Financial Statements included in Item I of this report for more information regarding our contractual commitments.) However, this reduced spending on new licenses and any additional reduction in spending may adversely impact our title plan for 2010 and beyond, and accordingly our ability to generate revenues in future periods. Conversely, if cash available to us is greater than we currently anticipate, we may elect to increase prepaid royalties above currently anticipated levels if we believe it will contribute to enhanced revenue growth and profitability.

We currently have an $8.0 million credit facility, which expires in December 2010. Our credit facility contains financial covenants and restrictions that limit our ability to draw down the entire $8.0 million. These covenants are as follows:

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA   ). We must maintain, measured on a consolidated basis at the end of each of the following periods, EBITDA of at least the following:

October 1, 2008 through December 31, 2008	$(1,672,000)
October 1, 2008 through March 31, 2009	$(2,832,000)
January 1, 2009 through June 30, 2009	$ (812,000)
April 1, 2009 through September 30, 2009	$ 1,572,000
July 1, 2009 through December 31, 2009	$ 4,263,000
October 1, 2009 through March 31, 2010	$ 5,092,000
January 1, 2010 through June 30, 2010	$ 5,257,000
April 1, 2010 through September 30, 2010	$ 5,298,000
July 1, 2010 through December 31, 2010	$ 6,073,000

For purposes of the above covenant, EBITDA means (a) our consolidated net income, determined in accordance with U.S. generally accepted accounting principles, plus (b) interest expense, plus (c) to the extent deducted in the calculation of net income, depreciation expense and amortization expense, plus (d) income tax expense, plus (e) non-cash stock compensation expense, plus (f) non-cash goodwill and other intangible assets and royalty impairments, plus (g) non-cash foreign exchange translation charges, minus (h) all of our non-cash income and the non-cash income of our subsidiaries for such period.

Minimum Domestic Liquidity: We must maintain at the lender an amount of cash, cash equivalents and short-term investments of not less than the greater of: (a) 20% of our total consolidated unrestricted cash, cash equivalents and short-term investments, or (b) 15% of outstanding obligations under the credit facility.

Our credit facility is collateralized by eligible customer accounts receivable balances, as defined by the lender. There can be no assurances that our eligible accounts receivable balances will be adequate to allow us to draw down on the entire $8.0 million credit facility particularly if any of our larger customers creditworthiness deteriorates. In addition, among other things, the credit facility limits our ability to dispose of certain assets, make acquisitions, incur additional indebtedness, incur liens, pay dividends and make other distributions, and make investments. Further, the credit facility requires us to maintain a separate account with the lender for collection of our accounts receivables. All deposits into this account will be automatically applied by the lender to our outstanding obligations under the credit facility.

As of April 30, 2009, we had outstanding borrowings of $5.4 million under our credit facility. Our failure to comply with the financial or operating covenants in the credit facility would not only prohibit us from borrowing under the facility, but would also constitute a default, permitting the lender to, among other things, declare any outstanding borrowings, including all accrued interest and unpaid fees, immediately due and payable. A change in control of Glu also constitutes an event of default, permitting the lender to accelerate the indebtedness and terminate the credit facility. The credit facility also contains other customary events of default. Utilizing our credit facility results in debt payments that bear interest at the lender s prime rate plus 1.0%, but no less than 5.0%, which adversely impacts our cash position and result in operating and financial covenants that restrict our operations. See Note 8 of Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this report for more information regarding our credit facility.

The credit facility matures on December 29, 2010, when all amounts outstanding will be due. If the credit facility is terminated prior to maturity by us or by the lender after the occurrence and continuance of an event of default, then we will owe a termination fee equal to $80, or 1.00% of the total commitment.

As of March 31, 2009, we were in compliance with all covenants. We believe that we will continue to meet all covenants, including the future EBITDA covenant requirements.

Of the $14.7 million of cash and cash equivalents that we held at March 31, 2009, approximately $7.5 million were held in accounts in China. To fund our operations and repay our debt obligations, we intend to repatriate approximately $4.2 million of available funds from China to the U.S no later than June 30, 2009, which would subject us to withholding taxes of at least 10% on any repatriated funds and potential additional tax, including cash tax payments. In addition, given the current global economic environment and other potential developments outside of our control, we may be unable to utilize the funds that we hold in all of our non-U.S. accounts, which funds include cash and marketable securities, since the funds may be frozen by additional international regulatory actions, the accounts may become illiquid for an indeterminate period of time or there may be other such circumstances that we are unable to predict.

In addition, we may require additional cash resources due to changes in business conditions or other future developments, including any investments or acquisitions we may decide to pursue, and to defend against, settle or pay damages related to a litigation dispute to which we are currently a party. We also intend to enter into new licensing arrangements for existing or new licensed intellectual properties, which may require us to make royalty payments at the outset of the agreements well before we are able to collect cash payments and/or recognize revenues associated with the licensed intellectual properties.

If our cash sources are insufficient to satisfy our cash requirements, we may be required to sell convertible debt or equity securities to raise additional capital or to increase the amount available to us for borrowing under our credit facility. We may be unable to raise additional capital through the sale of securities, or to do so on terms that are favorable to us, particularly given current capital market and overall economic conditions. Any sale of convertible debt securities or additional equity securities could result in substantial dilution to our stockholders. Additionally, we may be unable to increase the size of our credit facility, or to do so on terms that are acceptable to us, particularly in light of the current credit market conditions. If the amount of cash that we generate from operations is less than anticipated, we could also be required to extend the term beyond its December 2010 expiration date (or replace it with an alternate loan arrangement), and resulting debt payments thereunder could further inhibit our ability to achieve profitability in the future.

Contractual Obligations

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The following table is a summary of our contractual obligations as of March 31, 2009:

	Payments Due by Period				
	Total	1 Year*	1-3 Years	3-5 Years	Thereafter
			(in thousands)		
Operating lease obligations, net of sublease income	$ 7,855	$2,624	$ 5,084	$147	$
Guaranteed royalties(1)	12,427	7,889	4,488	50	
MIG Earnout and Bonus Notes(2)	19,949	8,192	11,757		
FIN 48 obligations, including interest and penalties(3)	4,403				4,403
Line of credit	4,461	4,461			

* Represents the remaining nine months of 2009

(1) We have entered into license and development arrangements with various owners of brands and other intellectual property so that we can create and publish games for mobile handsets based on that intellectual property. Some of these agreements require us to pay guaranteed royalties over the term of the contracts regardless of actual game sales. Some of these minimum payments totaling $11.7 million

have been recorded as liabilities on our unaudited consolidated balance sheet because payment is not contingent upon performance by the licensor.

(2) We have issued $25.0 million of notes payable to former shareholders of MIG of which we have paid an aggregate principal amount of $9.0 million as of April 30, 2009. One of the former officers of MIG must continue to provide services through June 30, 2009 to be fully vested in the special bonus, and as a result, we did not record $218,750 of the special bonus that is subject to vesting.

(3) As of March 31, 2009, unrecognized tax benefits and potential interest and penalties are classified within Other long-term liabilities on our

consolidated balance sheets. As of March 31, 2009, the settlement of our income tax liabilities cannot be determined, however, the liabilities are not expected to become due within the next twelve months.

Off-Balance Sheet Arrangements

At March 31, 2009, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Credit Risk

Our exposure to interest rate risk relates primarily to (1) our interest payable under our $8.0 million credit facility and potential increases in our interest payments arising from increases in interest rates and (2) our investment portfolio and the potential losses arising from changes in interest rates.

We are exposed to the impact of changes in interest rates as they affect interest payments under our $8.0 million credit facility. Advances under the credit facility accrue interest at rates that are equal to our credit facility lender s prime rate, plus 1.0%, but no less than 5.0%. Consequently, our interest expense will fluctuate with changes in the general level of interest rates. At April 30, 2009, we had $5.4 million outstanding under the credit facility and our effective interest rate at that time was approximately 5.0%. We believe that a 10% change in the lender s prime rate would have a significant impact on our interest expense, results of operations and liquidity.

We are also potentially exposed to the impact of changes in interest rates as they affect interest earned on our investment portfolio. As of March 31, 2009, we had no short-term investments and substantially all $14.7 million of our cash and cash equivalents was held in operating bank accounts earning nominal interest. Accordingly, we do not believe that a 10% change in interest rates would have a significant impact on our interest income, operating results or liquidity related to these amounts.

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

As of March 31, 2009 and December 31, 2008, our cash and cash equivalents were maintained by financial institutions in the United States, the United Kingdom, Brazil, Chile, China, France, Germany, Hong Kong, Italy, Russia and Spain, and our current deposits are likely in excess of insured limits.

Our accounts receivable primarily relate to revenues earned from domestic and international wireless carriers. We perform ongoing credit evaluations of our carriers financial condition but generally require no collateral from them. As of March 31, 2009 and December 31, 2008, Verizon Wireless accounted for 21.6% and 25.7% of our total accounts receivable, respectively, and no other carrier represented more than 10% of our total accounts receivable.

Foreign Currency Exchange Risk

The functional currencies of our United States and United Kingdom operations are the United States Dollar, or USD, and the pound sterling, or GBP, respectively, and the functional currency of our China operations is the Chinese Renminbi. A significant portion of our business is conducted in currencies other than the USD or GBP. Our revenues are usually denominated in the functional currency of the carrier. Operating expenses are usually in the local currency of the operating unit, which mitigates a portion of the exposure related to currency fluctuations. Intercompany transactions between our domestic and foreign operations are denominated in either the USD or GBP. At month-end, foreign currency-denominated accounts receivable and intercompany balances are marked to market and unrealized gains and losses are included in other income (expense), net.

We transact business in 72 countries in approximately 23 different currencies and in 2008 some of these currencies fluctuated by up to 40%. Our foreign currency exchange gains and losses have been generated primarily from fluctuations in GBP versus the USD and in the Euro versus GBP. We have in the past, and in the future may experience foreign currency exchange losses on our accounts receivable and intercompany receivables and payables. Foreign currency exchange 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 out 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.

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 Exchange Act Rule 13a-15(e) and 15d-15(e) 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 our first quarter ended March 31,2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to various claims, complaints and legal actions in the normal course of business. For example, we are engaged in a contractual dispute with a licensor, Skinit, Inc., related to, among other claims, alleged underpayment of royalties and failure to perform under a distribution agreement, pursuant to which Skinit previously claimed that it is owed approximately $600,000. Recently, Skinit filed a complaint against us and other defendants, seeking unspecified damages plus attorney s fees and costs. The complaint, filed in the Superior Court of California in Orange County (case number 30-2009) on April 21, 2009, alleges breach of contract, interference with economic relations, conspiracy and misrepresentation of fact. We do not believe we are party to any currently 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 profitability.

We have incurred significant losses since inception, including a net loss of $12.3 million in 2006, a net loss of $3.3 million in 2007 and a net loss of $106.7 million in 2008. As of December 31, 2008, we had an accumulated deficit of $159.1 million, which had increased to $164.9 million as of March 31, 2009. During 2008, we incurred aggregate charges of approximately $77.6 million for goodwill, royalty impairments and restructuring activities. If we continue to incur these charges, our profitability will continue to decline. In addition, during 2008, we also incurred $25.0 million in indebtedness related to the restructuring of the MIG earnout and bonus payments, and in the first quarter of 2009, we drew down under our revolving credit facility under which we had $5.4 million outstanding as of April 30, 2009. In addition, we may be required to implement additional initiatives designed to increase revenues, such as increased marketing for our new games, particularly for the next-generation platforms, and acquiring content. If our revenues do not increase to offset these additional expenses and debt payments, if we experience unexpected increases in operating expenses or if we are required to take additional charges related to impairments or restructuring, we will continue to incur significant losses and will not become profitable. Finally, we expect our 2009 revenues to be lower than our 2008 revenues, and in future periods, our revenues could continue to decline. Accordingly, we may not achieve profitability in the future.

We have a limited operating history in an emerging market, which may make it difficult to evaluate our business.

We were incorporated in May 2001 and began selling mobile games in July 2002. Accordingly, we have only a limited history of generating revenues, and the future revenue potential of our business in this emerging market is uncertain. As a result of our short operating history, we have limited financial data that can be used to evaluate our business. Any evaluation of our business and our prospects must be considered in light of our limited operating history and the risks and uncertainties encountered by companies in our stage of development. As an early-stage company in the emerging mobile entertainment industry, we face increased risks, uncertainties, expenses and difficulties. To address these risks and uncertainties, we must do the following:

respond to market developments, including next-generation platforms, technologies and pricing and distribution models;

maintain and grow our non-carrier, or off-deck, distribution, including through our website and third-party direct-to-consumer distributors;

maintain our current, and develop new, wireless carrier and other distributor relationships, particularly in international markets;

maintain and expand our current, and develop new, relationships with third-party branded content owners;

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retain or improve our current revenue-sharing arrangements with carriers, other distributors and third-party branded content owners;

maintain and develop greater consumer awareness of our games based on our own intellectual property and the Glu brand;

continue to develop new high-quality mobile games that achieve significant market acceptance, particularly for new next-generation handsets;

continue to port existing mobile games to new mobile handsets;

continue to develop and upgrade our technology;

continue to enhance our information processing systems;

expand our development capacity in countries with lower costs;

execute our business and marketing strategies successfully; and

attract, integrate, retain and motivate qualified personnel.

We may be unable to accomplish one or more of these objectives, which could cause our business to suffer. In addition, accomplishing many of these efforts might be very expensive, which could adversely impact our operating results and financial condition.

Our financial results could vary significantly from quarter to quarter and are difficult to predict, particularly in light of the current economic environment, which in turn could cause volatility in our stock price.

Our revenues and operating results could vary significantly from quarter to quarter because of 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 predict our future revenues or results of operations. We base our current and future expense levels on our internal operating plans and sales forecasts, and our operating costs are to a large extent fixed. As a result, we may not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in revenues, and even a small shortfall in revenues could disproportionately and adversely affect financial results for that quarter. This is particularly true for 2009, as we implemented significant cost-reduction measures in 2008, making it difficult for us to further reduce our operating expenses without a material adverse impact on our prospects in future periods. Individual games and carrier relationships represent meaningful portions of our revenues and net loss in any quarter. We may incur significant or unanticipated expenses when licenses are added or renewed, we may experience a significant reduction in revenue if licenses are not renewed or we may incur impairments of prepaid royalty guarantees if our forecast for games based on licensed intellectual property is lower than we anticipated at the time we entered into the agreement. For example, in 2008, we impaired $6.3 million of certain prepaid royalties and royalty guarantees primarily due to several distribution arrangements that we entered into in 2007 and 2008. In addition, some payments from carriers that we recognize as revenue on a cash basis may be delayed unpredictably.

We are also subject to macroeconomic fluctuations in the U.S. and global economies, including those that impact discretionary consumer spending, which have recently deteriorated significantly in many countries and regions, including the U.S., and may remain depressed for the foreseeable future. Some of the factors that could influence the level of consumer spending include continuing conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending. These issues can also cause foreign currency rates to fluctuate, which can have an adverse impact on our business since we transact business in 72 countries in approximately 23 different currencies and in 2008 some of these currencies fluctuated by up to 40%. These issues may continue to negatively impact the economy and our growth. If these issues persist, or if the economy enters a prolonged period of decelerating growth or recession, our results of operations may be harmed. As a result of these and other factors, our operating results may not meet the expectations of investors or public market analysts who choose to follow our company. Failure to meet market expectations would likely result in decreases in the trading price of our common stock.

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

the number of new mobile games released by us and our competitors, including those for next-generation platforms;
the timing of release of new games by us and our competitors, particularly those that may represent a significant portion of revenues in a period;
the popularity of new games and games released in prior periods;
changes in prominence of deck placement for our leading games and those of our competitors;
the strength or weakness in consumer demand for new mobile devices;
the expiration of existing content licenses for particular games;
the timing of charges related to impairments of goodwill, intangible assets, prepaid royalties and guarantees;
changes in pricing policies by us, our competitors or our carriers and other distributors;
changes in pricing policies by our carriers related to downloading content, such as our games;
changes in the mix of original and licensed games, which have varying gross margins;
the timing of successful mobile handset launches;
the timeliness and accuracy of reporting from carriers;
the seasonality of our industry;
fluctuations in the size and rate of growth of overall consumer demand for mobile handsets, mobile games and related content;
strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
our success in entering new geographic markets;
changes in accounting rules, such as those governing recognition of revenue;
the timing of compensation expense associated with equity compensation grants; and
decisions by us to incur additional expenses, such as increases in marketing or research and development.

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

The development, distribution and sale of mobile games is a highly competitive business. For end users, we compete primarily on the basis of game quality, brand and price. For wireless carriers, we compete for deck placement based on these factors, as well as historical performance and perception of sales potential and relationships with licensors of brands and other intellectual property. For content and brand licensors, we compete based on royalty and other economic terms, perceptions of development quality, porting abilities, speed of execution, distribution breadth and relationships with carriers. We also compete for experienced and talented employees.

Our primary competitors include Electronic Arts (EA Mobile) and Gameloft, with Electronic Arts having the largest market share of any company in the mobile games market. In the future, likely competitors include major media companies, traditional video game publishers, content aggregators, mobile software providers and independent mobile game publishers. Wireless carriers may also decide to develop, internally or through a managed third-party developer, and distribute their own mobile games. If carriers enter the mobile game market as publishers, they might refuse to distribute some or all of our games or might deny us access to all or part of their networks.

Some of our competitors and our potential competitors advantages over us, either globally or in particular geographic markets, include the following:

- significantly greater revenues and financial resources;
- 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;
- more substantial intellectual property of their own from which they can develop games without having to pay royalties;
- pre-existing relationships with brand owners or carriers that afford them access to intellectual property while blocking the access of competitors to that same intellectual property;
- greater resources to make acquisitions;
- the ability or willingness to offer competing products at no charge or supported by in-game advertising;
- lower labor and development costs; and
- broader global distribution and presence.

In addition, given the open nature of the development and distribution for certain next-generation platforms, such as the Apple iPhone and Google Android, we also compete with a vast number of small companies and individuals who are able to create and launch mobile games and other content for these mobile devices utilizing limited resources and with limited start-up time or expertise. Many of these smaller developers are able to offer their games at no cost or substantially reduce prices to levels at which we are unable to respond competitively and still achieve profitability given their low overhead. In addition, publishers who create content for traditional gaming consoles and for online play have also begun developing games for the iPhone. As of February 28, 2009, there were approximately 4,500 games available on the Apple App Store since its launch in July 2008. The proliferation of titles on the Apple App Store makes it difficult for us to differentiate ourselves from other developers and to compete for end users purchasing content for their iPhone and iPod Touch devices without substantially reducing our prices or increasing spending to market our products. Certain of our large competitors have the right to more licenses to develop titles for the iPhone and have considerably greater resources than we do, enabling them to develop more games than we can and to do so more quickly, which causes further challenges, especially on the next-generation platforms. If our industry continues to shift to a sales and distribution model similar to the App Store our ability to compete would be further challenged, since the vast majority of our current revenue is currently derived from our wireless carrier-based distribution channel and not direct-to-consumer channels.

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.

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

The operation of our business and our efforts to grow our business further, including through additional acquisitions, will require significant cash outlays and commitments, such as with our past acquisitions. As of March 31, 2009, we had $14.7 million of cash and cash equivalents. In addition to our general operating expenses and prepaid and guaranteed royalty payments, we have debt service obligations related to $5.4 million outstanding as of April 30, 2009 under our revolving credit facility and our issuing an aggregate of $25.0 million in subordinated notes in December 2008 in connection with our restructuring of the MIG earnout and bonus payments under which we owed $19.0 million as of March 31, 2009. If our cash and cash equivalents, and any cash generated from operations and borrowings under our credit facility are insufficient to meet our cash requirements, we will need to seek additional capital, potentially through debt or equity financings, to fund our operations, and debt repayment obligations. We may not be able to raise

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needed cash on terms acceptable to us or at all. Financings, if available, may be on terms that are dilutive or potentially dilutive to our stockholders, particularly given our current stock price. The holders of new securities may also receive rights, preferences or privileges that are senior to those of existing holders of our common stock, all of which is subject to the provisions of our credit facility. If new sources of financing are required but are insufficient or unavailable, we would be required to modify our growth and operating plans to the extent of available funding, which would harm our ability to grow our business. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sufficiency of Current Cash, and Cash Equivalents.

***Our stock price has fluctuated and declined significantly since our IPO in March 2007, and may continue to fluctuate, may not rise and may decline further, which could cause our stock to be delisted from trading on the NASDAQ Global Market*.**

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:

price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole, such as the recent and continuing unprecedented volatility in the financial markets;

changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;

actual or anticipated fluctuations in our operating results;

the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;

failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company or our industry, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our stock;

ratings or other changes by any securities analysts who follow our company or our industry;

announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, capital raising activities or capital commitments;

the public s response to our press releases or other public announcements, including our filings with the SEC;

lawsuits threatened or filed against us; and

market conditions or trends in our industry or the economy as a whole.

In addition, the stock markets, including the NASDAQ Global Market on which our common stock is listed, have recently and in the past, experienced extreme price and volume fluctuations that have affected the market prices of many companies, some of which appear to be unrelated or disproportionate to the operating performance of these companies. 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.

Since becoming a publicly traded security listed on the NASDAQ Global Market in March 2007, our common stock has reached a closing high of $14.67 per share and closing low of $0.23 per share. The last reported sale price of our shares on April 30, 2009 was $0.58 per share. Our stock has traded below $1.00 per share since October 30, 2008. Under NASDAQ s continued listing standards, if the closing bid price of our common stock is under $1.00 per share for 30 consecutive trading days, NASDAQ may notify us that it may delist our common stock from the NASDAQ Global Market. If the closing bid price of our common stock does not thereafter regain compliance for a minimum of ten consecutive trading days during the 180-days following notification by NASDAQ, NASDAQ may delist our common stock from trading on the NASDAQ Global Market. While NASDAQ has suspended the minimum bid price and market value requirements until July 2009, there can be no assurance that NASDAQ will extend the suspension or that our common stock will remain eligible for trading on the NASDAQ Global Market. If our stock were delisted, the ability of our

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stockholders to sell any of our common stock at all would be severely, if not completely, limited, causing our stock price to continue to decline.

We have outstanding debt obligations and may incur additional debt in the future, which could adversely affect our financial condition and results of operations.

In December 2008, we renegotiated and extended our $8.0 million revolving credit facility, which is secured by substantially all of our assets, including our intellectual property. As of April 30, 2009, we had outstanding borrowings of $5.4 million, and we expect to continue to borrow during the term of the facility for general working capital purposes and to satisfy our other debt obligations. In addition, in December 2008, we issued an aggregate of $25.0 million in promissory notes to former shareholders of MIG to restructure the earnout and bonus payments that we owe to them. This debt may adversely affect our operating results and financial condition by, among other things:

requiring us to dedicate a portion of our expected cash from operations to service our debt, thereby reducing the amount of expected cash flow available for other purposes, including funding our operations;

increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;

limiting our ability to pursue acquisitions that may be accretive to our business; and

limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

Our credit facility imposes restrictions on us, including requiring us to maintain compliance with specified financial covenants and to maintain a certain level of cash deposits with the lender. Our ability to comply with these covenants may be affected by events beyond our control. Our expectations regarding cash sufficiency assume that our revenues will be sufficient to enable us to comply with the earnings-related financial covenant. If our revenues are lower than we anticipate, we will be required to reduce our operating expenses to remain in compliance with this financial covenant. However, reducing our operating expenses will be very challenging for us, since we undertook restructuring activities in the fourth quarter of 2008 that reduced our operating expenses significantly from second quarter 2008 levels. Should we be required to further reduce operating expenses, it could have the effect of reducing our revenues. In addition, the credit facility may adversely affect our ability to incur certain liens and sell the company. If we breach any of the covenants under our credit facility and do not obtain a waiver from the lender, then, subject to applicable cure periods, any outstanding indebtedness could be declared immediately due and payable. (See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sufficiency of Current Cash, Cash Equivalents for additional information regarding our credit facility.) Should the lender call the loan at a time when we did not have or were unable to secure cash to repay it, it would have a serious impact on our business financial position and liquidity, including potentially forcing us to file for bankruptcy protection. For more information about our debt obligations, see Note 7 to Notes to Unaudited Condensed Consolidated Financial Statements.

A continued slowdown in sales of mobile devices, particularly the devices for our carrier-based business which represents the vast majority of our revenues, could have a material adverse impact on our revenues, financial position and results of operations.

We currently derive the vast majority of our revenues from sales of our games on traditional mobile devices through our wireless carriers. While our 2008 revenues increased over our 2007 revenues, the increase was considerably slower than we expected due to a decrease in the growth of sales in our carrier-based business, resulting primarily from a decrease in the growth of handset unit sales, which in turn led to a decrease in the number of games that we sold, as well as movement by a number of consumers to next-generation platforms that enable download of applications from sources other than a carrier s branded e-commerce service, such as the Apple and Google App Stores. We expect that we will continue to derive the vast majority portion of our revenues from our carrier-based business in 2009. The ability of the next-generation platforms to serve as a source of significant new revenues is uncertain, and we may be unable to generate sufficient revenues from these platforms to make up for any decline in the traditional carrier business. Any continued slowdown in the growth of that business or in sales of handset units for that business could have a material adverse impact on our revenues, financial position and results of operations.

Our strategy to grow our business includes developing titles for next-generation platforms beyond our wireless carrier channel, which currently comprises the vast majority of our revenues. If we do not succeed in generating

considerable revenues and profitability from the next-generation handsets, our revenues, financial position and operating results may suffer.

Growth in our carrier channel, which currently comprises the vast majority of our revenues, has slowed in recent periods. As part of our strategy to grow our business, we have started to develop titles for next-generation platforms (which we currently define as Apple s iPhone, Google s Android, Research in Motion s Blackberry and Nokia s N-Gage). The introduction of these next-generation platforms has drawn some of our customers away from our carrier-based business. For us to succeed, we believe that we must publish mobile games that are widely accepted and commercially successful on these new platforms. However, our efforts on these platforms may prove unsuccessful because, among others reasons:

- the open nature of the development and marketing platforms for certain of these next-generation platforms increases substantially the number of our competitors, and competitive products, and
- the pricing and revenue models for products on these platforms are rapidly evolving, and may result in average selling prices substantially lower than the traditional carrier channel;
- the competitive advantage of our porting capabilities may be reduced as these next-generation platforms become ubiquitous;
- many of our key licenses do not grant us the rights to develop games for the iPhone;
- we have relatively little experience with direct-to-consumer distribution channels;
- these next-generation platforms are effectively new markets, for which we are less able to forecast with accuracy revenue levels, required marketing and developments expenses, and profitability; and
- competitors may have substantially greater resources available to invest in development and publishing of products for next-generation platforms.

If we do not succeed in generating considerable revenues and profitability from the next-generation handsets, our revenues, financial position and operating results may suffer.

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

Although we currently transact approximately one-half of our business in U.S. Dollars, we also transact approximately one-fourth of our business in pounds sterling and Euros and the remaining portion of our business in other currencies. 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. Fluctuations in the value of the U.S. Dollar relative to other currencies impact our revenues, cost of revenues and operating margins and result in foreign currency exchange gains and losses. For example, in 2008, we recorded a $3.0 million foreign currency exchange loss primarily related to the revaluation of intercompany balance sheet accounts. To date, we have not engaged in exchange rate hedging activities, and we do not expect to do so in the foreseeable future. Even if we were to implement hedging strategies to mitigate this risk, these strategies might not eliminate our exposure to foreign exchange rate fluctuations and would involve costs and risks of their own, such as cash expenditures, ongoing management time and expertise, external costs to implement the strategies and potential accounting implications.

We face 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 rapid foreign currency devaluations and to repatriate funds to the U.S. should we require additional working capital. In particular, we intend to repatriate approximately $4.2 million of available funds, no later than the quarter ended June 30, 2009, to satisfy our capital requirement, primarily our note repayment obligations. If we are unable to repatriate these funds from China within that time frame, it would have a material impact on our financial condition and cash position.

Some provisions in our certificate of incorporation, bylaws and the terms of some of our licensing and distribution agreements and our credit facility 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, the terms of a number of our agreements with branded content owners and wireless carriers effectively provide that, if we undergo a change of control, the applicable content owner or carrier will be entitled to terminate the relevant agreement. Also, our credit facility provides that a change in control of our company is an event of default, which accelerates all of our outstanding debt, thus effectively requiring that we or the acquirer be willing to repay the debt concurrently with the change of control or that we obtain the consent of the lender to proceed with the change of control transaction. Individually or collectively, these matters may deter third parties from seeking to acquire us.

Failure to renew our existing brand and content licenses on favorable terms or at all and to obtain additional licenses would impair our ability to introduce new mobile games or to continue to offer our current games based on third-party content.

Revenues derived from mobile games and other applications based on or incorporating brands or other intellectual property licensed from third parties accounted for 75.0%, 88.1% and 88.4% of our revenues in 2008, 2007 and 2006, respectively. In 2008, revenues derived under various licenses from our four largest licensors, Atari, Playfirst, PopCap and Sega, together accounted for approximately 25% of our revenues. Even if mobile games based on licensed content or brands remain popular, any of our licensors could decide not to renew our existing license or not to license additional intellectual property and instead license to our competitors or develop and publish its own mobile games or other applications, competing with us in the marketplace. For example, one of our licenses with Hasbro under which we created our Battleship, Clue, Game of Life and Monopoly games, which in the past have accounted for a significant portion of our revenues, expired in March 2008, and we experienced a decline in revenues as a result. Many of these licensors already develop games for other platforms and may have significant experience and development resources available to them should they decide to compete with us rather than license to us. Moreover, many of our licensors have not granted us the right to develop games for some next-generation platforms, such as the iPhone, and may instead choose to develop games for the iPhone themselves. Additionally, licensors may elect to work with publishers who can develop and publish products across multiple platforms, such as mobile, online and console, which we currently cannot offer.

Increased competition for licenses may lead to larger guarantees, advances and royalties that we must pay to our licensors, which could significantly increase our cost of revenues and cash usage. We may be unable to renew these licenses or to renew them on terms favorable to us, and we may be unable to secure alternatives in a timely manner. Our budget for new licenses in 2009 is a substantial reduction from the amount we have spent for new licenses in prior years. Our anticipated reduced spending on new licenses in 2009, which we may decide to further reduce if we require more working capital for other purposes than we currently anticipate, may adversely impact our title plan and our ability to generate revenues in 2010 and future periods. Failure to maintain or renew our existing licenses or to obtain additional licenses would impair our ability to introduce new mobile games or to continue to offer our current games, which would materially harm our business, operating results and financial condition.

Even if we succeed in gaining new licenses or extending existing licenses, we may fail to anticipate the entertainment preferences of our end users when making choices about which brands or other content to license. If the entertainment preferences of end users shift to content or brands owned or developed by companies with which we do not have relationships, we may be unable to establish and maintain successful relationships with these developers and owners, which would materially harm our business, operating results and financial condition.

We currently rely primarily on wireless carriers to market and distribute our games and thus to generate our revenues. In particular, subscribers of Verizon Wireless represented 21.4% of our revenues in 2008. The loss of or a change in any significant carrier relationship, including their credit worthiness, could materially reduce our revenues and adversely impact our cash position.

A significant portion of our revenues is derived from a limited number of carriers. In 2008, we derived approximately 51.4% of our revenues from relationships with five carriers, including Verizon Wireless, which accounted for 21.4% of our revenues. We expect that we will continue to generate a substantial majority of our revenues through distribution relationships with fewer than 20 carriers for the foreseeable future. If any of our carriers decides not to market or distribute our games or decides to terminate, not renew or modify the terms of its agreement with us or if there is consolidation among carriers generally, we may be unable to replace the affected agreement with acceptable alternatives, causing us to lose access to that carrier s subscribers and the revenues they afford us. In addition, having our revenues concentrated among a limited number of carriers also creates a credit concentration risk for us, and in the event that any significant carrier were unable to fulfill its payment obligations to us, our operating results and cash position would suffer. Finally, our credit facility s borrowing base is tied to our accounts receivable. If any of our wireless carriers were delinquent in their payments to us, it would reduce our borrowing base and could require us to immediately repay any borrowings outstanding related to such carrier. If any of these eventualities come to pass, it could materially reduce our revenues and otherwise harm our business.

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End user tastes are continually changing and are often unpredictable; if we fail to develop and publish new mobile games that achieve market acceptance, our sales would suffer.

Our business depends on developing and publishing mobile games that wireless carriers will place on their decks and end users will buy. We must continue to invest significant resources in research and development, licensing efforts, marketing and regional expansion to enhance our offering of games and introduce new games, and we must make decisions about these matters well in advance of product release to timely implement them. Our success depends, in part, on unpredictable and volatile factors beyond our control, including end-user preferences, competing games, new mobile platforms and the availability of other entertainment activities. If our games and related applications do not respond to the requirements of our carriers or the entertainment preferences of end users, or they are not brought to market in a timely and effective manner, our business, operating results and financial condition would be harmed. Even if our games are successfully introduced and initially adopted, a subsequent shift in our carriers or the entertainment preferences of end users could cause a decline in our games popularity that could materially reduce our revenues and harm our business, operating results and financial condition.

A shift of technology platform by wireless carriers and mobile handset manufacturers could lengthen the development period for our games, increase our costs and cause our games to be of lower quality or to be published later than anticipated.

End users of games must have a mobile handset with multimedia capabilities enabled by technologies capable of running third-party games and related applications such as ours. Our development resources are concentrated in the BREW and Java platforms, and more recently the Apple iPhone, Google Android, Blackberry, i-mode, Mophun, N-Gage, Symbian and Windows Mobile platforms. If one or more of these technologies fall out of favor with handset manufacturers and wireless carriers and there is a rapid shift to a different technology platform, such as Adobe Flash Lite, or a new technology where we do not have development experience or resources, the development period for our games may be lengthened, increasing our costs, and the resulting games may be of lower quality, and may be published later than anticipated. In such an event, our reputation, business, operating results and financial condition might suffer.

Inferior deck placement would likely adversely impact our revenues and thus our operating results and financial condition.

Wireless carriers provide a limited selection of games that are accessible to their subscribers through a deck on their mobile handsets. The inherent limitation on the number of games available on the deck is a function of the limited screen size of handsets and carriers perceptions of the depth of menus and numbers of choices end users will generally utilize. Carriers typically provide one or more top-level menus highlighting games that are recent top sellers, that the carrier believes will become top sellers or that the carrier otherwise chooses to feature, in addition to a link to a menu of additional games sorted by genre. We believe that deck placement on the top-level or featured menu or toward the top of genre-specific or other menus, rather than lower down or in sub-menus, is likely to result in higher game sales. If carriers choose to give our games less favorable deck placement, our games may be less successful than we anticipate, our revenues may decline and our business, operating results and financial condition may be materially harmed.

Conversely, the open nature of the next-generation platform direct-to-consumer channels, such as the Apple and Google App Stores, allow for vast numbers of applications to be offered to consumers from a much wider array of competitors than in the traditional carrier channel. This may reduce the competitive advantage of our established network of relationships with wireless carriers. It may also require us to expend significantly increased amounts to generate substantial revenues on these platforms, reducing or eliminating the profitability of publishing games for them.

We have depended on no more than ten mobile games for a majority of our revenues in recent fiscal periods. If these games do not continue to succeed or we do not release highly successful new games, our revenues would decline.

In our industry, new games are frequently introduced, but a relatively small number of games account for a significant portion of industry sales. Similarly, a significant portion of our revenues comes from a limited number of mobile games, although the games in that group have shifted over time. For example, in 2008 and 2007, we generated approximately 30.5% and 52.7% of our revenues, respectively, from our top ten games, but no individual game represented more than 10% of our revenues in either of those periods. In addition, our revenues from our top ten games in absolute dollars have declined in recent periods. We expect to release a relatively small number of new games each year for the foreseeable future. If these games are not successful, our revenues could be limited and our business and operating results would suffer in both the year of release and thereafter.

If we are unsuccessful in establishing and increasing awareness of our brand and recognition of our mobile games or if we incur excessive expenses promoting and maintaining our brand or our games, our potential revenues could be limited, our costs could increase and our operating results and financial condition could be harmed.

We believe that establishing and maintaining our brand is critical to retaining and expanding our existing relationships with wireless carriers and content licensors, as well as developing new such relationships, and is also critical to establishing a direct relationship with end users who purchase our products from direct-to-consumer channels, such as the Apple and Google App Stores and directly from us. Our ability to promote the Glu brand depends on our success in providing high-quality mobile games. Similarly, recognition of our games by end users depends on our ability to develop engaging games of high quality with attractive titles. However, our success also depends, in part, on the services and efforts of third parties, over which we have little or no control. For instance, if our carriers fail to provide high levels of service, our end users ability to access our games may be interrupted, which may adversely affect our brand. If end users, branded content owners and carriers do not perceive our existing games as high-quality or if we introduce new games that are not favorably received by our end users and carriers, 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 will be costly and will involve extensive management time to execute successfully, particularly as we expand our efforts to increase awareness of our brand and games among international consumers. Moreover, if a game is introduced with defects, errors or failures or unauthorized objectionable content, we could experience damage to our reputation and brand, and our attractiveness to wireless carriers, licensors and end users might be reduced. If we fail to increase and maintain brand awareness and consumer recognition of our games, our potential revenues could be limited, our costs could increase and our business, operating results and financial condition could suffer.

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 hinder our growth.

International sales represented approximately 52.0% and 46.2% of our revenues in 2008 and 2007, respectively. In addition, as part of our international efforts, we acquired U.K.-based Macrospace in December 2004, UK-based iFone in March 2006, China-based MIG in December 2007 and Superscape, which has a significant presence in Russia, in March 2008. In addition, we have offices in France, Germany, Spain, Italy, Poland, China, Brazil, Chile, Canada and Mexico. We expect to maintain our international presence, and we expect international sales to be an important component of our revenues. Risks affecting our international operations include:

- challenges caused by distance, language and cultural differences;
- multiple and conflicting laws and regulations, including complications due to unexpected changes in these laws and regulations;
- foreign currency exchange rate fluctuations;
- difficulties in staffing and managing international operations;
- potential violations of the Foreign Corrupt Practices Act, particularly in certain emerging countries in East Asia, Eastern Europe and Latin America;
- greater fluctuations in sales to end users and through carriers in developing countries, including longer payment cycles and greater difficulty collecting accounts receivable;
- protectionist laws and business practices that favor local businesses in some countries;
- potential adverse foreign tax consequences;
- foreign exchange controls that might prevent us from repatriating income earned in countries outside the United States, particularly China;
- price controls;
- the servicing of regions by many different carriers;
- imposition of public sector controls;
- political, economic and social instability;
- 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.

In addition, developing user interfaces that are compatible with other languages or cultures can be expensive. As a result, our ongoing international expansion efforts may be more costly than we expect. As a result of our international expansion in Asia, Europe and Latin America, we must pay income tax in numerous foreign jurisdictions with complex and evolving tax laws. If we become subject to increased taxes or new forms of taxation imposed by governmental authorities, our results of operations could be materially and adversely affected.

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

Wireless carriers generally control the price charged for our mobile games and the billing and collection for sales of our mobile games and could make decisions detrimental to us.

Wireless carriers generally control the price charged for our mobile games either by approving or establishing the price of the games charged to their subscribers. Some of our carrier agreements also restrict our ability to change prices. In cases where carrier approval is required, approvals may not be granted in a timely manner or at all. A failure or delay in obtaining these approvals, the prices established by the carriers for our games, or changes in these prices could adversely affect market acceptance of those games. Similarly, for some of our carriers, including Verizon Wireless, when we make changes to a pricing plan (the wholesale price and the corresponding suggested retail price based on our negotiated revenue-sharing arrangement), adjustments to the actual retail price charged to end users may not be made in a timely manner or at all (even though our wholesale price was reduced). A failure or delay by these carriers in adjusting the retail price for our games, could adversely affect sales volume and our revenues for those games.

In addition, wireless carriers have the ability to change their pricing policy with their customers for downloading content, such as our games. For example, Verizon Wireless, our largest carrier, in 2008 began imposing a data surcharge to download content on those of its customers who had not otherwise subscribed to a data plan. Such charges have, and could in the future, deter end users from purchasing our content. Furthermore, a substantial portion of our revenues is derived from subscriptions. Our wireless carriers have the ability to discontinue offering subscription pricing, without our approval.

Carriers and other distributors also control billings and collections for our games, either directly or through third-party service providers. If our carriers or their third-party service providers cause material inaccuracies when providing billing and collection services to us, our revenues may be less than anticipated or may be subject to refund at the discretion of the carrier. Our market is experiencing a growth in adoption of smartphones, such as the Apple iPhone, RIM Blackberry and Microsoft Danger devices. For many of our wireless carriers, these smartphones are not yet directly integrated into the carrier s provisioning infrastructure that would allow them to sell games directly to consumers, and games are instead sold through third parties, which is a more cumbersome process for consumers and results in a smaller revenue share for us. These factors could harm our business, operating results and financial condition.

If we fail to deliver our games at the same time as new mobile handset models are commercially introduced, our sales may suffer.

Our business depends, in part, on the commercial introduction of new handset models with enhanced features, including larger, higher resolution color screens, improved audio quality, and greater processing power, memory, battery life and storage. For example, some companies have recently launched new mobile handsets or mobile platforms, including Apple (iPhone), Google (Android) and Nokia (N-Gage). In addition, consumers generally purchase the majority of content, such as our games, for a new handset within a few months of purchasing the handset. We do not control the timing of these handset launches. Some new handsets are sold by carriers with one or more games or other applications pre-loaded, and many end users who download our games do so after they purchase their new handsets to experience the new features of those handsets. Some handset manufacturers give us access to their handsets prior to commercial release. If one or more major handset manufacturers were to cease to provide us access to new handset models prior to commercial release, we might be unable to introduce compatible versions of our games for those handsets in coordination with their commercial release, and we might not be able to make compatible versions for a substantial period following their commercial release. If, because we do not adequately build into our title plan the demand for games for a particular handset or platform or experience of game launch delays, we miss the opportunity to sell games when new handsets are shipped or our end users upgrade to a new handset, our revenues would likely decline and our business, operating results and financial condition would likely suffer.

Future mobile handsets may significantly reduce or eliminate wireless carriers control over delivery of our games and force us to rely further on alternative sales channels, which, if not successful, could require us to increase our sales and marketing expenses significantly.

Substantially all our games are currently sold through carriers branded e-commerce services. We have invested significant resources developing this sales channel. However, a growing number of handset models currently available allow wireless subscribers to browse the Internet and, in some cases, download applications from sources other than a carrier s branded e-commerce service, such as the Apple and Google App Stores. In addition, developing other application delivery mechanisms, such as premium-SMS or our own direct-to-consumer website, enable subscribers to download applications without having to access a carrier s branded e-commerce service. Increased use by subscribers of open operating system handsets, premium-SMS delivery systems or our website will enable them to bypass carriers branded e-commerce services and could reduce the market power of carriers. This could force us to rely further on alternative sales channels where we may not be successful selling our games and could require us to increase our sales and marketing expenses significantly. As with our carriers, we believe that inferior placement of our games and other mobile entertainment products in the menus of off-deck distributors will result in lower revenues than might otherwise be anticipated from these alternative sales channels. We may be unable to develop and promote our direct website distribution sufficiently to overcome the limitations and disadvantages of off-deck distribution channels and our efforts to promote direct distribution could prove expensive. This could harm our business, operating results and financial condition.

If a substantial number of the end users that purchase our games by subscription change mobile handsets or if wireless carriers switch to subscription plans that require active monthly renewal by subscribers or change or cease offering subscription plans, our sales could suffer.

Subscriptions represent a significant portion of our revenues. As handset development continues, over time an increasing percentage of end users who already own one or more of our subscription games will likely upgrade from their existing handsets. With some wireless carriers, end users are not able to transfer their existing subscriptions from one handset to another. In addition, carriers may switch to subscription billing systems that require end users to actively renew, or opt-in, each month from current systems that passively renew unless end users take some action to opt-out of their subscriptions, or change or cease offering subscription plans altogether. If our subscription revenues decrease significantly for these or other reasons, our sales would suffer and this could harm our business, operating results and financial condition.

If we fail to maintain and enhance our capabilities for porting games to a broad array of mobile handsets, our attractiveness to wireless carriers and branded content owners will be impaired, and our sales and financial results could suffer.

To reach large numbers of wireless subscribers, mobile entertainment publishers like us must support numerous mobile handsets and technologies. Once developed, a mobile game may be required to be ported to, or converted into separate versions for, more than 1,000 different handset models, many with different technological requirements. These include handsets with various combinations of underlying technologies, user interfaces, keypad layouts, screen resolutions, sound capabilities and other carrier-specific customizations. If we fail to maintain or enhance our porting capabilities, our sales could suffer, branded content owners might choose not to grant us licenses and carriers might choose to give our games less desirable deck placement or not to give our games placement on their decks at all.

Changes to our game design and development processes to address new features or functions of handsets or networks might cause inefficiencies in our porting process or might result in more labor intensive porting processes. In addition, in the future we will be required to port existing and new games to a broader array of handsets and develop versions specific to new next-generation handsets. If we utilize more labor-intensive porting processes, our margins could be significantly reduced and it may take us longer to port games to an equivalent number of handsets. For example, the time required to develop and port games to some of the new advanced mobile handsets, including the iPhone, N-Gage and those based on the Android platform, is longer and thus developing and porting for the new platforms is more costly than developing and porting for games for traditional mobile phones. Finally, since the vast majority of our revenues are currently derived from our carrier business, it is important that we maintain and enhance our porting capabilities. However, as additional App Stores are developed and gain market prominence, our porting capabilities represent less of a business advantage for us, yet we could be required to invest considerable resource in this area to support our existing business. These additional costs could harm our business, operating results and financial condition.

Our industry is subject to risks generally associated with the entertainment industry, any of which could significantly harm our operating results.

Our business is subject to risks that are generally associated with the entertainment industry, many of which are beyond our control. These risks could negatively impact our operating results and include: the popularity, price and timing of release of games and mobile handsets on which they are played; the commercial success of any movies upon which one of more of our games are based;

economic conditions that adversely affect discretionary consumer spending; changes in consumer demographics; the availability and popularity of other forms of entertainment; and critical reviews and public tastes and preferences, which may change rapidly and cannot necessarily be predicted.

If one or more of our games were found to contain hidden, objectionable content, our reputation and operating results could suffer.

Historically, many video games have been designed to include hidden content and gameplay features that are accessible through the use of in-game cheat codes or other technological means that are intended to enhance the gameplay experience. For example, our Super K.O. Boxing game includes additional characters and game modes that are available with a code (usually provided to a player after accomplishing a certain level of achievement in the game). These features have been common in console and computer games. However, in several recent cases, hidden content or features have been included in other publishers products by an employee who was not authorized to do so or by an outside developer without the knowledge of the publisher. From time to time, some of this hidden content and these hidden features have contained profanity, graphic violence and sexually explicit or otherwise objectionable material. If a game we published were found to contain hidden, objectionable content, our wireless carriers and other distributors of our games could refuse to sell it, consumers could refuse to buy it or demand a refund of their money, and, if the game was based on licensed content, the licensor could demand that we incur significant expense to remove the objectionable content from the game and all ported versions of the game. This could have a materially negative impact on our business, operating results and financial condition.

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, integrate and retain our key personnel, namely our management team and experienced sales and engineering personnel. We may experience difficulty assimilating our newly hired personnel, which may adversely affect our business. In addition, we must retain and motivate high quality personnel, and we must also attract and assimilate other highly qualified employees. Competition for qualified management, technical and other personnel can be intense, and we may not be successful in attracting and retaining such personnel. Competitors have in the past and may in the future attempt to recruit our employees, and our management and key employees that are not bound by agreements that could prevent them from terminating their employment at any time. 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.

Acquisitions could result in operating difficulties, dilution and other harmful consequences.

We have acquired a number of businesses in the past, including, most recently, Superscape, which has a significant presence in Russia, in March 2008 and MIG, which is based in China, in December 2007. We expect to continue to evaluate and consider a wide array of potential strategic transactions, including business combinations and acquisitions of technologies, services, products and other assets. At any given time, we may be engaged in discussions or negotiations with respect to one or more of these types of transactions. Any of these transactions could be material to our financial condition and results of operations. The process of integrating any acquired business may create unforeseen operating difficulties and expenditures and is itself risky. The areas where we may face difficulties include:

- diversion of management time and a shift of focus from operating the businesses to issues related to integration and administration;
- declining employee morale and retention issues resulting from changes in compensation, management, reporting relationships, future prospects or the direction of the business;
- the need to integrate each acquired company s accounting, management, information, human resource and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;
- the need to implement controls, procedures and policies appropriate for a larger public company that the acquired companies lacked prior to acquisition;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries; and

liability for activities of the acquired companies before the acquisition, including violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities.

If the anticipated benefits of any future acquisitions do not materialize, we experience difficulties integrating businesses acquired in the future, or other unanticipated problems arise, our business, operating results and financial condition may be harmed.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our earnings based on this impairment assessment process, which could harm our operating results. For example, during 2008 we incurred an aggregate goodwill impairment charge related to write-downs in the third and fourth quarters of 2008 of $69.5 million as the fair values of our three reporting units were determined to be below their carrying values.

Moreover, the terms of acquisitions may require that we make future cash or stock payments to shareholders of the acquired company, which may strain our cash resources or cause substantial dilution to our existing stockholders at the time the payments are required to be made. For example, pursuant to our merger agreement with MIG, we were required to make $25.0 million in future cash and stock payments to the former MIG shareholders, which payments we renegotiated in December 2008. Had we paid the MIG earnout and bonus payments on their original terms, we could have experienced cash shortfall related to the cash payments and our stockholders could have experienced substantial dilution related to the stock payments.

If we fail to maintain an effective system of internal controls, we might not be able to report our financial results accurately or prevent fraud; in that case, our stockholders could lose confidence in our financial reporting, which could negatively impact the price of our stock.

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. In addition, Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting and have our independent registered public accounting firm attest to our evaluation beginning with this report. We have incurred, and expect to continue to incur, substantial accounting and auditing expenses and expend significant management time in complying with the requirements of Section 404. Even if we conclude, and our independent registered public accounting firm concurs, that our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, because of its inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm discover a material weakness or a significant deficiency in our internal control, the disclosure of that fact, even if quickly remedied, could reduce the market s confidence in our financial statements and harm our stock price. In addition, a delay in compliance with Section 404 could subject us to a variety of administrative sanctions, including ineligibility for short form resale registration, action by the SEC, the suspension or delisting of our common stock from the NASDAQ Global Market and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price and could harm our business.

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 an essential element of our business. We rely on a combination of copyright, trademark, trade secret and other intellectual property laws and restrictions on disclosure to protect our intellectual property rights. To date, we have not sought patent protection. Consequently, we will not be able to protect our technologies from independent invention by third parties. Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy or otherwise to obtain and use our technology and 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 internationally where the laws may not protect our intellectual property rights as fully as in the United States. In the future, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and divert our management and resources.

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

Our business is subject to increasing regulation of content, consumer privacy, distribution and online hosting and delivery in the key territories in which we conduct business. If we do not successfully respond to these regulations, our business may suffer.

Legislation is continually being introduced that may affect both the content of our products and their distribution. For example, data and consumer protection laws in the United States and Europe impose various restrictions on our web sites, which will be increasingly important to our business as we continue to market our products directly to end users. Those rules vary by territory although the Internet recognizes no geographical boundaries. 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 and enforced, 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. In addition, two self-regulatory bodies in the United States (the Entertainment Software Rating Board) and the European Union (Pan European Game Information) provide consumers with rating information on various products such as entertainment software similar to our products based on the content (e.g., violence, sexually explicit content, language). 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.

Third parties may sue us, including for intellectual property infringement, which, if successful, may disrupt our business and could require us to pay significant damage awards.

Third parties may sue us, including for intellectual property infringement or initiate proceedings to invalidate our intellectual property, which, if successful, could disrupt the conduct of our business, cause us to pay significant damage awards or require us to pay licensing fees. For example, recently Skinit, Inc. filed a complaint against us and other defendants, seeking unspecified damages, plus attorney s fees and costs. The complaint alleges breach of contract, interference with economic relations, conspiracy and misrepresentation of fact. In the event of a successful claim against us, we might be enjoined from using our or our licensed intellectual property, we might incur significant licensing fees and we might be forced to develop alternative technologies. Our failure or inability to develop non-infringing technology or games or to license the infringed or similar technology or games on a timely basis could force us to withdraw games from the market or prevent us from introducing new games. In addition, even if we are able to license the infringed or similar technology or games, license fees could be substantial and the terms of these licenses could be burdensome, which might adversely affect our operating results. We might also incur substantial expenses in defending against third-party disputes, litigation or infringement claims, regardless of their merit. Successful claims against us might result in substantial monetary liabilities, an injunction against us and might materially disrupt the conduct of our business and harm our financial results.

Maintaining and improving our financial controls and the requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain qualified members for our board of directors.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), and the rules and regulations of the NASDAQ Stock Market. The requirements of these rules and regulations increases our legal, accounting and financial compliance costs, makes some activities more difficult, time-consuming and costly and may also place undue strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. This can be difficult to do. For example, we depend on the reports of wireless carriers for information regarding the amount of sales of our games and related applications and to determine the amount of royalties we owe branded content licensors and the amount of our revenues. These reports may not be timely, and in the past they have contained, and in the future they may contain, errors.

To maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we expend significant resources and provide significant management oversight to implement appropriate processes, document our system of internal control over relevant processes, assess their design, remediate any deficiencies identified and test their operation. As a result, management s attention may be diverted from other business concerns, which could harm our business, operating results and financial condition. These efforts also involve substantial accounting-related costs. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the NASDAQ Global Market.

The Sarbanes-Oxley Act and the rules and regulations of the NASDAQ Stock Market make it more difficult and more expensive for us to maintain directors and officers liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage. If we are unable to maintain adequate directors and officers insurance, our ability to recruit and retain qualified directors, especially those directors who may be considered independent for purposes of the NASDAQ Stock Market rules, and officers will be significantly curtailed.

System or network failures could reduce our sales, increase costs or result in a loss of revenues or end users of our games.

We rely on wireless carriers and other third-party networks to deliver games to end users and on their or other third parties billing systems to track and account for the downloading of our games. In certain circumstances, we also rely on our own servers to deliver games on demand to end users through our carriers networks. In addition, certain of our subscription-based games, such as World Series of Poker, require access over the mobile Internet to our servers to enable certain features. Any technical problem with carriers , third parties or our billing, delivery or information systems or communications networks could result in the inability of end users to download our games, prevent the completion of billing for a game, or interfere with access to some aspects of our games. For example, from time to time, our carriers have experienced failures with their billing and delivery systems and communication networks, including gateway failures that reduced the provisioning capacity of their branded e-commerce system. Any such technical problems could cause us to lose end users or revenues or incur substantial repair costs and distract management from operating our business.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds from Public Offering of Common Stock

The Form S-1 Registration Statement (Registration No. 333-139493) relating to our IPO was declared effective by the SEC on March 21, 2007.

The net proceeds of our IPO were $74.8 million. Through March 31, 2009, we used approximately $12.0 million of the net proceeds to repay in March 2007 the entire principal and accrued interest on an outstanding loan from the lender, $13.6 million of the net proceeds for the acquisition of MIG, net of cash acquired, and $30.0 million, net of cash acquired, for the acquisition of Superscape. We expect to use the remaining net proceeds for general corporate purposes, including working capital and potential capital expenditures and acquisitions.

Our management retains broad discretion in the allocation and use of the net proceeds of our IPO, and investors will be relying on the judgment of our management regarding the application of the net proceeds. Pending specific utilization of the net proceeds as described above, we have invested the net proceeds of the offering in a variety of financial instruments consisting principally in money market funds. The goal with respect to the investment of the net proceeds will be capital preservation and liquidity so that such funds are readily available to fund our operations.

Repurchases of Common Stock

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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None.

ITEM 5. OTHER INFORMATION

None.

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.

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SIGNATURES

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

	GLU MOBILE INC.
Date: May 11, 2009	By: /s/ L. Gregory Ballard L. Gregory Ballard *President and Chief Executive Officer* (Principal Executive Officer)
Date: May 11, 2009	By: /s/ Eric R. Ludwig Eric R. Ludwig *Senior Vice President and Chief Financial Officer* (Principal Financial Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.01#	Glu Mobile Inc. 2009 Executive Bonus Plan, dated as of February 25, 2009	8-K	001-33368	10.01	03/03/09	
10.02#	Description of 2009 Executive Officer Target Bonuses under the Glu Mobile Inc. 2009 Executive Bonus Plan (contained in Item 5.02).	8-K	001-33368		03/03/09	
10.03#	Non-Employee Director Compensation Program, dated as of January 28, 2009.	10-K	001-33368	10.17	03/13/09	
10.04#	2007 Employee Stock Purchase Plan, as amended on January 22, 2009	10-K	001-33368	10.05	03/13/09	
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

# Indicates a management contract or compensatory plan or arrangement.

* This certification is not deemed filed for purposes of

Section 18 of the Securities 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 of 1933 or the Securities Exchange Act of 1934, except to the extent that Glu Mobile Inc. specifically incorporates it by reference.