GLU MOBILE INC
Form 10-Q
November 14, 2008

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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 September 30, 2008

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

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 October 31, 2008: 29,585,125 shares.

GLU MOBILE INC.
FORM 10-Q
Quarterly Period Ended September 30, 2008
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,895	$ 57,816
Short-term investments	842	1,994
Accounts receivable, net of allowance of $486 and $368 at September 30, 2008 and December 31, 2007, respectively	21,248	18,369
Prepaid royalties	15,157	10,643
Prepaid expenses and other	2,840	2,589
Total current assets	59,982	91,411
Property and equipment, net	5,882	3,817
Prepaid royalties	6,649	2,825
Other long-term assets	1,090	1,593
Intangible assets, net	23,814	14,597
Goodwill	12,459	47,262
Total assets	$ 109,876	$ 161,505
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,222	$ 6,427
Accrued liabilities	766	217
Accrued compensation	3,592	2,322
Accrued royalties	16,995	12,759
Deferred revenues	669	640
Accrued restructuring charges	1,024	
Total current liabilities	29,268	22,365
Other long-term liabilities	14,871	9,679
Total liabilities	44,139	32,044
Commitments and contingencies (Note 6)		
Stockholders equity:		
Preferred stock, $0.0001 par value; 5,000 shares authorized at September 30, 2008 and December 31, 2007; no shares issued and outstanding at September 30, 2008 and December 31, 2007		
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Common stock, $0.0001 par value: 250,000 shares authorized at September 30, 2008 and December 31, 2007; 29,613 and 29,023 shares issued and outstanding at September 30, 2008 and December 31, 2007				
Additional paid-in capital		187,235		179,924
Deferred stock-based compensation		(30)		(113)
Accumulated other comprehensive income		431		2,080
Accumulated deficit		(121,902)		(52,433)
Total stockholders equity		65,737		129,461
Total liabilities and stockholders equity	$	109,876	$	161,505

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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	$ 23,894	$ 16,651	$ 68,190	$ 48,727
Cost of revenues:				
Royalties	5,753	4,587	16,642	13,267
Impairment of prepaid royalties and guarantees	1,921		2,155	
Amortization of intangible assets	3,247	483	8,089	1,589
Total cost of revenues	10,921	5,070	26,886	14,856
Gross profit	12,973	11,581	41,304	33,871
Operating expenses:				
Research and development	9,223	5,863	24,604	16,153
Sales and marketing	6,004	3,326	17,828	9,532
General and administrative	5,085	4,149	16,576	12,422
Amortization of intangible assets	67	67	204	200
Acquired in-process research and development			1,110	
Impairment of goodwill	46,618		46,618	
Restructuring charge	126		287	
Gain on sale of assets				(1,040)
Total operating expenses	67,123	13,405	107,227	37,267
Loss from operations	(54,150)	(1,824)	(65,923)	(3,396)
Interest and other income/(expense), net:				
Interest income	127	956	844	2,081
Interest expense	(30)	(14)	(50)	(871)
Other income/(expense), net	(1,991)	357	(2,172)	584
Interest and other income/(expense), net	(1,894)	1,299	(1,378)	1,794
Loss before income taxes and minority interest	(56,044)	(525)	(67,301)	(1,602)
Income tax provision	(822)	(228)	(2,165)	(813)
Minority interest in consolidated subsidiaries			(3)	
Net loss	(56,866)	(753)	(69,469)	(2,415)
Accretion to preferred stock				(17)
Deemed dividend				(3,130)
Net loss attributable to common stockholders	$ (56,866)	$ (753)	$ (69,469)	$ (5,562)

Net loss per share attributable to common stockholders basic and diluted:				
Net loss	$ (1.93)	$ (0.03)	$ (2.37)	$ (0.11)
Accretion to preferred stock				
Deemed dividend				(0.15)
Net loss per share attributable to common stockholders basic and diluted	$ (1.93)	$ (0.03)	$ (2.37)	$ (0.26)
Weighted average common shares outstanding basic and diluted	29,470	28,788	29,311	21,398
Stock-based compensation expense included in:				
Research and development	$ 261	$ 310	$ 511	$ 665
Sales and marketing	1,298	224	3,903	498
General and administrative	569	626	1,716	1,613

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)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash flows from operating activities:		
Net loss	$ (69,469)	$ (2,415)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities:		
Depreciation and accretion	2,107	1,518
Amortization of intangible assets	8,293	1,787
Stock-based compensation expense	6,130	2,776
Change in carrying value of preferred stock warrant liability		10
Amortization of value of warrants issued in connection with loan		477
Amortization of loan agreement costs	47	91
Non-cash foreign currency translation (gain)/loss	917	(574)
Acquired in-process research and development	1,110	
Impairment of goodwill	46,618	
Impairment of prepaid royalties and guarantees	2,155	
Impairment of auction-rate securities	1,152	
Gain on sale of assets		(1,040)
Changes in allowance for doubtful accounts	118	46
Changes in operating assets and liabilities, net of effect of acquisitions:		
(Increase)/decrease in accounts receivable	1,001	(1,584)
Increase in prepaid royalties	(5,696)	(776)
(Increase)/decrease in prepaid expenses and other assets	268	(1,525)
Increase/(decrease) in accounts payable	(2,615)	2,424
Increase/(decrease) in other accrued liabilities	1,434	(800)
Increase/(decrease) in accrued compensation	1,011	(215)
Increase/(decrease) in accrued royalties	2,496	(245)
Increase/(decrease) in deferred revenues	73	(9)
Decrease in accrued restructuring charges	(2,630)	(36)
Increase in other long-term liabilities	2,263	393
Net cash provided by/(used in) operating activities	(3,217)	303
Cash flows from investing activities:		
Purchase of short-term investments		(73,600)
Sale of short-term investments		79,550
Purchase of property and equipment	(3,691)	(2,142)
Proceeds from sale of assets, net of selling costs		1,040
Acquisition of MIG, net of cash acquired	(693)	
Acquisition of Superscape, net of cash acquired	(30,008)	
Net cash provided by/(used in) investing activities	(34,392)	4,848

Cash flows from financing activities:		
Proceeds from IPO shares, net of issuance costs		74,758
Proceeds from exercise of stock options	231	151
Proceeds from exercise of stock warrants	101	
Debt payments		(12,060)
Net cash provided by financing activities	332	62,849
Effect of exchange rate changes on cash	(644)	165
Net increase/(decrease) in cash and cash equivalents	(37,921)	68,165
Cash and cash equivalents at beginning of period	57,816	3,823
Cash and cash equivalents at end of period	$ 19,895	$ 71,988

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 as Cyent Studios, Inc. in Nevada in May 2001 and changed its name to Sorrent, Inc. In November 2001, New Sorrent, Inc., a wholly owned subsidiary of the Company was incorporated in California. The Company and New Sorrent, Inc. merged in December 2001 to form Sorrent, Inc., a California corporation. In May 2005, the Company changed its name to Glu Mobile Inc. In November 2006 the Company reincorporated in the state of Delaware. The Company is a leading global publisher of mobile games and has developed and published a portfolio of casual and traditional games to appeal to a broad cross section of subscribers served by the Company s wireless carriers and other distributors. Glu creates games and related applications based on third-party licensed brands and other intellectual property, as well as developing its own original brands and intellectual property.

In March 2007, the Company completed its initial public offering (IPO) of common stock in which it sold and issued 7,300 shares 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 connection with its IPO, in March 2007, the Company affected a 1-for-3 reverse stock split of its outstanding capital stock and derivative securities. All share numbers and exercise prices in these financial statements give effect to the reverse stock split.

Basis of Presentation

The accompanying 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 31, 2008. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, which the Company believes are necessary for a fair statement of the Company s financial position as of September 30, 2008 and its results of operations for the three and nine months ended September 30, 2008 and 2007, respectively. These condensed consolidated financial statements are not necessarily indicative of the results to be expected for the entire year. The consolidated balance sheet presented as of December 31, 2007 has been derived from the audited consolidated financial statements as of that date, and the consolidated balance sheet presented as of September 30, 2008 has been derived from the unaudited condensed consolidated financial statements as of that date.

The Company s cash, cash equivalents and short-term investments were $20,737 as of September 30, 2008. The Company expects its cash, cash equivalents and short-term investments to be approximately $17,000 at December 31, 2008. During the nine months ended September 30, 2008, the Company used $3,217 of cash for operations. There can be no assurances that the Company will be able to generate positive operating cash flows during the fourth quarter of 2008, during 2009 or beyond. Accordingly, it expects to continue to fund its operations and satisfy its contractual obligations for the remainder of 2008 and 2009 primarily through its cash, cash equivalents and short-term investments. The Company believes its cash, cash equivalents and short-term investments, including cash flows from operations, will be sufficient to meet its anticipated cash needs for at least the next 12 months. However, its cash requirements for the next 12 months may be greater than it anticipates due to, among other reasons, lower than expected cash generated from operating activities, including revenues that are lower than it currently anticipates, 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 and its inability to issue shares (rather than pay cash) if it is required to seek, but does not receive, stockholder approval for the equity components of the MIG payments described in Note 2.

If future circumstances develop that are materially different from the Company s current expectations, the audit report for the year ended December 31, 2008 may include an explanatory paragraph regarding the Company s ability to continue as a going concern.

Short-Term Investments

The Company invests in auction-rate securities that are bought and sold in the marketplace through a bidding process sometimes referred to as a Dutch auction. After the initial issuance of the securities, the interest rate on the securities is reset periodically, at intervals set at the time of issuance (e.g., every seven, 28 or 35 days or every six months), based on the market demand at the reset period. The stated or contractual maturities for these securities, however, generally are 20 to 30 years.

The Company has classified these investments as available-for-sale securities under Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). In accordance with SFAS No. 115, these securities are reported at fair value with any temporary changes in market value reported as a part of comprehensive income/(loss). No unrealized gains or losses related to temporary changes in market value were recognized during the three or nine months ended September 30, 2008. During the three and nine months ended September 30, 2007, the Company recorded an unrealized loss of $259 in other comprehensive income/(loss) as the decline in fair value of its failed auction rate securities was initially determined to be temporary.

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The Company periodically reviews these investments for impairment. In the event the carrying value of an investment exceeds its fair value and the decline in fair value is determined to be other-than-temporary, the Company writes down the value of the investment to its fair value. The Company recorded an impairment of $682 and $1,152 during the three and nine months ended September 30, 2008, respectively, due to a decline in fair value of two failed auctions that was determined to be other-than-temporary. The impairment analysis was based on quantitative and qualitative assumptions and estimates using valuation models including a firm liquidation quote provided by the sponsoring broker and an analysis of other-than-temporary impairment factors including the use of cash for the two recent acquisitions, the ratings of the underlying securities, the Company s intent to continue to hold these securities and further deterioration in the auction-rate securities market. No realized gains or losses were recognized during the three or nine months ended September 30, 2007.

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 September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Verizon Wireless	21.0%	23.6%	21.1%	23.3%

At September 30, 2008, Verizon Wireless accounted for 22.8% of total accounts receivable. At December 31, 2007, Verizon Wireless accounted for 23.5% of total accounts receivable. No other customer represented greater than 10% of the Company s revenues or accounts receivable in these periods or as of these dates.

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

	Nine Months Ended September 30,	
	2008	**2007**
Monopoly Here & Now	*	10.1%

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

No title represented 10% of the Company s revenues during the three months ended September 30, 2008 and 2007.

Prepaid or Guaranteed Licensor Royalties

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

The Company s contracts with some licensors include minimum guaranteed royalty payments, which are payable regardless of the ultimate volume of sales to end users. Effective January 1, 2006, the Company adopted FSP FIN 45-3, *Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners.* The Company has recorded a minimum guaranteed liability of approximately $13,683 and $7,876 as of September 30, 2008 and December 31, 2007, respectively. When no significant performance remains with the licensor, the Company initially records each of these guarantees as an asset and as a liability at the contractual amount. The Company believes that the contractual amount represents the fair value of the liability. When significant performance remains with the licensor, the Company records royalty payments as an asset when actually paid and as a liability when incurred, rather than upon execution of the contract. The Company classifies minimum royalty payment obligations as current liabilities to the extent they are contractually due within the next twelve months.

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Each quarter, the Company evaluates the realization of its prepaid royalties, as well as any guarantees not yet paid, to determine amounts that it deems unlikely to be realized through product sales. The Company uses estimates of revenues, cash flows and net margins to evaluate the future realization of prepaid royalties and guarantees. This evaluation considers multiple factors, including the term of the agreement, forecasted demand, game life cycle status, game development plans, and current and anticipated sales levels, as well as other qualitative factors such as the success of similar games and similar genres on mobile devices for the Company and its competitors and/or other game platforms (e.g., consoles, personal computers and Internet) utilizing the intellectual property and whether there are any future planned theatrical releases or television series based on the intellectual property. To the extent that this evaluation indicates that the remaining prepaid and guaranteed royalty payments are not recoverable, the Company records an impairment charge to cost of revenues in the period that impairment is indicated. The Company recorded an impairment charge of $1,921 and $2,155 during the three and nine months ended September 30, 2008, respectively, primarily due to reduced revenue forecasts for two of its distribution arrangements. However, the Company recorded no such impairment charges during the three and nine months ended September 30, 2007, respectively.

Comprehensive Loss

Comprehensive loss consists of two components, net income/(loss) and other comprehensive income/(loss). Other comprehensive income/(loss) refers to gains and losses that under generally accepted accounting principles are recorded as an element of stockholders equity but are excluded from net income/(loss). The Company s other comprehensive income/(loss) includes foreign currency translation adjustments and unrealized losses on available-for-sale securities. The components of comprehensive loss, net of tax, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Net loss, as reported	$ (56,866)	$ (753)	$ (69,469)	$ (2,415)
Other comprehensive loss:				
Foreign currency translation adjustment, net of tax	(2,507)	504	(1,649)	1,025
Unrealized loss on investments, net of tax		(259)		(259)
Comprehensive loss	$ (59,373)	$ (508)	$ (71,118)	$ (1,649)

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. Net loss attributable to common stockholders is calculated using the two-class method; however, preferred stock dividends were not included in the Company s diluted net loss per share calculations because to do so would be anti-dilutive for all periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Net loss attributable to common stockholders	$ (56,866)	$ (753)	$ (69,469)	$ (5,562)
Basic and diluted shares:				
Weighted average common shares outstanding	29,472	28,863	29,337	21,487
Weighted average unvested common shares subject to repurchase	(2)	(75)	(26)	(89)

Weighted average shares used to compute basic and diluted net loss per share	29,470	28,788	29,311	21,398
Net loss per share attributable to common stockholders basic and diluted	$ (1.93)	$ (0.03)	$ (2.37)	$ (0.26)

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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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Convertible preferred stock				4,936
Warrants to purchase common stock	106	204	122	221
Unvested common shares subject to repurchase	2	75	26	89
Options to purchase common stock	4,618	3,570	4,465	3,370
	4,726	3,849	4,613	8,616

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 has adopted the provisions of FAS 157 with respect to its financial assets and liabilities only. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under FAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under FAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

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

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

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

The adoption of FAS 157 requires additional disclosures of assets and liabilities measured at fair value (see Note 3); it did not have a material impact on the Company s consolidated results of operations and financial condition.

Effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159) which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company did not elect to adopt the fair value option under FAS 159 as this Statement is not expected to have a material impact on the Company s consolidated results of operations and financial condition.

In December 2007, the FASB issued 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. Early adoption of FAS 141R is prohibited. The Company is currently evaluating the impact, if any, of adopting FAS 141R on its results of operations and financial position.

In December 2007, the FASB issued 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 Company is currently evaluating the impact, if any, of adopting FAS 160 on its results of operations and financial position.

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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 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 preliminarily allocated the total purchase price of $38,942 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 preliminary purchase price allocation of the Superscape acquisition:

Assets acquired:	
Cash	$ 8,593
Accounts receivable	4,346
Prepaid and other current assets	1,507
Property and equipment	182
Intangible assets (see Note 5):	
Titles, content and technology	7,190
Carrier contracts and relationships	7,400
Patents and core technology	2,000
Trade name	330
In-process research and development	1,110
Goodwill (see Note 5)	12,785
Total assets acquired	45,443
Liabilities assumed:	
Accounts payable	(2,570)
Accrued liabilities	(367)
Restructuring liabilities	(3,564)
Total liabilities acquired	(6,501)
Net acquired assets	$ 38,942

The Company has 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 $3,564 principally related to the termination of 29 Superscape employees of $2,277, restructuring of facilities of $1,262 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) during the nine months ended September 30, 2008 because feasibility of the acquired technology had not been established and no future alternative uses existed. The IPR&D expense is included in operating expenses in the consolidated statements of operations for the three and nine months ended September 30, 2008.

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 $12,785 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 No. 142, *Goodwill and Other Intangible Assets* (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 goodwill impairment test, a portion of the goodwill related to the Superscape acquisition that had been attributed to the Americas reporting unit was impaired during the three months ended September 30, 2008 (see Note 5).

Acquisition of Beijing Zhangzhong MIG Information Technology Co. Ltd.

On December 19, 2007, the Company acquired the net assets of Awaken Limited group affiliates. Awaken Limited s principal operations are through Beijing Zhangzhong MIG Information Technology (MIG), a domestic limited liability company organized under the laws of the People s Republic of China (the PRC). The Company will refer to the acquired companies collectively as MIG . The Company acquired MIG in order to accelerate the Company s presence in China, to deepen Glu s relationship with China Mobile, the largest wireless carrier in China, to acquire access and rights to leading franchises for the Chinese market, and to augment its internal production and publishing resources with a studio in China. These factors contributed to a purchase price in excess of the fair value of net tangible and intangible assets acquired, and, as a result, the Company recorded goodwill in connection with this transaction.

The Company purchased all of the issued and outstanding shares of MIG for a total purchase price of $15,228 which consisted of cash consideration paid to MIG shareholders of $14,655 and transaction costs of $573. In addition, subject to MIG s achievement of revenue and operating income milestones for the year ending December 31, 2008, the Company committed to pay additional consideration of $20,000 to the MIG shareholders, payable up to a maximum of 30% in the Company s stock and 70% in cash, and bonus payments of $5,000, entirely in the Company s stock, to two officers of MIG, who are also shareholders. If earned, one half of the bonus (or $2,500) will be paid on the earn-out payment date and one half will be paid on December 31, 2009, if the officers continue their employment with the Company. Based on MIG s estimated results for fiscal 2008, the Company anticipates that it will be obligated to pay additional consideration totaling $25,000 in stock and cash to MIG shareholders. This $25,000 includes several components:

- $14,000 of additional consideration due in cash, with approximately $12,100 due in the first half of 2009 and $1,900 due at the end of the fourth quarter of 2009;

- $6,000 of additional consideration, which the Company may elect to pay in cash or stock, at its discretion, $5,200 of which is due in the first half of 2009 and $800 of which is due December 31, 2009; provided that the Company may not issue more than an aggregate of approximately 5,795 shares without stockholder approval (which, for example, based on the average closing price of the Company s common stock for the ten trading days ending November 13, 2008, would represent approximately $3,178), with any remaining balance for which the Company does not seek stockholder approval to be paid in cash; and

- $5,000 of bonuses to the two officers of MIG due in stock to be issued from the 2007 Equity Incentive Plan, half of which is to be issued in the first half of 2009 and half to be issued on December 31, 2009; provided that, based on the closing price of the Company s common stock on November 13, 2008, the Company will be required to seek stockholder approval to increase the number of shares reserved for issuance under its 2007 Equity Incentive Plan to issue these shares under that plan.

The stock portion of each installment will be valued in the first half of 2009 when the Company finalizes MIG s financial results for fiscal 2008 based on the Company s stock price at the time of the valuation.

As of the acquisition date, these two officers owned 27% of the outstanding shares of MIG. Per their employment agreements, these two shareholders will be entitled to one half of their proportionate share of the earned additional consideration (or $2,700) on the earn-out payment date and one half of their proportionate share of the earned additional consideration on December 31, 2009, if they continue their employment with the Company. In accordance with FAS 141, the Company has not recorded the additional consideration or bonus in the initial purchase price as these amounts are contingent on MIG s future earnings. In accordance with Emerging Issues Task Force Issue No. 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*, the Company will record the estimated contingent consideration and bonus earned by the two officers (totaling $10,400) as compensation over the two year vesting period ending December 31, 2009. The Company recorded $1,700 and $5,101 of expense during the three and nine months ended September 30, 2008 related to the stock-based and non-equity compensation of the earnout.

The Company s consolidated financial statements include the results of operations of MIG from the date of acquisition. Under the purchase method of accounting, the Company allocated the total purchase price of $15,228 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 preliminary purchase price allocation of the MIG acquisition:

Assets acquired:	
Cash	$ 1,899
Accounts receivable	848
Prepaid and other current assets	20
Property and equipment	71
Intangible assets:	
Content and technology	490
Existing titles	2,200
Carrier contracts and relationships	8,510
Service providers license	400
Trade names	110
In-process research and development	59
Goodwill	7,880
Total assets acquired	22,487
Liabilities assumed:	
Accounts payable	(21)
Accrued liabilities	(650)
Accrued compensation	(106)
Total current liabilities	(777)
Long-term deferred tax liabilities	(2,652)
Other long-term liabilities	(3,830)
Total liabilities	(7,259)
Net acquired assets	$ 15,228

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, $11,710 was allocated to amortizable intangible assets. The amortizable intangible assets are being amortized over their respective estimated useful lives of two to nine years.

In conjunction with the acquisition of MIG, the Company recorded an expense for $59 for acquired IPR&D during the fourth quarter of 2007 because feasibility of the acquired technology had not been established and no future alternative uses existed. The IPR&D expense is included in operating expenses in the Company s consolidated statements of operations in the year ended December 31, 2007.

The IPR&D is related to the development of a new title. 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 21% discount rate. Cash flows generated from this new title began in 2008. This rate takes into account the percentage of completion of the development effort of approximately 60% and the risks associated with the Company s developing this technology given changes in trends and technology in the industry. As of February 29, 2008, this acquired IPR&D project had been completed at costs similar to the original projections.

The Company allocated the residual value of $7,880 to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. Any changes in consideration, transaction costs or fair value of MIG s net assets may change the preliminary purchase price allocation and amount of goodwill recorded by the Company. In accordance with FAS 142, goodwill will not be amortized but will be tested for impairment at least annually. Goodwill is not deductible for tax purposes.

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The Company has included the results of operations of MIG and Superscape in its consolidated financial statements subsequent to the date of each respective acquisition. The unaudited 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 the period presented:

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2007	2008	2007
Total pro forma revenues	$ 21,931	$ 70,903	$62,635
Gross profit	15,002	37,037	42,433
Pro forma net loss	(2,566)	(69,828)	(7,502)
Pro forma net loss per share basic and diluted	(0.09)	(2.37)	(0.35)

The pro forma financial information above includes a charge of $1,110 for IPR&D during the nine months ended September 30, 2008. The results of operations for the three months ended September 30, 2008 include the results of MIG and Superscape.

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 September 30, 2008 and December 31, 2007:

	Purchased Cost	Realized Loss	Aggregate Fair Value	Classified on Balance Sheet: Cash and Cash Equivalents	Short-term Investments
As of September 30, 2008:					
Auction-rate securities	$ 2,800	$ (1,958)	$ 842	$	$ 842
Money market funds	209		209	209	
	$ 3,009	$ (1,958)	$ 1,051	$ 209	$ 842
As of December 31, 2007:					
Auction-rate securities	$ 2,800	$ (806)	$ 1,994	$	$ 1,994
Money market funds	50,968		50,968	50,968	
	$ 53,768	$ (806)	$ 52,962	$ 50,968	$ 1,994

At September 30, 2008, the Company had $2,800 of principal invested in auction-rate securities. The auction-rate securities held by the Company are private placement securities with long-term nominal maturities for which the interest rates are reset through a Dutch auction each month. The monthly auctions historically have provided a liquid market for these securities. The Company s investments in auction-rate securities represent interests in corporate bonds.

The auction-rate security investments held by the Company all had AAA credit ratings at the time of purchase but were downgraded to A credit ratings in July 2008. With the liquidity issues experienced in the global credit and capital markets, the auction-rate securities held by the Company at September 30, 2008 have experienced multiple failed auctions as the amount of securities submitted for sale has exceeded the amount of purchase orders.

The estimated market value of the Company s auction-rate securities holdings at December 31, 2007 was $1,994, which reflects an $806 impairment to the principal value of $2,800. The estimated market value of the Company s auction-rate securities holdings at September 30, 2008 was $842, which reflects an additional impairment of $1,152 to the principal value of $2,800. Although the auction-rate securities continue to pay interest according to their stated terms, based on valuation models including a firm liquidation quote provided by the sponsoring broker and an analysis of other-than-temporary impairment factors including the use of cash for the two recent acquisitions, cash needs to continue to fund operations, cash requirements of the MIG earnout and the continued and further deterioration in the auction-rate securities market, the Company has recorded a pre-tax impairment charge of $1,152 during the nine months ended September 30, 2008, reflecting the auction-rate securities holdings upon which the Company has concluded have an other-than-temporary decline in value.

As of September 30, 2008 and December 31, 2007, the contractual maturities of the Company s remaining two auction-rate securities were 2017. Although the Company may not have the ability to liquidate these investments within one year of the balance sheet date it may need to sell the securities within the next year to fund operations. Accordingly, the investments were classified as current assets on the consolidated balance sheets.

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In October 2008, the Company received notification from the broker of its auction-rate securities that the broker would repurchase the Company s investments at full par value by December 31, 2008 (See Note 12).

Fair Value Measurements

The Company s cash and investment instruments are classified within Level 1 or Level 2 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. The types of instruments valued based on other observable inputs include investment-grade corporate bonds, mortgage-backed and asset-backed products, state, municipal and provincial obligations. Such instruments are generally classified within Level 2 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 September 30, 2008:

	Aggregate Fair Value	Level 1	Level 2
Auction-rate securities	$ 842	$	$ 842
Money market funds	209	209	
Total cash equivalents and marketable securities	1,051	$ 209	$ 842
Cash	19,686		
Total cash, cash equivalents and marketable securities	$ 20,737		

Note 4 Balance Sheet Components

Property and Equipment

	September 30, 2008	December 31, 2007
Computer equipment	$ 4,696	$ 3,200
Furniture and fixtures	439	1,368
Software	2,482	2,196
Leasehold improvements	3,837	1,694
	11,454	8,458
Less: Accumulated depreciation and amortization	(5,572)	(4,641)
	$ 5,882	$ 3,817

Depreciation expense for the three months ended September 30, 2008 and 2007 were $746 and $582, respectively. Depreciation expense for the nine months ended September 30, 2008 and 2007 were $2,098 and $1,496, respectively.

Accounts Receivable

	September 30, 2008	December 31, 2007
Accounts receivable	$ 21,734	$ 18,737

Less: Allowance for doubtful accounts		(486)		(368)
	$	21,248	$	18,369

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 or nine months ended September 30, 2008 and 2007.

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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 intangible assets have been recorded in the currency of the applicable reporting unit. Therefore, the intangible assets attributed to the Company s EMEA and APAC reporting units are subject to foreign currency fluctuations. The carrying amounts and accumulated amortization expense of the acquired intangible assets at September 30, 2008 and December 31, 2007 were as follows:

		September 30, 2008			December 31, 2007		
	Estimated Useful Life	Gross Carrying Value (Including Impact of Foreign Exchange	Accumulated Amortization Expense (Including Impact of Foreign Exchange)	Net Carrying Value	Gross Carrying Value (Including Impact of Foreign Exchange	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	$ 13,956	$ (8,951)	$ 5,005	$ 5,018	$ (4,172)	$ 846
Catalogs	1 yr	1,413	(1,413)		1,553	(1,553)	
ProvisionX Technology	6 yrs	233	(139)	94	256	(118)	138
Carrier contract and related relationships	5 yrs	18,748	(3,238)	15,510	10,922	(1,117)	9,805
Licensed content	5 yrs	2,780	(832)	1,948	2,651	(183)	2,468
Service provider license	9 yrs	431	(38)	393	404	(2)	402
Trademarks	3 yrs	550	(240)	310	218	(96)	122
		38,111	(14,851)	23,260	21,022	(7,241)	13,781
Other intangible assets amortized to operating expenses:							
Emux Technology	6 yrs	1,507	(953)	554	1,656	(840)	816
Noncompete agreement	2 yrs	659	(659)		725	(725)	
		2,166	(1,612)	554	2,381	(1,565)	816
Total intangibles assets		$ 40,277	$ (16,463)	$ 23,814	$ 23,403	$ (8,806)	$ 14,597

Additions to intangible assets during the nine months ended September 30, 2008 of $16,920 are a result of the Superscape acquisition and the additions during the year ended December 31, 2007 of $11,710 are a result of the MIG 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 September 30, 2008 and 2007, the Company recorded amortization expense in the amounts of $3,247 and $483, respectively, in cost of revenues. During the nine months ended September 30, 2008 and 2007, the Company recorded amortization expense in the amounts of $8,089 and $1,589, respectively, in cost of revenues. During the three months ended September 30, 2008 and 2007, the Company recorded amortization expense in the amounts of $67 and $67, respectively, in operating expenses. During the nine months ended September 30, 2008 and 2007, the Company recorded amortization expense in the amounts of $204 and $200, respectively, in operating expenses.

As of September 30, 2008, the total expected future amortization related to intangible assets was as follows:

Fiscal Years:	**Amortization Included in Cost of Revenues**	**Amortization Included in Operating Expenses**	**Total Amortization Expense**
2008 (remaining three months)	$ 3,228	$ 63	$ 3,291
2009	7,136	251	7,387
2010	4,258	240	4,498
2011	2,864		2,864
2012	2,738		2,738
2013 and thereafter	3,036		3,036
	$ 23,260	$ 554	$ 23,814

Goodwill

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

Goodwill by geographic region is as follows:

	January 1, 2007	Goodwill Acquired	Adjustments	Effects of Foreign Currency Exchange	December 31, 2007	Goodwill Acquired	Adjustments	Effects of Foreign Currency Exchange	Impairment of Goodwill	September 30, 2008
Americas	$ 11,414	$	$ 12	$	$ 11,426	$ 12,938	$	$	$ (21,239)	$ 3,125
EMEA	27,313		13	534	27,860			(2,481)	(25,379)	
APAC		7,880		96	7,976		1,306	52		9,334
Total	$ 38,727	$ 7,880	$ 25	$ 630	$ 47,262	$ 12,938	$ 1,306	$ (2,429)	$ (46,618)	$ 12,459

Goodwill was acquired during 2008 as a result of the purchase of Superscape and during 2007 as a result of the purchase of MIG (see Note 2). The adjustment to the APAC goodwill related to additional professional fees incurred during the first quarter of 2008, an adjustment to the opening deferred tax liabilities and adjustments to open accrued liability balances related to the acquisition of MIG.

In accordance with FAS 142, the Company s goodwill is not amortized but is tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Under FAS 142, the Company performs the annual impairment review of its goodwill balance as of September 30. As a result of this test, we recorded an impairment loss of $46,618 during the quarter ended September 30, 2008 due to decreases in the Company s long-term forecasts and current market capitalization.

The fair value of the Company s reporting units was determined based on a combination of the income approach, which estimates the fair value based on the future discounted cash flows, and market approach, which estimates the fair value based on market prices of comparable companies.

Based on the first step analysis that was separately performed for each of the reporting units, the Company determined that the carrying amount of the goodwill of the Americas and EMEA reporting units was in excess of its respective fair value. As such, the Company was required to perform the second step analysis in order to determine the amount of the goodwill impairment loss. The second step analysis consisted of comparing the implied fair value of the goodwill to the carrying amount of the goodwill, with an impairment charge resulting from any excess of the carrying value of the goodwill over the implied fair value of the goodwill based on a hypothetical allocation of the estimated fair value of each of the Americas and EMEA reporting units. Based on the second step analysis, the Company concluded that all $25,379 of the goodwill attributed to the EMEA reporting unit and $21,239 of the $24,364 of goodwill attributed to the Americas reporting unit was impaired. As a result, the Company recorded a non-cash goodwill impairment charge to operations totaling $46,618 during the three months ended September 30, 2008. Changes in the Company s market capitalization, long-term forecasts and industry growth rates could require additional impairment charges to be recorded in future periods for the remaining goodwill attributed to the Americas or APAC reporting units.

The determination as to whether a write-down of goodwill is necessary involves significant judgment based on short-term and long-term projections of the Company. The assumptions supporting the estimated future cash flows of the reporting unit, including profit margins, long-term forecasts, discount rates and terminal growth rates, reflect the Company s best estimates.

Note 6 Commitments and Contingencies

Leases

The Company leases office space under noncancelable operating facility leases with various expiration dates through July 2013. Rent expense for the three months ended September 30, 2008 and 2007 was $991 and $564, respectively. Rent expense for the nine months ended September 30, 2008 and 2007 was $2,938 and $1,467, 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 $834 and $571 at September 30, 2008 and December 31, 2007, respectively, and was included within other long-term liabilities.

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At September 30, 2008, future minimum lease payments under noncancelable operating leases were as follows:

Fiscal Years:	Minimum Operating Lease Payments	Sub-lease Income	Net Lease Payments
2008 (remaining three months)	$ 1,049	$ 121	$ 928
2009	3,783	363	3,420
2010	2,519		2,519
2011	1,968		1,968
2012	1,054		1,054
2013 and thereafter	180		180
	$ 10,553	$ 484	$ 10,069

Capital Lease

The Company has one lease that it accounts for as a capital lease. The Company recorded no capital lease obligations during the years ended December 31, 2006, 2007 or during the three or nine months ended September 30, 2008. Accumulated depreciation associated with this capital lease was $114 and $85 at September 30, 2008 and December 31, 2007, respectively.

Minimum Guaranteed Royalties

The Company has entered into license and development agreements with various owners of brands and other intellectual property in order 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 September 30, 2008 were as follows:

Fiscal Year:	Minimum Guaranteed Royalties
2008 (remaining three months)	$ 5,264
2009	8,138
2010	2,937
2011	494
2012	414
2013 and thereafter	
	$ 17,247

Commitments in the above table include $13,683 of guaranteed royalties to licensors that are included in the Company s consolidated balance sheet as of September 30, 2008 because the licensors do not have any significant performance obligations. These commitments are included in both current and long-term prepaid and accrued royalties.

Acquisition Related Commitments

The Company may be obligated to pay up to an additional $20,000 of consideration to the MIG shareholders, payable up to 30% in the Company s stock and 70% in cash, and up to $5,000 of bonuses, entirely in the Company s stock, to two officers of MIG if specified financial milestones are achieved in 2008. See Note 2 for the timing and descriptions of these payments and issuances.

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Contingencies

The Company is subject to claims and assessments from time to time in the ordinary course of business. The Company s management does not believe that any of these matters, individually or in the aggregate, will have a materially adverse effect on the Company s business, financial condition or results of operation, and thus no amounts were accrued at September 30, 2008.

Note 7 Debt

Line of Credit Facility

In February 2007, the Company entered into an agreement to secure a revolving line of credit that allows the Company to borrow up to $8,000. The facility is restricted to 80% of the Company s eligible domestic accounts receivable. The line carries an interest rate equal to the prime rate plus 1% and matures in February 2009. Payments on any borrowings would be interest only with any remaining borrowings due at maturity. The line is collateralized by all of the assets of the Company, including intellectual property. The Company is required to maintain a minimum tangible net worth of $3,000. Also, if the Company s net cash balance, excluding any borrowings under this line of credit, declines below $3,500, then the Company s accounts receivable must be collected by means of a lock box, the interest rate on any borrowings would be increased to the prime rate plus 2% and the Company would have to pay a one-time fee to the lender of $50. To date, there have been no borrowings under this facility. The Company was not in compliance with the tangible net worth covenant as of September 30, 2008 but obtained a waiver of the covenant from the lender.

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 2 and 50 at September 30, 2008 and December 31, 2007, 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 September 30, 2008 and December 31, 2007, the Company included cash received for early exercise of options of $7 and $45, respectively, in accrued liabilities. Amounts from accrued liabilities are transferred into common stock and additional paid-in capital as the shares vest. During the three months ended September 30, 2008 the Company repurchased 29 unvested shares that had been early exercised by a former officer of the Company for $21.

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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 at September 30, 2008 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

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 and stock bonuses.

As of September 30, 2008, 302 shares were available for future grants under the 2008 Inducement Plan.

Stock Option Activity

The following table summarizes the Company s stock option activity for the nine months ended September 30, 2008:

	Shares Available for Grant	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value
Balances, December 31, 2007	817	4,036	$ 6.75		
Additional Authorized	1,471				
Granted	(1,573)	1,573	4.50		
Exercised		(287)	0.81		
Forfeited, cancelled or expired	887	(859)	6.98		
Balances, September 30, 2008	1,602	4,463	$ 6.30	6.10	$ 369
Options vested and expected to vest at September 30, 2008		4,012	$ 6.30	6.10	$ 369
Options exercisable at September 30, 2008		1,617	$ 6.01	5.85	$ 360

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 $1.95 per share as of

September 30, 2008. During the nine months ended September 30, 2008, the aggregate intrinsic value of options exercised under the Company s stock option plans was $71. As of September 30, 2008, the Company had $7,743 of total unrecognized compensation expense under SFAS No. 123R, net of estimated forfeitures, which will be recognized over a weighted average period of 2.72 years. As permitted by SFAS No. 123R, the Company has deferred the recognition of its excess tax benefit from non-qualified stock option exercises.

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The Company adopted SFAS No. 123R on January 1, 2006. Under SFAS No. 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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Dividend yield	0%	0%	0%	0%
Risk-free interest rate	2.87%	4.56%	2.67%	4.70%
Expected term (years)	4.08	6.08	4.08	6.08
Expected volatility	41.9%	52.9%	43.9%	57.84%

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.

SFAS No. 123R requires nonpublic companies that used the minimum value method under SFAS No. 123 to apply the prospective transition method of SFAS No. 123R. Prior to adoption of SFAS No. 123R, the Company used the minimum value method, and it therefore has not restated its financial results for prior periods. Under the prospective method, stock-based compensation expense for the year ended December 31, 2006 and the three months ended March 31, 2007 includes compensation expense for (i) all new stock-based compensation awards granted after January 1, 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R, (ii) unmodified awards granted prior to but not vested as of December 31, 2005 accounted for under APB No. 25 and (iii) awards outstanding as of December 31, 2005 that were modified after the adoption of SFAS No. 123R.

The Company calculated employee stock-based compensation expense recognized in the three months ended March 31, 2007 based on awards ultimately expected to vest and reduced it for estimated forfeitures. SFAS No. 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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Research and development	$ 261	$ 310	$ 511	$ 665
Sales and marketing	1,298	224	3,903	498
General and administrative	569	626	1,716	1,613
Total stock-based compensation expense	$ 2,128	$ 1,160	$ 6,130	$ 2,776

Consolidated net cash proceeds from option exercises were $231 and $151 for the nine months ended September 30, 2008 and 2007, respectively. The Company realized no income tax benefit from stock option exercises during the three months ended September 30, 2008 or 2007. 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.

During the nine months ended September 30, 2007, the Company modified one option agreement. The modification involved the acceleration of the vesting of one grant totaling 1 share of common stock. The Company recorded a charge of $5 in connection with this modification during the nine months ended September 30, 2007. The Company did not have any stock option modifications during the three or nine months ended September 30, 2008.

Restricted Stock

During the nine months ended September 30, 2007, the Company granted 4 shares of restricted stock to a director of the Company who had elected to receive restricted stock in lieu of an option grant. The restricted stock vest as to 50% of the shares after six months and thereafter will vest pro rata monthly for the remaining six months. The Company did not grant any restricted stock during the three or nine months ended September 30, 2008.

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Note 10 Income Taxes

The Company recorded an income tax provision of $822 and $228 for the three months ended September 30, 2008 and 2007, respectively, related to foreign withholding taxes and income taxes in some foreign jurisdictions. The Company recorded an income tax provision of $2,165 and $813 for the nine months ended September 30, 2008 and 2007, 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 September 30, 2008 and December 31, 2007, the total amount of unrecognized tax benefits was $2,282 and $2,208, respectively. As of September 30, 2008, approximately $118 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 $59 and $133 of interest on uncertain tax positions during the three and nine months ended September 30, 2008. As of September 30, 2008, the Company had a liability of $2,990 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 2005 tax return in the United Kingdom will close in 2008. 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 September 30,		**Nine Months Ended September 30,**	
	2008	**2007**	**2008**	**2007**
United States of America (USA)	$ 11,070	$ 9,161	$ 31,743	$ 26,350
United Kingdom	1,126	1,682	4,103	5,130
China	2,326	91	7,369	117
Americas, excluding USA	2,891	1,464	6,977	3,545
EMEA, excluding the United Kingdom	5,662	3,464	15,618	10,989
Other	819	789	2,380	2,596
	$ 23,894	$ 16,651	$ 68,190	$ 48,727

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

	September 30, 2008	December 31, 2007
Americas	$ 3,955	$ 1,806
EMEA	978	1,146
APAC	949	865
	$ 5,882	$ 3,817

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Note 12 Subsequent Events

In October 2008, the Company received notification from the broker of its failed auction-rate securities that the broker would repurchase the Company s investments at full par value of $2,800 by December 31, 2008. As of November 12, 2008, however, the Company had not received any proposed repurchase documentation and the redemption of the failed auction-rate securities had not yet occurred.

In November 2008, the Company amended some of the financial covenants related to its $8,000 line of credit facility with the lender. Under the amended terms, the Company will no longer be obligated to pay the facility fee of $50 in the event the Company s net cash balance declines below $3,500. Additionally, the Company is no longer required to maintain a net tangible net worth of $3,000 but instead must maintain at the lender cash or cash equivalents at a ratio of the amounts outstanding under the line of credit of 1.25 to 1.00. Also, the Company received a waiver on its non-compliance with some financial and non-financial covenants stipulated in the original terms of the agreement through September 30, 2008. As of November 10, 2008, the Company maintained cash and cash equivalents at the lender totaling $1,256.

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

Forward-Looking Statements and Factors That May Affect Future Results

Our Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this report and the audited consolidated financial statements and notes thereto and management s discussion and analysis of financial condition and results of operations for the year ended December 31, 2007 included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 31, 2008. This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. In this report, forward-looking statements include, without limitation, the following:

- *our expectations and beliefs regarding future conduct and growth of the business;*
- *our beliefs regarding trends for our businesses;*
- *the assumptions underlying our Critical Accounting Policies and Estimates, including stock volatility and other assumptions used to estimate the fair value of share-based compensation;*
- *our expectations regarding the costs and other effects of our acquisitions;*
- *our assessments and estimates that determine our effective tax rate and valuation allowance;*
- *our expected cash, cash equivalents and short-term investments balance at December 31, 2008;*
- *our belief that the international financial institutions that hold our investments are financially sound; and*
- *our belief that our cash, cash equivalents and investments, including cash flows from operations, will be sufficient to meet our working capital needs, capital expenditure requirements and similar commitments for at least the next 12 months.*

Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors , set forth in Part II, Item 1A of this Form 10-Q. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report or to conform these forward-looking statements to actual results.

Our 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;
- significant changes since our most recent Annual Report on Form 10-K in the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments underlying our financial statements;
- the Recent Accounting Pronouncements that apply to us;
- our Results of Operations, including a more detailed discussion of our revenue and expenses; and
- Liquidity and Capital Resources, which discusses key aspects of our statements of cash flows, changes in our balance sheets and our financial commitments.

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Overview

About Glu Mobile

Glu Mobile is a leading global publisher of mobile games. We have developed and published a portfolio of casual and traditional games to appeal to a broad cross section of the subscribers served by our wireless carriers and other distributors. We create games and related applications based on third-party licensed brands and other intellectual property, as well as on our own original brands and intellectual property. Our games based on licensed intellectual property include *Call of Duty 4*, *Deer Hunter 2, Diner Dash 2, Sonic the Hedgehog, Transformers, World Series of Poker* and *Zuma.* Our games based on our own intellectual property include *Brain Genius*, *Space Monkey, Stranded* and *Super K.O. Boxing*.

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 $38.9 million, consisting of cash consideration of $36.8 million and transaction costs of $2.1 million.

In December 2007, we acquired MIG to accelerate our presence in China, to deepen our relationship with China Mobile, the largest wireless carrier in China, to acquire access and rights to leading franchises for the Chinese market, and to 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 $15.2 million, consisting of cash consideration to MIG shareholders of $14.7 million and transaction costs of $573,000. In addition, subject to MIG s achieving revenue and operating income milestones for fiscal 2008, we agreed to pay up to $20.0 million in additional consideration to MIG shareholders, payable up to 30% in Glu stock and 70% in cash, and up to $5.0 million of bonuses, payable entirely in stock, to two officers of MIG. Given MIG s performance during the first nine months of fiscal 2008, we expect that we will be required to make these earnout payments.

In March 2007, we completed our initial public offering, or IPO, of common stock in which we sold and issued 7.3 million shares of common stock at a price of $11.50 per share to the public. We raised a total of $84.0 million in gross proceeds from the IPO, or approximately $74.8 million in net proceeds after deducting underwriting discounts and commissions of $5.9 million and other offering costs of $3.3 million. Upon the closing of the IPO, all shares of redeemable convertible preferred stock outstanding automatically converted into 15.7 million shares of common stock.

Financial Results and Trends

Revenues for the three months ended September 30, 2008 were $23.9 million, a 43.5% increase from $16.7 million in the three months ended September 30, 2007. Revenues for the nine months ended September 30, 2008 were $68.2 million, a 39.9% increase from $48.7 million in the nine months ended September 30, 2007. The revenue growth in both periods was due primarily to revenues from MIG and Superscape in the 2008 periods, for which we recorded no revenues in the comparable 2007 periods. The revenue growth not attributable to the MIG and Superscape acquisitions was primarily attributable to the increase in the numbers of units of games sold. Although our revenues increased in the September 30, 2008 period compared to the September 30, 2007 period, our growth was slower than we anticipated in part as a result of the current economic conditions. We expect that consumer spending will continue to decline in the foreseeable future due to, among other factors, the fact that handset unit sales were down slightly from the quarter ended June 30, 2008 to the quarter ended September 30, 2008, and we expect a further decline in new handset units in 2009. In addition, the introduction of the next-generation and higher-end devices such as the iPhone, Android, and N-Gage devices has had the initial effect of drawing some of our best downloading customers away from the carrier-based business, which represents the substantial majority of our customer base. Accordingly, we have been increasing our investment in these next-generation handsets and have shifted approximately 30% of our development resources for 2009 products currently in development to higher-end devices.

In the three months ended September 30, 2008, one carrier represented 10% or more of revenues, Verizon Wireless (21.0%), and in the three months ended September 30, 2007 one carrier represented 10% or more of revenues, Verizon Wireless (23.6%). In the nine months ended September 30, 2008, one carrier represented 10% or more of revenues, Verizon Wireless (21.1%), and in the nine months ended September 30, 2007, one carrier represented 10% or more of revenues, Verizon Wireless (23.3%). In the nine months ended September 30, 2008, no title represented 10% or more of revenues, compared to the nine months ended September 30, 2007, in which one title, *Monopoly Here & Now*, which we no longer distribute, represented 10% or more of revenues. No title represented 10% or more of revenues during the three months ended September 30, 2008 and 2007. During the quarter ended September 30, 2008, we recorded an impairment on prepaid and guaranteed royalty agreements totaling $1.9 million, primarily due to reduced revenue forecasts for two of our distribution arrangements. In addition, during the quarter ended September 30, 2008, we recorded a $1.3 million foreign currency loss related to the revaluation of intercompany balance sheet accounts, primarily driven by the change in the value of the British pound sterling relative to the U.S. Dollar. If the value of the U.S. dollar relative to the British pound sterling continues to decline, we expect that we will record additional foreign currency exchange losses.

Our revenue growth rate will continue to depend significantly on continued growth in the mobile game market and our ability to continue to attract new end users in that market, purchases of new mobile handsets, unanticipated governmental activities in certain international markets and the overall strength of the economy, particularly in the U.S. 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, recently began imposing 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 factors, including our relationships with our carriers and licensors. 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 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 or licensors could impact our revenues in the future.

Our total operating expenses for the three months ended September 30, 2008 were $67.1 million, a 400.7% increase over $13.4 million in the three months ended September 30, 2007. Our total operating expenses for the nine months ended September 30, 2008 were $107.2 million, a 187.7% increase over $37.3 million in the nine months ended September 30, 2007. The increase in both periods was due primarily to our impairment of goodwill of $46.6 million, expenses associated with MIG and Superscape (including charges associated with the acquisitions) in the 2008 periods, for which we recorded no expenses in the comparable 2007 periods, and additionally due to increased headcount and related expenses as we added personnel to support our growth. As of September 30, 2008, we had approximately 600 employees compared to 320 as of September 30, 2007. In addition, 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.

Cash, cash equivalents and short-term investments at September 30, 2008 totaled $20.7 million, a decrease of $39.1 million from December 31, 2007, primarily due to cash paid in March 2008 for the Superscape acquisition. Included in our $20.7 million of cash, cash equivalents and short-term investments is $842,000 of auction-rate securities whose auctions continue to fail and deteriorate in fair value. We expect that our cash, cash equivalents and short-term investments balance at December 31, 2008 will be approximately $17.0 million.

Critical Accounting Policies and Estimates

There have been no significant changes in our Critical Accounting Policies and Estimates during the nine months ended September 30, 2008 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 fiscal year ended December 31, 2007.

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 quarterly report, which information is incorporated herein by reference.

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Results of Operations

Comparison of the Three Months Ended September 30, 2008 and 2007

Revenues

	Three Months Ended September 30, 2008	2007
	(in thousands)	
Revenues	$23,894	$16,651

Our revenues increased $7.2 million, or 43.5%, from $16.7 million for the three months ended September 30, 2007 to $23.9 million for the three months ended September 30, 2008, due primarily to revenues from MIG and Superscape, our growing catalog of titles and broader distribution reach in our international markets, particularly in China, Latin America and parts of Europe. No revenues from MIG or Superscape titles were recorded during the three months ended September 30, 2007 compared to a total of $5.6 million in revenues recorded during the three months ended September 30, 2008. International revenues (defined as revenues generated from carriers whose principal operations are located outside the United States) increased by $5.3 million, from $7.5 million in the three months ended September 30, 2007 to $12.8 million in the three months ended September 30, 2008. The increase in international revenues was primarily a result of increased sales in China and other developing markets, including Latin America. Additionally, revenues from carriers located in the United States increased $1.9 million from $9.2 million in the three months ended September 30, 2007 to $11.1 million in the three months ended September 30, 2008 primarily as a result of sales from Superscape titles. The year over year increases in revenues were negatively impacted by a decrease in sales of $2.6 million related to Hasbro titles that we no longer have the rights to distribute.

Cost of Revenues

	Three Months Ended September 30, 2008	2007
	(In thousands)	
Cost of revenues:		
Royalties	$ 5,753	$ 4,587
Impairment of prepaid royalties and guarantees	1,921	
Amortization of intangible assets	3,247	483
Total cost of revenues	$ 10,921	$ 5,070
Revenues	$ 23,894	$ 16,651
Gross margin	54.3%	69.6%

Our cost of revenues increased $5.9 million, or 115.4%, from $5.1 million in the three months ended September 30, 2007 to $10.9 million in the three months ended September 30, 2008. The increase resulted from an impairment of some prepaid royalties and guarantees of $1.9 million, an increase in royalties of $1.2 million due to the absolute dollar increase in revenues with associated royalties and an increase in amortization of acquired intangible assets of $2.8 million due primarily to the amortization of intangible assets acquired in December 2007 from MIG and March 2008 from Superscape. Revenues attributable to games based upon branded intellectual property decreased as a percentage of revenues from 88.6% in the three months ended September 30, 2007 to 72.4% in the three months ended September 30, 2008, 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 31.1% in the three months ended September 30, 2007 to 33.3% in the three months ended September 30, 2008 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 27.5% to 32.1% due to the impairment of some prepaid royalties and guarantees but offset by an increase in revenue from games based on our intellectual property, especially sales of MIG and Superscape titles.

Gross Margin

Our gross margin decreased from 69.6% in the three months ended September 30, 2007 to 54.3% in the three months ended September 30, 2008 primarily because of the $2.8 million increase in the amortization of intangible assets resulting from the Superscape and MIG acquisitions and a $1.9 million impairment of some prepaid royalties and guarantees.

Research and *Development Expenses*

	Three Months Ended September 30,	
	2008	**2007**
	(In thousands)	
Research and development expenses	$9,223	$5,863
Percentage of revenues	38.6%	35.2%

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Our research and development expenses increased $3.4 million, or 57.3%, from $5.9 million in the three months ended September 30, 2007 to $9.2 million in the three months ended September 30, 2008. The increase in research and development costs was primarily due to increases in salaries and benefits of $1.8 million, facility and overhead costs to support our increased headcount of $753,000, outside services costs for porting and external development of $583,000, and travel and entertainment costs to manage our international studios of $145,000.

Research and development staff increased by 242 employees to a total of 454 as of September 30, 2008 as compared to the same period in 2007, and salaries and benefits increased as a result. This growth in headcount was due primarily to the opening of our development studio in Beijing, China during 2007, the addition of a studio in Hefei, China as result of the MIG acquisition and the addition of the development studio in Moscow, Russia as a result of the Superscape acquisition. Research and development expenses included $310,000 of stock-based compensation expense in the three months ended September 30, 2007 and $261,000 in the three months ended September 30, 2008. As a percentage of revenues, research and development expenses increased from 35.2% in the three months ended September 30, 2007 to 38.6% in the three months ended September 30, 2008 due to the increase in headcount resulting from the addition of the China and Russia studios.

Sales and Marketing Expenses

	Three Months Ended September 30,	
	2008	**2007**
	(In thousands)	
Sales and marketing expenses	$6,004	$3,326
Percentage of revenues	25.1%	20.0%

Our sales and marketing expenses increased $2.7 million, or 80.5%, from $3.3 million in the three months ended September 30, 2007 to $6.0 million in the three months ended September 30, 2008. The increase was primarily due to an increase in salaries and benefits of $428,000, as we grew our sales and marketing headcount from 51 at September 30, 2007 to 73 at September 30, 2008, a $1.1 million increase in stock-based compensation due primarily to the quarterly accrual related to the MIG stock-based compensation earnout, a $622,000 increase due to the quarterly cash-based component of the MIG earnout, a $320,000 increase in marketing promotions and a $198,000 increase in allocated facility costs to support our increased headcount. We recorded the stock and cash-based compensation related to the MIG earnout, as we believe the financial metrics stipulated in the purchase agreement will be attained given the current quarter s performance. We increased staffing and marketing program spending to expand our marketing efforts for our games and the Glu brand, to increase sales efforts to our new and existing wireless carriers and to expand our sales and marketing operations into the Asia-Pacific and Latin America regions. As a percentage of revenues, sales and marketing expenses increased from 20.0% in the three months ended September 30, 2007 to 25.1% in the three months ended September 30, 2008 primarily due to the accrual of the MIG cash and stock-based earnout. Sales and marketing expenses included $224,000 of stock-based compensation expense in the three months ended September 30, 2007 and $1.3 million in the three months ended September 30, 2008.

General and Administrative Expenses

	Three Months Ended September 30,	
	2008	**2007**
	(In thousands)	
General and administrative expenses	$5,085	$4,149
Percentage of revenues	21.3%	24.9%

Our general and administrative expenses increased $936,000, or 22.6%, from $4.1 million in the three months ended September 30, 2007 to $5.1 million in the three months ended September 30, 2008. The increase in general and administrative expenses was primarily the result of a $412,000 increase in professional fees for our implementation of Section 404 under Sarbanes-Oxley and for various recruiting services, a $200,000 increase in salaries and benefits, a

$187,000 increase in business and franchise taxes related to our expanded operations in Brazil and China and an increase in facility and overhead costs of $163,000 to support our increased headcount. We increased our general and administrative headcount from 57 at September 30, 2007 to 72 at September 30, 2008. As a percentage of revenues, general and administrative expenses decreased slightly from 24.9% in the three months ended September 30, 2007 to 21.3% in the three months ended September 30, 2008 as a result of increased revenues. General and administrative expenses included $626,000 of stock-based compensation expense in the three months ended September 30, 2007 and $569,000 in the three months ended September 30, 2008.

Other Operating Expenses

Our amortization of intangible assets, such as non-competition agreements, acquired from Macrospace and iFone was $67,000 in the three months ended September 30, 2007 and $67,000 in the three months ended September 30, 2008.

Our impairment of goodwill increased from zero in the three months ended September 30, 2007 to $46.6 million in the three months ended September 30, 2008. Based primarily upon our estimate of forecasted discounted cash flows and our market capitalization, we determined that the carrying amount of the goodwill at each of our Americas and EMEA reporting units was in excess of its respective fair value. The analysis of our goodwill balance caused us to conclude that all $25.3 million of the goodwill attributed to the EMEA reporting unit was impaired, as was $21.2 million of the $24.1 million of goodwill attributed to the Americas reporting unit. As a result, we recorded a non-cash goodwill impairment charge to operations totaling $46.6 million during the third quarter of 2008. No goodwill impairment charge was recorded related to the goodwill attributed to our APAC reporting unit as the fair value of the reporting unit exceeded the carrying value of its goodwill.

Our restructuring charge increased from zero during the three months ended September 30, 2007 to $126,000 during the three months ended September 30, 2008 as we undertook activities to terminate a small number of employees in our USA, UK and Hong Kong offices. The resulting restructuring charges principally consisted of costs associated with employee termination benefits that were paid in full during the third quarter of 2008.

Other Expenses

Interest and other income/(expense), net, decreased from a net income of $1.3 million during the three months ended September 30, 2007 to a net expense of $1.9 million in the three months ended September 30, 2008. This change was primarily due to an increase in foreign currency losses of $1.7 million, a decrease in interest income of $830,000 resulting from lower cash balances as a result of the MIG and Superscape acquisitions and a write-down of our two remaining failed auction-rate securities of $682,000. We expect interest income to decrease in 2008 as a result of lower cash balances due to our use of cash for our acquisitions of MIG and Superscape and the lower interest rates we expect on our investments.

Income Tax Provision

Income tax provision increased from $228,000 in the three months ended September 30, 2007 to $822,000 in the three months ended September 30, 2008 primarily as a result of increased foreign withholding taxes resulting from increased sales in countries with withholding tax requirements and taxes on income in some foreign entities.

Comparison of the Nine Months Ended September 30, 2008 and 2007

Revenues

	Nine Months Ended September 30,	
	2008	2007
	(in thousands)	
Revenues	$68,190	$48,727

Our revenues increased $19.5 million, or 39.9%, from $48.7 million for the nine months ended September 30, 2007 to $68.2 million for the nine months ended September 30, 2008, due primarily to revenues from MIG and Superscape, our growing catalog of titles, broader international distribution reach and increased unit sales of our games. No revenues from MIG or Superscape titles were recorded during the nine months ended September 30, 2007 compared to $14.9 million recorded during the nine months ended September 30, 2008. International revenues increased $14.0 million from $22.4 million in the nine months ended September 30, 2007 to $36.4 million in the nine months ended September 30, 2008, primarily as a result of increased sales in APAC and other developing markets, including Latin America.

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Cost of Revenues

	Nine Months Ended September 30, 2008	2007
	(In thousands)	
Cost of revenues:		
Royalties	$ 16,642	$ 13,267
Impairment of prepaid royalties and guarantees	2,155	
Amortization of intangible assets	8,089	1,589
Total cost of revenues	$ 26,886	$ 14,856
Revenues	$ 68,190	$ 48,727
Gross margin	60.6%	69.5%

Our cost of revenues increased $12.0 million, or 81.0%, from $14.9 million in the nine months ended September 30, 2007 to $26.9 million in the nine months ended September 30, 2008. The increase resulted primarily from an increase in royalties of $3.4 million due to an increase in the absolute dollar of revenues with associated royalties, an impairment of prepaid royalties and guarantees of $2.2 million and amortization of acquired intangible assets of $6.5 million due primarily to the amortization of intangible assets acquired from MIG and Superscape. Revenues attributable to games based upon branded intellectual property decreased as a percentage of revenues from 87.6% in the nine months ended September 30, 2007 to 74.8% in the nine months ended September 30, 2008 primarily due to the sales of games developed by MIG and Superscape based on their respective intellectual property. The average royalty rate that we paid on games based on licensed intellectual property increased from 31.1% in the nine months ended September 30, 2007 to 32.6% in the nine months ended September 30, 2008. Overall royalties, including impairment of prepaid royalties and guarantees, as a percentage of total revenues increased from 27.2% to 27.6% due to the increase in average royalty rate paid on games based on licensed intellectual property and the impairment of prepaid royalties and minimum guarantees but was offset by the increase in revenue from games based on our intellectual property, especially sales of MIG and Superscape titles.

Gross Margin

Our gross margin decreased from 69.5% in the nine months ended September 30, 2007 to 60.6% in the nine months ended September 30, 2008 primarily because of the increase in the amortization of intangible assets and our impairments of prepaid royalties and guarantees.

Research and Development Expenses

	Nine Months Ended September 30, 2008	2007
	(In thousands)	
Research and development expenses	$24,604	$16,153
Percentage of revenues	36.1%	33.1%

Our research and development expenses increased $8.5 million, or 52.3%, from $16.2 million in the nine months ended September 30, 2007 to $24.6 million in the nine months ended September 30, 2008. The increase in research and development costs was primarily due to increases in salaries and benefits of $5.1 million, facility and overhead costs to support the increased headcount of $2.1 million, outside services costs for porting and external development of $967,000 and travel and entertainment costs to manage our international studios of $375,000, offset by a decrease in stock-based compensation of $154,000.

Research and development staff increased by 242 employees to a total of 454 as of September 30, 2008 as compared to the same period in 2007 and salaries and benefits increased as a result. This growth in headcount was due primarily to the opening of our development studio in Beijing, China during 2007, the addition of a studio in Hefei, China as result of the MIG acquisition and the addition of the development studio in Moscow, Russia as a result of the Superscape acquisition. Research and development expenses included $665,000 of stock-based compensation expense in the nine months ended September 30, 2007 and $511,000 in the nine months ended September 30, 2008. As a percentage of revenues, research and development expenses increased from 33.1% in the nine months ended September 30, 2007 to 36.1% in the nine months ended September 30, 2008 due to the increase in headcount resulting from the addition of the China and Russia studios.

Sales and Marketing Expenses

	Nine Months Ended September 30,	
	2008	2007
	(In thousands)	
Sales and marketing expenses	$17,828	$9,532
Percentage of revenues	26.1%	19.6%

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Our sales and marketing expenses increased $8.3 million, or 87.0%, from $9.5 million in the nine months ended September 30, 2007 to $17.8 million in the nine months ended September 30, 2008. The increase was primarily due to an increase in salaries and benefits of $2.0 million as we grew our sales and marketing headcount from 51 at September 30, 2007 to 73 at September 30, 2008, a $3.4 million increase in stock-based compensation due primarily to the accrual related to the MIG stock-based compensation earnout, $1.9 million increase due to the cash-based component of the MIG earnout, a $679,000 increase in allocated facility costs to support our increased headcount and an increase of $408,000 for marketing promotions. We recorded the stock and cash-based compensation related to the MIG earnout as we believe the financial metrics stipulated in the purchase agreement will be attained given the current year s performance. We increased staffing and marketing program spending to expand our marketing efforts for our games and the Glu brand, to increase sales efforts to our new and existing wireless carriers and to expand our sales and marketing operations into the Asia-Pacific and Latin America regions. Aside from the increase in headcount in our sales and marketing functions, the increase in salaries and benefits cost was due to an increase in variable compensation of $261,000, primarily an increase in commissions and bonuses paid to our sales employees as a result of higher revenues. As a percentage of revenues, sales and marketing expenses increased from 19.6% in the nine months ended September 30, 2007 to 26.1% in the nine months ended September 30, 2008 primarily due to the accrual of the MIG cash and stock-based earnout. Sales and marketing expenses included $498,000 of stock-based compensation expense in the nine months ended September 30, 2007 and $3.9 million in the nine months ended September 30, 2008.

General and Administrative Expenses

	Nine Months Ended September 30,	
	2008	**2007**
	(In thousands)	
General and administrative expenses	$16,576	$12,422
Percentage of revenues	24.3%	25.5%

Our general and administrative expenses increased $4.2 million, or 33.4%, from $12.4 million in the nine months ended September 30, 2007 to $16.6 million in the nine months ended September 30, 2008. The increase in general and administrative expenses was primarily the result of a $1.6 million increase in professional fees related to our accounting and tax integration of MIG and Superscape, implementation of Section 404 under Sarbanes-Oxley and for recruiting services, an $845,000 increase in salaries and benefits, a $752,000 increase in business and franchise taxes related to our expanded operations in Brazil and China, an increase in facility and overhead costs of $582,000 to support our increased headcount, a $135,000 increase in director and officer liability insurance and a $103,000 increase in stock-based compensation expense. We also increased our general and administrative headcount from 57 at September 30, 2007 to 72 at September 30, 2008. As a percentage of revenues, general and administrative expenses decreased slightly from 25.5% in the nine months ended September 30, 2007 to 24.3% in the nine months ended September 30, 2008. General and administrative expenses included $1.6 million of stock-based compensation expense in the nine months ended September 30, 2007 and $1.7 million in the nine months ended September 30, 2008.

Other Operating Expenses

Our amortization of intangible assets, such as non-competition agreements, acquired from Macrospace and iFone was $200,000 in the nine months ended September 30, 2007 and $204,000 in the nine months ended September 30, 2008.

Our acquired in-process research and development increased from zero in the nine months ended September 30, 2007 to $1.1 million in the nine months ended September 30, 2008. The IPR&D charge recorded in 2008 was related to the development of new games by Superscape. 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 using a discounted-cash flows approach and a discount rate of 20%. This rate took into account the percentage of completion of the development effort for each title and the risks associated with our developing technology given changes in trends and technology in our industry. Revenues from these titles will be generated in the months subsequent to their completion in the third and fourth quarters of 2008.

Our impairment of goodwill increased from zero in the nine months ended September 30, 2007 to $46.6 million in the nine months ended September 30, 2008. Based primarily upon our estimate of forecasted discounted cash flows and our market capitalization, we determined that the carrying amount of the goodwill at each of our Americas and EMEA reporting units was in excess of its respective fair value. The analysis of our goodwill balance caused us to conclude that all $25.3 million of the goodwill attributed to the EMEA reporting unit was impaired, as was $21.2 million of the $24.1 million of goodwill attributed to the Americas reporting unit. As a result, we recorded a non-cash goodwill impairment charge to operations totaling $46.6 million during the third quarter of 2008. No goodwill impairment charge was recorded related to the goodwill attributed to our APAC reporting unit as the fair value of the reporting unit exceeded the carrying value of its goodwill.

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Our restructuring charge increased from zero during the nine months ended September 30, 2007 to $287,000 during the nine months ended September 30, 2008 as we undertook activities to terminate a small number of employees in our USA, UK and Hong Kong offices and relocate our France operations from Nice to Paris. The resulting restructuring charges principally consisted of costs associated with employee termination benefits that were paid in the second and third quarters of 2008.

Our gain on sale of assets decreased from $1.0 million during the nine months ended September 30, 2007 to zero during the nine months ended September 30, 2008 due to the sale of ProvisionX software to a third party in February 2007. Under the terms of the agreement, we will co-own the intellectual property rights to the ProvisionX software, excluding any alterations or modifications following the sale, by the third party.

Other Expenses

Interest and other income/(expense), net, decreased from an income of $1.8 million during the nine months ended September 30, 2007 to a net loss of $1.4 million in the nine months ended September 30, 2008. This change was primarily due to an increase of $1.6 million in foreign currency losses, additional write-downs of our two remaining failed auction-rate securities of $1.2 million and a decrease in interest income of $1.2 million due to lower cash balances resulting from our acquisitions of MIG and Superscape. These decreases were partially offset by a decrease in interest expense of $821,000 as we repaid a $12.0 million loan in March 2007. We expect interest income to decrease in 2008 as a result of lower cash balances due to our use of cash for our acquisitions of MIG and Superscape and the lower interest rates we expect on our investments.

Income Tax Provision

Income tax provision increased from $813,000 in the nine months ended September 30, 2007 to $2.2 million in the nine months ended September 30, 2008 primarily as a result of increased foreign withholding taxes resulting from increased sales in countries with withholding tax requirements and taxes on income in some foreign entities.

Liquidity and Capital Resources

	Nine Months Ended September 30,	
	2008	**2007**
	(in thousands)	
Consolidated Statement of Cash Flows Data:		
Capital expenditures	$ 3,691	$ 2,142
Depreciation and amortization	10,472	3,305
Cash flows provided by/(used in) operating activities	(3,217)	303
Cash flows provided by/(used in) investing activities	(34,392)	4,848
Cash flows provided by financing activities	332	62,849

Since our inception, we have incurred recurring losses and negative annual cash flows from operating activities, and we had an accumulated deficit of $121.9 million and $52.4 million as of September 30, 2008 and December 31, 2007, 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 cash generated from our operating activities.

Operating Activities

For the nine months ended September 30, 2008, net cash used in operating activities was $3.2 million, primarily due to our net loss of $69.5 million and the net change in operating assets and liabilities of $2.4 million, adjusted for non-cash items including a $46.6 million impairment of goodwill, depreciation and amortization expense of $10.5 million, stock-based compensation expense of $6.1 million, impairment of some prepaid royalties and guarantees of $2.2 million and impairment of auction-rate securities of $1.2 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 nine months ended September 30, 2008 we used $34.4 million of cash for investing activities. This net cash usage resulted from the acquisition of Superscape, net of cash acquired, of $30.0 million, additional cash payments of $693,000 for professional fees related to the acquisition of MIG and purchases of property and equipment of $3.7 million primarily related to moving our corporate headquarters.

In the nine months ended September 30, 2007 we generated $4.8 million of net cash from investing activities. This net cash resulted from net sales of short-term investments of $6.0 million and $1.0 million in proceeds from sale of assets offset by purchases of property and equipment of $2.1 million.

Financing Activities

In the nine months ended September 30, 2008, net cash provided by financing activities was $332,000, substantially all of which came from the proceeds from the exercise of stock options and warrants.

In the nine months ended September 30, 2007, our financing activities provided $62.8 million of cash primarily from $74.8 million of IPO proceeds net of underwriters fees and offering costs and cash proceeds from exercise of stock options of $151,000. The cash provided by these financing activities was offset by a $12.0 million repayment of an outstanding loan.

Sufficiency of Current Cash, Cash Equivalents and Short-Term Investments

Our cash, cash equivalents and short-term investments were $20.7 million as of September 30, 2008. We expect our cash, cash equivalents and short-term investments to be approximately $17.0 million at December 31, 2008. During the nine months ended September 30, 2008, we used $3.2 million of cash. There can be no assurances that we will be able to generate positive operating cash flow during the fourth quarter of 2008, during 2009 or beyond. Accordingly, we expect to continue to fund our operations and satisfy our contractual obligations for the remainder of 2008 and 2009 primarily through our cash, cash equivalents and short-term investments. We believe our cash, cash equivalents and short-term investments, including cash flows from operations, 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 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 and our inability to issue shares (rather than pay cash) if we are required to seek, but do not receive, stockholder approval for the equity components of the MIG payments described below. Our anticipated cash usage during 2009 includes approximately $9.8 million for prepaid royalties and guarantees, of which approximately $1.7 million are anticipated related to 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 Contractual Obligations below.) 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 anticipate that, based on MIG s estimated results for 2008, we will be obligated to pay additional consideration totaling $25.0 million in stock and cash to MIG shareholders. This $25.0 million includes several components:

- $14.0 million of additional consideration is due in cash, with approximately $12.1 million due in the first half of 2009 and $1.9 million due at December 31, 2009;

- $6.0 million of additional consideration, which we may elect to pay in cash or stock, at our discretion, $5.2 million of which is due in the first half of 2009 and $800,000 of which is due December 31, 2009; provided that we may not issue more than an aggregate of approximately 5.8 million shares without stockholder approval (which, for example, based on the average closing price of our common stock for the ten trading days ending November 13, 2008, would represent approximately $3.2 million), with any remaining balance for which we do not seek stockholder approval to issue the shares to be paid in cash; and

$5.0 million of bonuses to officers of MIG is due in stock to be issued from our 2007 Equity Incentive Plan, half of which is to be issued in the first half of 2009 and half to be issued on December 31, 2009; provided that, based on the closing price of our common stock on November 13, 2008, we will be required to seek stockholder approval to increase the number of shares reserved for issuance under our 2007 Equity Incentive Plan to issue these shares under that plan.

The stock portion of each installment will be valued in the first half of 2009 when we finalize MIG s financial results for fiscal 2008 based on our stock price at the time of the valuation (See Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements included in Item 1 of this report). For purposes of our cash requirements for the next 12 months, we have assumed that we will issue shares (rather than pay cash) where we have the discretion to elect that method of payment.

As of December 31, 2008, we expect to have approximately $17.0 million of cash, cash equivalents and short- term investments, approximately $9.8 million of which we expect to hold in accounts in China. To fund our operations, we may be required in 2009 to repatriate approximately $5.5 million of available funds from China to the U.S, which would subject us to withholding taxes of at least 7% on any repatriated funds and potential additional tax, including cash tax payments. 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 international regulatory action, the accounts may become illiquid for an indeterminate period of time or there may be other circumstances that we are unable to predict.

Moreover, our anticipated cash, cash equivalents and short-term investments balance at December 31, 2008 includes $2.8 million of auction-rate securities. We received notice in October 2008 from the broker of our failed auction-rate securities that the broker would repurchase our investments at full par value of $2.8 million by December 31, 2008. However, as of the date of this report, we have not received any proposed repurchase documentation and the redemption of the failed auction-rate securities had not yet occurred. Accordingly, our anticipated cash, cash equivalents and short-term investments balance at December 31, 2008 may be lower than we anticipate if the settlement does not occur or occurs on terms other than currently anticipated.

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, due to the price at which our stock may trade at future dates (as our stock price relates to the amount of payments we anticipate we will be required make to MIG shareholders as discussed above), and in order to defend against, settle or pay damages related to a pre-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 revenue 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. 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 additional dilution to our stockholders. We currently have an $8.0 million credit facility with a lender, which expires in February 2009. Our credit facility contains financial covenants and restrictions that limit our ability to draw down the entire $8.0 million (see Notes 7 and 12 of Notes to Unaudited Condensed Consolidated Financial Statements included in Item 1 of this report) and in the event of a default, would preclude us from drawing down on it at all. Utilizing our credit facility or incurring other debt would result in debt service obligations and result in operating and financial covenants that could restrict our operations. In addition, if we were to draw down on the facility, it would result in deemed repatriation of earnings resulting in adverse tax consequences to us and potential additional tax, including cash tax payments. Accordingly, we do not expect to draw down on our existing facility. However, while the above discussion assumes that we will not replace the facility, we expect to establish a different facility with a term of at least 12 months to replace the current facility.

We will continue to investigate additional opportunities to generate working capital, reduce our operating expenses and reduce our other commitments in order to continue to have cash available to meet our corporate operating requirements, satisfy any debt service obligations, and enhance our working capital position.

If future circumstances develop that are materially different from our current expectations, our audit report for the year ending December 31, 2008 may include an explanatory paragraph regarding our ability to continue as a going concern.

Contractual Obligations

The following table is a summary of our contractual obligations as of September 30, 2008:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	Thereafter
	(In thousands)				
Operating lease obligations, net of sublease income	$ 10,069	$ 928	$ 5,939	$ 3,202	$
Guaranteed royalties(1)	17,247	5,263	11,075	909	
FIN 48 obligations, including interest and penalties(2)	4,352				4,352

Total	$ 31,668	$ 6,191	$ 17,014	$ 4,111	$ 4,352

(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 $13.7 million have been recorded as liabilities on our consolidated balance sheet because payment is not contingent upon performance by the licensor.

(2) As of September 30, 2008, unrecognized tax benefits and

potential interest and penalties are classified within Other long-term liabilities on our consolidated balance sheet. As of September 30, 2008, the settlement of our income tax liabilities cannot be determined, however, the liabilities are not expected to become due within the next twelve months.

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Additionally, we may be obligated to pay up to $20.0 million of additional consideration to the MIG shareholders, payable up to 30% in Glu stock and 70% in cash, and up to $5.0 million of bonuses, payable entirely in Glu stock, to two officers of MIG if specified financial milestones are achieved in 2008. We anticipate that based on MIG s estimated results for fiscal 2008, we will be obligated to pay additional consideration totaling $25.0 million in stock and cash to MIG shareholders. See Sufficiency of Current Cash, Cash Equivalents and Short-Term Investments above for details.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, and we have not entered into any synthetic leases. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Credit Risk

We have exposure to interest rate risk that relates primarily to our investment portfolio. All of our current investments are classified as cash equivalents or short-term investments. We do not currently use or plan to use derivative financial instruments in our investment portfolio. The risk associated with fluctuating interest rates is limited to our investment portfolio, and we do not believe that a 10% change in interest rates would have a significant impact on our interest income, operating results or liquidity.

As of September 30, 2008, we had $2.8 million of principal invested in auction-rate securities, all of which were rated AAA at the time of purchase but were downgraded to A in July 2008. Auction-rate securities are long-term variable rate bonds tied to short-term interest rates. After the initial issuance of the securities, the interest rate on the securities is reset periodically, at intervals established at the time of issuance (e.g., every seven, 28, or 35 days; every six months; etc.), based on market demand for a reset period. The stated or contractual maturities for these securities, however, generally are 20 to 30 years. Auction-rate securities are bought and sold in the marketplace through a competitive bidding process often referred to as a Dutch auction . If there is insufficient interest in the securities at the time of an auction, the auction may not be completed and the rates may be reset to predetermined penalty or maximum rates. The monthly auctions historically have provided a liquid market for these securities. Following a failed auction, we would not be able to access our funds that are invested in the corresponding auction-rate securities until a future auction of these investments is successful or new buyers express interest in purchasing these securities in between reset dates.

Given the current negative liquidity conditions in the global credit and capital markets, the auction-rate securities held by us at September 30, 2008 have experienced multiple failed auctions as the amount of securities submitted for sale has exceeded the amount of purchase orders. The underlying assets of our auction-rate securities are corporate bonds. If the underlying issuers are unable to successfully clear future auctions or if their credit rating deteriorates and the deterioration is deemed to be other-than-temporary, we would be required to adjust the carrying value of the auction-rate securities through an impairment charge to earnings. Any of these events could materially affect our results of operations and our financial condition. For example, in the fourth quarter of 2007, we recorded a pre-tax impairment charge of $806,000 and during the nine months ended September 30, 2008, we recorded an additional pre-tax impairment charge of $1.2 million reflecting the decrease in estimated value of our auction-rate securities as of September 30, 2008 that were determined to be other-than-temporary as a result of two failed auctions.

As of September 30, 2008, the contractual maturities of our remaining two auction-rate securities were 2017. Although we may not have the ability to liquidate these investments within one year of the balance sheet date, we may need to sell the securities within the next year to fund operations. Accordingly, the investments were classified as current assets on the consolidated balance sheets.

In October 2008, our sponsoring broker notified us that it will be repurchasing our entire $2.8 million of failed auction-rate securities at par value. Once we receive the funds, which we believe will be in the fourth quarter of 2008, we will reverse all previously recorded impairments resulting in a gain of $2.0 million in the fourth quarter of 2008. Additionally, we will record the amounts received as cash and cash equivalents.

The credit and capital markets have continued to deteriorate in 2008. If uncertainties in these markets continue, these markets deteriorate further or we experience any additional ratings downgrades on any investments in its portfolio (including on auction-rate securities), we may incur additional impairments to our investment portfolio, which could negatively affect our financial condition, cash flow and reported earnings.

As of September 30, 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. We believe that the financial institutions that hold our investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments. Also, there are currency and other regulations that may restrict our ability to transfer cash held in international financial institutions for use in other operations; compliance with these requirements may not be achieved quickly and may also result in measurable costs.

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 September 30, 2008, Verizon Wireless accounted for 22.8% of our total accounts receivable, and no other carrier represented more than 10% of our total accounts receivable. As of December 31, 2007, Verizon Wireless accounted for 23.5% of our total accounts receivable, 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, respectively. A significant portion of our business is conducted in currencies other than the USD or the pound sterling.

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 the pound sterling. 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.

Our foreign currency exchange gains and losses have been generated primarily from fluctuations in the pound sterling versus the USD and in the Euro versus the pound sterling. It is uncertain whether these currency trends will continue. In the future, we 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.

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.

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ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Regulations under the Securities Exchange Act of 1934, or the Exchange Act, require public companies, including us, to establish and maintain disclosure controls and procedures , which are defined to mean a company s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required or necessary disclosures. Our chief executive officer and chief financial officer have concluded, based on the evaluation of the effectiveness of the disclosure controls and procedures by our management as of the end of the period covered by this report, that our disclosure controls and procedures were effective for this purpose.

Changes in Internal Control over Financial Reporting

Regulations under the Exchange Act require public companies, including us, to evaluate any change in our internal control over financial reporting as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. In connection with their evaluation of our disclosure controls and procedures as of the end of the period covered by this report, our chief executive officer and chief financial officer did not identify any change in our internal control over financial reporting during the fiscal quarter covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

At the end of fiscal 2008, Section 404 of the Sarbanes-Oxley Act will require our management to provide an assessment of the effectiveness of our internal control over financial reporting. We are in the process of performing the system and process documentation, evaluation and testing required for management to make this assessment and for our independent auditors to provide its attestation report. We have not completed this process or its assessment, and this process will require significant amounts of management time and resources. In the course of evaluation and testing, management may identify deficiencies that will need to be addressed and remediated.

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 related to, among other claims, alleged underpayment of royalties and failure to perform under a distribution agreement, pursuant to which the licensor is currently claiming that it is owed approximately $600,000, plus attorney s fees and costs. 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 or financial position.

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.

Risks Related to Our Business

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 $17.9 million in 2005, a net loss of $12.3 million in 2006 and a net loss of $3.3 million in 2007. As of December 31, 2007 we had an accumulated deficit of $52.4 million, which increased to $121.9 million as of September 30, 2008. We expect to continue to increase expenses as we implement initiatives designed to continue to grow our business, including, among other things, the development and marketing of new games including for new platforms, further international expansion, expansion of our infrastructure, acquisition of content, and general and administrative expenses associated with being a public company. If our revenues do not increase to offset these expected increases in operating expenses, we will continue to incur significant losses and will not become profitable. Our revenue growth in recent periods should not be considered indicative of our future performance. In fact, in future periods, our revenues could decline. Accordingly, we may not be able to 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:

- maintain our current, and develop new, wireless carrier relationships, particularly in international markets;
- maintain and expand our current, and develop new, relationships with third-party branded content owners;
- retain or improve our current revenue-sharing arrangements with carriers and third-party branded content owners;
- maintain and enhance our own brands;
- continue to develop new high-quality mobile games that achieve significant market acceptance, including for new high-end 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;

increase the number of end users of our games;

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

expand our development capacity in countries with lower costs;

execute our business and marketing strategies successfully;

respond to competitive developments including new platforms and pricing and distribution models; 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.

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. 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 renewed, or 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 license agreement. For example, in the quarter ended September 30, 2008, we incurred a $1.9 million impairment of certain prepaid royalties and royalty guarantees primarily due to reduced revenue expectations in connection with two distribution arrangements. 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. For example, 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 67 countries in approximately 15 different currencies. In the quarter ended September 30, 2008, some of these currencies fluctuated by up to 15%. 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.

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;

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;

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- the strength in 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 and other content;
- changes in the mix of original and licensed games, which have varying gross margins;
- the timing of successful mobile handset launches;
- the timeliness 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;
- foreign currency exchange fluctuations;
- accounting rules 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.

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.

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 brand, game quality 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. 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;
- lower labor and development costs; and
- broader global distribution and presence.

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

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 80.5%, 88.4% and 88.1% of our revenues in 2005, 2006 and 2007, respectively. In 2007, revenues derived under various licenses from our four largest licensors, Atari, Harrah s, Hasbro and PopCap Games, together accounted for approximately 49.5% 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 create our *Battleship, Clue, Game of Life* and *Monopoly* games, which in the past have accounted for a significant portion of our revenue, expired in March 2008. 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. 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.

We have both exclusive and non-exclusive licenses and both licenses that are global and licenses that are limited to specific geographies, often with other mobile game publishers having rights to geographies not covered by our licenses. Our licenses generally have terms that range from two to five years, with the primary exceptions being our six-year licenses covering *World Series of Poker* and *Deer Hunter 2* and our seven-year license covering *Kasparov Chess.* Some of the licenses that we have inherited through acquisitions provide that the licensor owns the intellectual property that we develop in the mobile version of the game and that, when our license expires, the licensor can transfer that intellectual property to a new licensee. 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. 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. Some of our existing licenses impose, and licenses that we obtain in the future might impose, development, distribution and marketing obligations on us. If we breach our obligations, our licensors might have the right to terminate the license or change an exclusive license to a non-exclusive license, which would harm our business, operating results and financial condition.

Even if we are successful 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. In addition, some rights are licensed from licensors that have or may develop financial difficulties, and may enter into bankruptcy protection under U.S. federal law or the laws of other countries. If any of our licensors files for bankruptcy, our licenses might be impaired or voided, which could 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 23.0% of our revenues in 2007. The loss of or a change in any significant carrier relationships could cause us to lose access to their subscribers and thus materially reduce our revenues.

Our future success is highly dependent upon maintaining successful relationships with the wireless carriers with which we currently work and establishing new carrier relationships in geographies where we have not yet established a significant presence. A significant portion of our revenues is derived from a very limited number of carriers. In 2007, we derived approximately 23.0% of our revenues from subscribers of Verizon Wireless. No other carrier represented more than 10.0% of our revenues in 2007. In 2006, we derived approximately 20.6% of our revenues from subscribers of Verizon Wireless, 12.6% of our revenues from subscribers of Sprint Nextel affiliates, 11.3% of our revenues from subscribers of AT&T and 10.6% of our revenues from subscribers of Vodafone. 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. Our failure to maintain our relationships with these carriers would materially reduce our revenues and thus harm our business, operating results and financial condition.

Our carrier agreements do not establish us as the exclusive provider of mobile games with the carriers and typically have a term of one or two years with automatic renewal provisions upon expiration of the initial term, absent a contrary notice from either party. In addition, the carriers usually can terminate these agreements early and, in some instances, at any time without cause, which could give them the ability to renegotiate economic or other terms. The agreements generally do not obligate the carriers to market or distribute any of our games. In many of these agreements, we warrant that our games do not contain libelous or obscene content, do not contain material defects or viruses, and do not violate third-party intellectual property rights and we indemnify the carrier for any breach of a third party s intellectual property. In addition, our agreements with a substantial minority of our carriers, including Verizon Wireless, allow the carrier to set the retail price at a level different from the price implied by our negotiated revenue split, without a corresponding change to our wholesale price to the carrier. If one of these carriers raises the retail price of one of our games, unit demand for that game might decline, reducing our revenues, without necessarily reducing, and perhaps increasing, the total revenues that the carrier receives from sales of that game.

Many other factors outside our control could impair our ability to generate revenues through a given carrier, including the following:

- the carrier s preference for our competitors mobile games rather than ours;
- the carrier s decision not to include or highlight our games on the deck of its mobile handsets;
- the carrier s decision to discontinue the sale of our mobile games or all mobile games like ours;
- the carrier s decision to offer games to its subscribers without charge or at reduced prices;
- the carrier s decision to require market development funds from publishers like us;
- the carrier s decision to restrict or alter subscription or other terms for downloading our games;
- the carrier s decision to facilitate the sale of games to consumers who have purchased new high-end smartphones, such as the RIM Blackberry and Microsoft Danger devices, directly to consumers or to do so through third-parties;
- a failure of the carrier s merchandising, provisioning or billing systems;
- the carrier s decision to offer its own competing mobile games;
- the carrier s decision to transition to different platforms and revenue models; and

consolidation among carriers.

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, which could materially harm our business, operating results and financial condition.

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, particularly given the frequency, size and varying scope of our recent acquisitions of Superscape and MIG;

- 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;

- 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.

Some or all of these issues may result from our acquisitions, including our acquisitions of MIG and Superscape. If the anticipated benefits of any of these or future acquisitions do not materialize, we experience difficulties integrating these businesses or 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.

Moreover, the terms of any completed or future acquisition 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, we anticipate that, based on MIG s estimated results for 2008, we will be obligated to pay in 2009 additional consideration totaling $25.0 million in stock and cash to MIG shareholders. Assuming our stock price remains at levels at which it has traded in the ten trading days preceding November 13, 2008, our stockholders will experience substantial dilution when we issue the required shares and the elective shares as part of the MIG earnout payments. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sufficiency of Current Cash, Cash Equivalents and Short-Term Investments for additional details.

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 licensing efforts, research and development, 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 in order to implement them in a timely manner. Our success depends, in part, on unpredictable and volatile factors beyond our control, including end-user preferences, competing games and the availability of other entertainment activities. If our games and related applications are not responsive 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.

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 games achieving a greater degree of commercial success. 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.

We have depended on no more than ten mobile games for a majority of our revenues in recent fiscal periods.

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 2006 and 2007, we generated approximately 53.3% and 52.7% of our revenues, respectively, from our top ten games, but no individual game represented more than 10% of our revenues in any of those 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.

In addition, the limited number of games that we release in a year may contribute to fluctuations in our operating results. Therefore, our reported results at quarter and year end may be affected based on the release dates of our products, which could result in volatility in the price of our common stock. If our competitors develop more successful games or offer them at lower prices or based on payment models, such as pay-for-play or subscription-based models, perceived as offering a better value proposition, or if we do not continue to develop consistently high-quality and well-received games, our revenues would likely decline and our business, operating results and financial condition would be harmed.

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 relationships. Promotion of the Glu brand will depend on our success in providing high-quality mobile games. Similarly, recognition of our games by end users will depend on our ability to develop engaging games of high quality with attractive titles. However, our success will also depend, 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 be unsuccessful 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. Further, the markets in which we operate are highly competitive and some of our competitors, such as Electronic Arts (EA Mobile), already have substantially more brand name recognition and greater marketing resources than we do. If we fail to increase 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.

Our business and growth may suffer if we are unable to hire and retain key personnel, who are in high demand.

We depend on the continued contributions of our senior management and other key personnel. The loss of the services of any of our executive officers or other key employees could harm our business. All of our U.S.-based executive officers and key employees are at-will employees, which means they may terminate their employment relationship with us at any time. None of our U.S.-based employees is bound by a contractual non-competition agreement, which could make us vulnerable to recruitment efforts by our competitors. Internationally, while some employees and contractors are bound by non-competition agreements, we may experience difficulty in enforcing these agreements. We do not maintain a key-person life insurance policy on any of our officers or other employees.

Our future success also depends on our ability to identify, attract and retain highly skilled technical, managerial, finance, marketing and creative personnel. We face intense competition for qualified individuals from numerous technology, marketing and mobile entertainment companies. In addition, competition for qualified personnel is particularly intense in the San Francisco Bay Area, where our headquarters are located. Further, one of our principal overseas operations is based in London, a city that, similar to our headquarters region, has a high cost of living and consequently high compensation standards. Qualified individuals are in high demand, and we may incur significant costs to attract them. We may be unable to attract and retain suitably qualified individuals who are capable of meeting our growing creative, operational and managerial requirements, or may be required to pay increased compensation in order to do so. If we are unable to attract and retain the qualified personnel we need to succeed, our business would suffer.

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Volatility or lack of performance in our stock price may also affect our ability to attract and retain our key employees. Many of our senior management personnel and other key employees have become, or will soon become, vested in a substantial amount of stock or stock options. Employees may be more likely to leave us if the shares they own or the shares underlying their options have significantly appreciated or depreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or if the exercise prices of the options that they hold are significantly above the market price of our common stock. If we are unable to retain our employees, our business, operating results and financial condition would be harmed.

Growth may place significant demands on our management and our infrastructure.

We operate in an emerging market and have experienced, and may continue to experience, growth in our business through internal growth and acquisitions. This growth has placed, and may continue to place, significant demands on our management and our operational and financial infrastructure. Continued growth could strain our ability to:

- develop and improve our operational, financial and management controls;
- enhance our reporting systems and procedures;
- recruit, train and retain highly skilled personnel;
- maintain our quality standards; and
- maintain branded content owner, wireless carrier and end-user satisfaction.

Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business, operating results and financial condition would be harmed.

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 44.8% and 46.2% of our revenues in 2006 and 2007, respectively. In addition, as part of our international efforts, we acquired U.K.-based Macrospace in December 2004, opened our Hong Kong office in July 2005 (which in the second quarter of 2008 we implemented a plan to close following our acquisition of MIG and its operations in Beijing), expanded our presence in the European market with our acquisition of iFone in March 2006, opened an office in France in the third quarter of 2006, opened additional offices in Brazil and Germany in the fourth quarter of 2006, opened additional offices in China, Italy and Spain in the second quarter of 2007, opened an office in Chile in the fourth quarter of 2007, acquired China-based MIG in December 2007, opened an office in Sweden in the first quarter of 2008, acquired Superscape, which has a significant presence in Russia, in March 2008, opened an office in Mexico in the second quarter of 2008, opened an office in Australia in the third quarter of 2008 and opened offices in Malaysia and Colombia in the fourth quarter of 2008. 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;
- the burdens of complying with a wide variety of foreign laws and regulations;
- higher costs associated with doing business internationally;
- difficulties in staffing and managing international operations;

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;

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;

variations in tariffs, quotas, taxes and other market barriers; and

difficulties in enforcing intellectual property rights in countries other than the United States.

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. Further expansion into developing countries subjects us to the effects of regional instability, civil unrest and hostilities, and could adversely affect us by disrupting communications and making travel more difficult. 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. In the event 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 expansion efforts, which, in turn, could materially and adversely affect our business, operating results and financial condition.

If we fail to deliver our games at the same time as new mobile 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). 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 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, or if we miss the key holiday selling period, either because the introduction of a new handset is delayed or we do not deploy our games in time for the holiday selling season, our revenues would likely decline and our business, operating results and financial condition would likely suffer.

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 the significant minority 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.

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 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.

We may be unable to develop and introduce in a timely way new mobile games, and our games may have defects, which could harm our brand.

The planned timing and introduction of original games and games based on licensed intellectual property are subject to risks and uncertainties. Unexpected technical, operational, deployment, distribution or other problems could delay or prevent the introduction of new games, which could result in a loss of, or delay in, revenues or damage to our reputation and brand. If any of our games is introduced with defects, errors or failures, we could experience decreased sales, loss of end users, damage to our carrier relationships and damage to our reputation and brand. Our attractiveness to branded content licensors might also be reduced. In addition, new games may not achieve sufficient market acceptance to offset the costs of development, particularly when the introduction of a game is substantially later than a planned day-and-date launch, which could materially 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 could suffer.

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, we anticipate that in the future we will be required to port existing and new games to a broader array of handsets. If we utilize more labor intensive porting processes, our margins could be significantly reduced and it might take us longer to port games to an equivalent number of handsets. For example, we expect the time to develop and port games to some of the new advanced mobile handsets, including the iPhone, to be longer than developing and porting for games for traditional mobile phones. This, in turn, could harm our business, operating results and financial condition.

If our independent, third-party developers cease development of new games for us and we are unable to find comparable replacements, we may have to reduce the number of games that we intend to introduce, delay the introduction of some games or increase our internal development staff, which would be a time-consuming and potentially costly process, and, as a result, our competitive position may be adversely impacted.

We rely on independent third-party developers to develop a few of our games, which subjects us to the following risks:

- key developers who worked for us in the past may choose to work for or be acquired by our competitors;
- developers currently under contract may try to renegotiate our agreements with them on terms less favorable to us; and
- our developers may be unable or unwilling to allocate sufficient resources to complete our games in a timely or satisfactory manner or at all.

If our developers terminate their relationships with us or negotiate agreements with terms less favorable to us, we may have to reduce the number of games that we intend to introduce, delay the introduction of some games or increase our internal development staff, which would be a time-consuming and potentially costly process, and, as a result, our business, operating results and financial condition could be harmed.

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, *Super K.O. Boxing* 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. Our design and porting process and the constraints on the file size of our games reduce the possibility of hidden, objectionable content appearing in the games we publish. Nonetheless, these processes and constraints may not prevent this content from being included in our games. 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. In addition, our reputation could be harmed, which could impact sales of other games we sell and our attractiveness to content licensors and carriers or other distributors of our games. If any of these consequences were to occur, our business, operating results and financial condition could be significantly harmed.

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 will require 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 our Annual Report on Form 10-K for the year ending December 31, 2008. We are in the process of preparing and implementing an internal plan of action for compliance with Section 404 and strengthening and testing our system of internal controls to provide the basis for our report. The process of implementing our internal controls and complying with Section 404 will be expensive and time consuming, and will require significant attention of management. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. 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 competitive position may be adversely affected.

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 diversion of 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.

Third parties may sue us 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 for intellectual property infringement or initiate proceedings to invalidate our intellectual property, either of which, if successful, could disrupt the conduct of our business, cause us to pay significant damage awards or require us to pay licensing fees. 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 infringement claims, regardless of their merit. Successful infringement or licensing claims against us might result in substantial monetary liabilities and might materially disrupt the conduct of our business.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement, damages caused by malicious software and other losses.

In the ordinary course of our business, most of our agreements with carriers and other distributors include indemnification provisions. In these provisions, we agree to indemnify them for losses suffered or incurred in connection with our games, including as a result of intellectual property infringement and damages caused by 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 we could be required to make under these indemnification provisions is generally unlimited. Large future indemnity payments could harm our business, operating results and financial condition.

As a result of a substantial portion of our revenues currently being derived from Verizon Wireless and three other wireless carriers, if Verizon Wireless or any other significant carrier were unable to fulfill its payment obligations, our financial condition and results of operations would suffer.

As of December 31, 2007, our outstanding accounts receivable balances with Verizon Wireless, Sprint Nextel, Vodafone and AT&T were $4.3 million, $1.7 million, $0.9 million and $1.0 million, respectively. As of December 31, 2006, our outstanding accounts receivable balances with those carriers were $3.0 million, $1.5 million, $1.4 million and $1.2 million, respectively. Since 42.9% of our outstanding accounts receivable at December 31, 2007 were with Verizon Wireless, Sprint Nextel, AT&T and Vodafone, we have a concentration of credit risk. If any of these carriers is unable to fulfill its payment obligations to us under our carrier agreements with them, our revenues could decline significantly and our financial condition might be harmed.

We invest in securities that are subject to market risk and fluctuations in interest rates and the recent issues in the financial markets could adversely affect the value of our assets.

As of September 30, 2008, we had $20.7 million in cash, cash equivalents and short-term investments. We invest our cash in a variety of financial instruments, consisting principally of investments in money market funds and auction-rate securities. These investments are denominated in U.S. dollars.

As of September 30, 2008, we had $2.8 million of principal invested in auction rate securities, all of which were rated AAA at the time of purchase but were downgraded to A in July 2008. Auction-rate securities are long-term variable rate bonds tied to short-term interest rates. After the initial issuance of the securities, the interest rate on the securities is reset periodically, at intervals established at the time of issuance (e.g., every seven, 28, or 35 days; every six months; etc.), based on market demand for a reset period. The stated or contractual maturities for these securities, however, generally are 20 to 30 years. Auction-rate securities are bought and sold in the marketplace through a competitive bidding process often referred to as a Dutch auction . If there is insufficient interest in the securities at the time of an auction, the auction may not be completed and the rates may be reset to predetermined penalty or maximum rates. The monthly auctions historically have provided a liquid market for these securities. Following a failed auction, we would not be able to access our funds that are invested in the corresponding auction-rate securities until a future auction of these investments is successful or new buyers express interest in purchasing these securities in between reset dates.

Given the current negative liquidity conditions in the global credit and capital markets, the auction-rate securities held by us at September 30, 2008 have experienced multiple failed auctions as the amount of securities submitted for sale has exceeded the amount of purchase orders. The underlying assets of our auction-rate securities are corporate bonds. If the underlying issuers are unable to successfully clear future auctions or if their credit rating deteriorates and the deterioration is deemed to be other-than-temporary, we would be required to adjust the carrying value of the auction-rate securities through an impairment charge to earnings. Any of these events could materially affect our results of operations and our financial condition. For example, in the fourth quarter of 2007, we recorded a pre-tax impairment charge of $806,000, in both the first and second quarters of 2008, we recorded additional pre-tax impairments of $235,000 and in the third quarter of 2008, we recorded an additional pre-tax impairment of $682,000 reflecting the decrease in estimated value of our auction-rate securities as of September 30, 2008 that were determined to be other-than-temporary as a result of two failed auctions.

As of September 30, 2008, the contractual maturities of the remaining two auction-rate securities were 2017. Although we may not have the ability to liquidate these investments within one year of the balance sheet date, we may need to sell the securities within the next year to fund operations. Accordingly, the investments are classified as short-term investments on the September 30, 2008 and December 31, 2007 consolidated balance sheets. In the event we need to access these funds, we could be required to sell these securities at an amount below our original purchase value and our current carrying value.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate debt securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded equity investments and auction rate securities is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. Recent events in the sub-prime mortgage market and with auction rate securities could negatively impact our return on investment for these debt securities and thereby reduce the amount of cash and cash equivalents and investments on our balance sheet.

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 recent acquisitions. In addition to our general operating expenses and prepaid and guaranteed royalty payments, beginning in the first half of 2009, we anticipate that we will be obligated to begin to pay up to an aggregate of $25.0 million in cash and stock earnouts and bonuses related to our acquisition of MIG. As discussed in greater detail in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sufficiency of Current Cash, Cash Equivalents and Short-Term Investments if our cash, cash equivalents and short-term investments balances and any cash generated from operations and from our IPO are not sufficient to meet our cash requirements, we will need to seek additional capital, potentially through debt or equity financings, to fund our growth. We may not be able to raise 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, and the prices at which new investors would be willing to purchase our securities may be lower than the IPO 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. 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.

In addition, we may elect to draw down on our $8.0 million credit facility. Utilizing our credit facility or incurring other debt would result in debt service obligations and may result in operating and financial covenants that could restrict our operations. In addition, our $8.0 million credit facility expires in February 2009, and we expect to establish another facility with a term of at least 12 months. Any failure by us to increase our working capital, particularly in the next 12 months, would have a significant impact on our business and financial condition.

Our stock price has been highly volatile and has experienced a significant decline, and may continue to be volatile and decline further.

The trading price of our common stock has fluctuated in the past and is expected to continue to do so in the future, as a result of a number of factors, many of which are outside our control, such as:

- variations in our actual and anticipated operating results;
- changes in our earnings estimates by analysts;
- the volatility in the stock market generally and inherent in stocks within the emerging sector within which we conduct business;
- and the volume of trading in our common stock, including sales of substantial amounts of common stock issued upon the exercise of outstanding options and warrants.

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 could result in substantial costs and a diversion of 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 $14.50 per share and closing low of below $1.00 per share. The last reported sale price of our shares on November 10, 2008 was $0.35 per share. 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 choose to 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 10 consecutive trading days during the 90-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 January 19, 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 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.

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 three-fifths of our business in U.S. Dollars, we also transact approximately one-third of our business in pounds sterling and Euros and a small 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 transaction gains and losses. For example, during the quarter ended September 30, 2008, we recorded a $1.3 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. Even were we 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. There is also additional risk if the currency is not freely or actively traded. Some currencies, such as the Chinese Renminbi, in which our Chinese operations principally transact business, are subject to limitations on conversion into other currencies, which can limit our ability to react to rapid foreign currency devaluations.

Our business in countries with a history of corruption and transactions with foreign governments, including with government owned or controlled wireless carriers, increase the risks associated with our international activities.

As we operate and sell internationally, we are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by the United States and other business entities for the purpose of obtaining or retaining business. We have operations, deal with carriers and make sales in countries known to experience corruption, particularly certain emerging countries in East Asia, Eastern Europe and Latin America, and further international expansion may involve more of these countries. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents or distributors that could be in violation of various laws including the FCPA, even though these parties are not always subject to our control. We have attempted to implement safeguards to discourage these practices by our employees, consultants, sales agents and distributors. However, our existing safeguards and any future improvements may prove to be less than effective, and our employees, consultants, sales agents or distributors may engage in conduct for which we might be held responsible. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition.

Changes to financial accounting standards and new exchange rules could make it more expensive to issue stock options to employees, which would increase compensation costs and might cause us to change our business practices.

We prepare our financial statements to conform with accounting principles generally accepted in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC, and various other bodies. A change in those principles could have a significant effect on our reported results and might affect our reporting of transactions completed before a change is announced. For example, we have used stock options as a fundamental component of our employee compensation packages. We believe that stock options directly motivate our employees to maximize long-term stockholder value and, through the use of vesting, encourage employees to remain in our employ. Several regulatory agencies and entities have made regulatory changes that could make it more difficult or expensive for us to grant stock options to employees. For example, the FASB released Statement of Financial Accounting Standards, or SFAS, No. 123R, *Share-Based Payment*, that required us to record a charge to earnings for employee stock option grants beginning in 2006. In addition, regulations implemented by The Nasdaq Stock Market generally require stockholder approval for all stock option plans, which could make it more difficult for us to grant stock options to employees. We may, as a result of these changes, incur increased compensation costs, change our equity compensation strategy or find it difficult to attract, retain and motivate employees, any of which could materially and adversely affect our business, operating results and financial condition.

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.

In order 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.

Risks Relating to Our Industry

Wireless communications technologies are changing rapidly, and we may not be successful in working with these new technologies.

Wireless network and mobile handset technologies are undergoing rapid innovation. New handsets with more advanced processors and supporting advanced programming languages continue to be introduced. In addition, networks that enable enhanced features, such as multiplayer technology, are being developed and deployed. We have no control over the demand for, or success of, these products or technologies. The development of new, technologically advanced games to match the advancements in handset technology is a complex process requiring significant research and development expense, as well as the accurate anticipation of technological and market trends. If we fail to anticipate and adapt to these and other technological changes, the available channels for our games may be limited and our market share and our operating results may suffer. Our future success will depend on our ability to adapt to rapidly changing technologies, develop mobile games to accommodate evolving industry standards and improve the performance and reliability of our games, without substantially increasing our development and porting costs. In addition, the widespread adoption of networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or adapt our games.

Technology changes in our industry require us to anticipate, sometimes years in advance, which technologies we must implement and take advantage of in order to make our games and other mobile entertainment products competitive in the market. Therefore, we usually start our product development with a range of technical development goals that we hope to be able to achieve. We may not be able to achieve these goals, or our competition may be able to achieve them more quickly and effectively than we can. In either case, our products may be technologically inferior to those of our competitors, less appealing to end users or both. If we cannot achieve our technology goals within the original development schedule of our products, then we may delay their release until these technology goals can be achieved, which may delay or reduce our revenues, increase our development expenses and harm our reputation. Alternatively, we may increase the resources employed in research and development in an attempt either to preserve our product launch schedule or to keep up with our competition, which would increase our development expenses. In either case, our business, operating results and financial condition could be materially harmed.

The complexity of and incompatibilities among mobile handsets may require us to use additional resources for the development of our games.

To reach large numbers of wireless subscribers, mobile entertainment publishers like us must support numerous mobile handsets and technologies. However, keeping pace with the rapid innovation of handset technologies together with the continuous introduction of new, and often incompatible, handset models by wireless carriers requires us to make significant investments in research and development, including personnel, technologies and equipment. In the future, we may be required to make substantial investments in our development if the number of different types of handset models continues to proliferate. In addition, as more advanced handsets are introduced that enable more complex, feature rich games, we anticipate that our per-game development and porting costs will increase, which could increase the risks associated with the failure of any one game and could materially harm our operating results and financial condition.

If wireless subscribers do not continue to use their mobile handsets to access games and other applications, our business growth and future revenues may be adversely affected.

We operate in a developing industry. Our success depends on growth in the number of wireless subscribers who use their handsets to access data services and, in particular, entertainment applications of the type we develop and distribute. New or different mobile entertainment applications, such as streaming video or music applications, developed by our current or future competitors may be preferred by subscribers to our games. In addition, other mobile platforms such as the iPod, iPhone and the Google Android platform, and dedicated portable gaming platforms such as the PlayStation Portable and the Nintendo DS, may become widespread, and end users may choose to switch to these platforms. If the market for our games does not continue to grow or we are unable to acquire new end users, our business growth and future revenues could be adversely affected. If end users switch their entertainment spending away from the games and related applications that we publish, or switch to portable gaming platforms or distribution where we do not have comparative strengths, our revenues would likely decline and our business, operating results and financial condition would suffer.

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; 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.

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 we have experience developing games for the 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 technology platform such as Adobe Flash Lite, iPod, iPhone or Google Android 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.

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

Mobile game publishers rely on wireless carriers networks to deliver games to end users and on their or other third parties billing systems to track and account for the downloading of their games. In certain circumstances, mobile game publishers may also rely on their own servers to deliver games on demand to end users through their carriers networks. In addition, certain subscription-based games such as *World Series of Poker* and entertainment products such as *FOX Sports Mobile* require access over the mobile Internet to our servers in order to enable features such as multiplayer modes, high score posting or access to information updates. Any failure of, or technical problem with, carriers , third parties or our billing systems, delivery systems, 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 or other products. If any of these systems fails or if there is an interruption in the supply of power, an earthquake, fire, flood or other natural disaster, or an act of war or terrorism, end users might be unable to access 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 failure of, or technical problem with, the carriers , other third parties or our systems could cause us to lose end users or revenues or incur substantial repair costs and distract management from operating our business. This, in turn, could harm our business, operating results and financial condition.

The market for mobile games is seasonal, and our results may vary significantly from period to period.

Many new mobile handset models are released in the fourth calendar quarter to coincide with the holiday shopping season. Because many end users download our games soon after they purchase new handsets, we may experience seasonal sales increases based on the holiday selling period. However, due to the time between handset purchases and game purchases, most of this holiday impact occurs for us in our first quarter. In addition, we seek to release many of our games in conjunction with specific events, such as the release of a related movie. If we miss these key selling periods for any reason, our sales will suffer disproportionately. Likewise, if a key event to which our game release schedule is tied were to be delayed or cancelled, our sales would also suffer disproportionately. Further, for a variety of reasons, including roaming charges for data downloads that may make purchase of our games prohibitively expensive for many end users while they are traveling, we may experience seasonal sales decreases during the summer, particularly in Europe. If the level of travel increases or expands to other periods, our operating results and financial condition may be harmed. Our ability to meet game development schedules is affected by a number of factors, including the creative processes involved, the coordination of large and sometimes geographically dispersed development teams required by the increasing complexity of our games, and the need to fine-tune our games prior to their release. Any failure to meet anticipated development or release schedules would likely result in a delay of revenues or possibly a significant shortfall in our revenues and cause our operating results to be materially different than anticipated.

Our business depends on the growth and maintenance of wireless communications infrastructure.

Our success will depend on the continued growth and maintenance of wireless communications infrastructure in the United States and internationally. This includes deployment and maintenance of reliable next-generation digital networks with the speed, data capacity and security necessary to provide reliable wireless communications services. Wireless communications infrastructure may be unable to support the demands placed on it if the number of subscribers continues to increase, or if existing or future subscribers increase their bandwidth requirements. Wireless communications have experienced a variety of outages and other delays as a result of infrastructure and equipment failures, and could face outages and delays in the future. These outages and delays could reduce the level of wireless communications usage as well as our ability to distribute our games successfully. In addition, changes by a wireless carrier to network infrastructure may interfere with downloads of our games and may cause end users to lose functionality in our games that they have already downloaded. This could harm our business, operating results and financial condition.

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. In addition, the development of other application delivery mechanisms such as premium-SMS may 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 or premium-SMS delivery systems 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. This could harm our business, operating results and financial condition.

Actual or perceived security vulnerabilities in mobile handsets or wireless networks could adversely affect our revenues.

Maintaining the security of mobile handsets and wireless networks is critical for our business. There are individuals and groups who develop and deploy viruses, worms and other illicit code or malicious software programs that may attack wireless networks and handsets. Security experts have identified computer worm programs, such as Cabir and Commwarrior.A, and viruses, such as Lasco.A, that target handsets running on the Symbian operating system. Although these worms have not been widely released and do not present an immediate risk to our business, we believe future threats could lead some end users to seek to return our games, reduce or delay future purchases of our games or reduce or delay the use of their handsets. Wireless carriers and handset manufacturers may also increase their expenditures on protecting their wireless networks and mobile phone products from attack, which could delay adoption of new handset models. Any of these activities could adversely affect our revenues and 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, 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, it is not currently feasible for these end users 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. In either case, unless we are able to re-sell subscriptions to these end users or replace these end users with other end users, our sales would suffer and this could harm our business, operating results and financial condition.

Changes in government regulation of the media and wireless communications industries may adversely affect our business.

It is possible that a number of laws and regulations may be adopted in the United States and elsewhere that could restrict the media and wireless communications industries, including laws and regulations regarding customer privacy, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours conducting business through wireless carriers. We anticipate that regulation of our industry will increase and that we will be required to devote legal and other resources to address this regulation. Changes in current laws or regulations or the imposition of new laws and regulations in the United States or elsewhere regarding the media and wireless communications industries may lessen the growth of wireless communications services and may materially reduce our ability to increase or maintain sales of our games.

A number of studies have examined the health effects of mobile phone use, and the results of some of the studies have been interpreted as evidence that mobile phone use causes adverse health effects. The establishment of a link between the use of mobile phone services and health problems, or any media reports suggesting such a link, could increase government regulation of, and reduce demand for, mobile phones and, accordingly, the demand for our games and related applications, and this could harm our business, operating results and financial condition.

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

Unregistered Sales of Equity Securities

Not applicable.

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, and the offering commenced the following day. Goldman Sachs & Co. acted as the sole book-running manager for the offering, and Lehman Brothers Inc., Bank of America Securities LLC and Needham & Company, LLC acted as co-managers of the offering.

The net proceeds of our IPO were $74.8 million. Through September 30, 2008, we used approximately $12.0 million of the net proceeds to repay in full the principal and accrued interest on an outstanding loan and $14.7 million of the net proceeds for the acquisition of MIG. We used approximately $34.5 million of the net proceeds for the acquisition of Superscape upon declaring the tender offer wholly unconditional and paid an additional $2.3 million for the remaining Superscape shares outstanding in May 2008. We expect to use the remaining net proceeds for general corporate purposes, including working capital and potential capital expenditures and acquisitions.

Our management will retain 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 and auction-rate securities. 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.

Repurchase of Common Stock

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share
July 1, 2008 to July 31, 2008	28,548	$ 0.75
August 1, 2008 to August 31, 2008		
September 1, 2008 to September 30, 2008		
Total	28,548	$ 0.75

In July 2008, we paid total cash consideration of $21,411 to repurchase 28,548 unvested shares at their original exercise price of $0.75 per share that had been issued to a former officer of Glu under the 2001 Stock Plan. There were no other repurchases during the three months ended September 30, 2008.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

On October 22, 2008, our Board of Directors adopted Amended and Restated Bylaws (the Bylaws), which were amended to, among other things:

(1) revise Article II, Section 1.11 (Notice of Stockholder Business; Nominations) to:

Require that any stockholder of the Company who submits a nomination for election to the Board of Directors or a stockholder proposal for consideration at a meeting of stockholders to deliver a notice to the Company (a Stockholder Notice) , which shall include, among other things (i) in the case of a stockholder nomination for election as a director, specified information regarding ownership of Company stock and related derivative securities, including ownership information of an Associated Person (as defined below) of such nominee or stockholder; and (ii) in all instances (including where the stockholder is submitting a nominee for election), specified name and address information and specified information regarding ownership of Company stock and related derivative securities for such stockholder or beneficial owner and any Associated Person (collectively, the Securityholdings);

Require that any such notice specify (a) whether the stockholder or beneficial owner intends to solicit proxies from holders of, in the case of a proposal, at least the percentage of the Company s voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the Company s voting shares to elect such nominee or nominees (an affirmative statement of such intent being a Solicitation Notice), and (b) to the extent known by such stockholder or beneficial owner or any Associated Person, (i) information regarding any other stockholder or holder of derivative interests supporting the proposed nominee(s) for election or the proposal of other business (such stockholder other holder, an Aligned Person), and (ii) whether such stockholder, beneficial owner, Aligned Person or any associated person intends to acquire, directly or indirectly, capital stock representing a majority the voting power of the capital stock of the Company or the power to elect or nominate a majority of the Board of Directors;

Require that the stockholder or any beneficial owner giving the Stockholder Notice must give notice to the Company s secretary within two business days of any change in the Securityholdings of such stockholder or beneficial owner and any Associated Person occurring between the date of delivery of the Stockholder Notice and the closing of the polls at the meeting (each a Securityholdings Update) including specified information regarding the change; and

Provide that any failure by such a stockholder or beneficial owner to provide any Securityholdings Update shall preclude the stockholder or beneficial owner and any Associated Person from voting those Securityholdings at the meeting (and authorize the chairman, secretary or inspector of elections of the meeting to disallow and disregard any such vote purported to be cast).

The term Associated Person means with respect to any subject stockholder or other person (including any proposed nominee) (a) any person controlling, directly or indirectly, or acting in concert with, such stockholder or other person, (b) any beneficial owner of shares of stock of the Company owned of record or beneficially by such stockholder or other person, (c) any person controlling, controlled by or under common control with such Associated Person and (d) any associate (as defined in Rule 405 under the Securities Act of 1933, as amended), of such stockholder or other person.

(2) revise Article V (Stock) to provide that stock certificates upon which the signature of departed officers, or transfer agent or registrar personnel following such departure, shall be effective irrespective of such departure:

(3) revise Article VI (Indemnification) to:

reinforce that changes in the Delaware General Corporation Law and changes in bylaws can only broaden, and not reduce, existing indemnification rights;

reduce exceptions to the Bylaw provision regarding advancement of funds;

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provide specified default indemnification terms where the Company does not have an indemnification agreement with a covered person; and

(4) revise Article X (Amendment) to require the approval of Company stockholders holding at least two-thirds of the voting power of the Company s outstanding voting stock to amend the Bylaw that authorizes the Company s Board of Directors to fix by resolution the size of the Board:

The description of changes to Bylaws described herein is qualified in its entirety by reference to the Bylaws, a copy of which is filed as Exhibit 99.01 (and the redline showing the changes from the Company s prior bylaws filed as Exhibit 99.02) to the Current Report on Form 8-K filed by us on October 28, 2008.

Appointment of Section 16 Officers and Summary of Compensation Terms

On October 22, 2008, our Board of Directors designated each of Kevin S. Chou, our Vice President and General Counsel, and Thomas M. Perrault, our Vice President, Global Human Resources as officers for purposes of Section 16 of the Exchange Act.

Mr. Perrault s offer letter with us is filed as Exhibit 10.01 to this report, and a summary of Mr. Chou s compensation terms is filed as Exhibit 10.02 to this report. In addition to the compensation terms described in Mr. Perrault s offer letter, we have agreed to enter into a change of control and severance agreement with Mr. Perrault in substantially the same form as we have entered into with our other non-CEO executive officers.

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: November 14, 2008	By: /s/ L. Gregory Ballard L. Gregory Ballard *President and Chief Executive Officer* (Principal Executive Officer)
Date: November 14, 2008	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
3.01	Amended and Restated Bylaws of Glu Mobile Inc., dated October 22, 2008.	8-K	001-33368	99.01	10/28/08	
10.01#	Offer Letter, between Glu Mobile Inc. and Thomas M. Perrault, dated as of July 17, 2008.					X
10.02#	Summary of Compensation Terms for Kevin S. Chou, dated as of October 31, 2008.					X
31.01	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
31.02	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
32.01	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(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 specifically incorporates it by reference.