

GLU MOBILE INC
Form S-3/A
October 14, 2011
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As filed with the Securities and Exchange Commission on October 14, 2011

Registration No. 333-176327

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

Amendment No. 2
to
FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

GLU MOBILE INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

91-2143667
(I.R.S. Employer
Identification No.)

45 Fremont Street, Suite 2800

San Francisco, California 94105

(415) 800-6100

(Address, including zip code and telephone number, including area code, of the Registrant's principal executive offices)

Niccolo M. de Masi

President, Chief Executive Officer and Director

Glu Mobile Inc.

45 Fremont Street, Suite 2800

San Francisco, California 94105

(415) 800-6100

(Name, address, including zip code and telephone number, including area code, of the Registrant's agent for service)

Copies to:

Scott J. Leichtner, Esq.
Vice President and General Counsel

Glu Mobile Inc.
45 Fremont Street, Suite 2800
San Francisco, California 94105

David A. Bell, Esq.
Fenwick & West LLP
Silicon Valley Center
801 California Street
Mountain View, California 94041

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

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If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement filed pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities or accept an offer to buy these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting offers to buy these securities in any state where such offer or sale is not permitted.

PROSPECTUS (Subject To Completion)

Issued October 14, 2011

1,000,000 Shares

This prospectus relates solely to the resale or other disposition by the selling stockholders identified in this prospectus of up to an aggregate of 1,000,000 shares of our common stock.

The selling stockholders may, from time to time, sell, transfer, or otherwise dispose of any or all of their shares of our common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices. See [Plan of Distribution](#) for additional information.

We are not offering any shares of common stock for sale under this prospectus, and we will not receive any of the proceeds from the sale or other disposition of the shares of common stock offered hereby.

In addition to the shares covered under this prospectus, our securities are currently also subject to ongoing public distribution pursuant to (i) a prospectus covering the resale of 13,495,000 shares of our common stock and 6,747,500 shares of our common stock issuable upon the exercise of warrants, which securities were issued by us in a private placement transaction that we completed in August 2010 and (ii) a prospectus covering the resale of an aggregate of up to 11,407,934 shares of our common stock that may be issuable in connection with our acquisition of Gryptonite, Inc. that we completed in August 2011 (pursuant to the registration statement on Form S-3, Registration No. 333-176325). In addition, we also have an effective universal shelf registration statement on Form S-3 (Registration No. 333-170577) on file with the Securities and Exchange Commission pursuant to which we may offer shares of our common or preferred stock, debt securities, warrants to purchase our common stock, preferred stock or debt securities, subscription rights to purchase our common stock, preferred stock or debt securities, and/or units consisting of some or all of these securities with an initial aggregate offering price of up to \$30,000,000, of which we utilized \$17,250,000 in an underwritten offering of our common stock in January 2011 and under which \$12,750,000 remains available for future utilization.

Our common stock is listed on The NASDAQ Global Market under the symbol [GLUU](#). On October 13, 2011, the last reported sale price for our common stock on The NASDAQ Global Market was \$2.74 per share.

Our business and an investment in our securities involve significant risks. You should read the section entitled Risk Factors on page 3 of this prospectus and the risk factors incorporated by reference into this prospectus as described in that section before investing in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

_____, 2011

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or the SEC, using a shelf registration or continuous offering process. Under this shelf registration process, the selling stockholders or their respective successors may from time to time sell the shares of our common stock described in this prospectus in one or more offerings.

You should read this prospectus and the information and documents we have incorporated by reference into the prospectus carefully because these documents contain important information you should consider when making your investment decision. See [Incorporation of Documents by Reference](#) and [Where You Can Find Additional Information](#)

You should rely only on the information provided in this prospectus and the information and documents incorporated by reference into this prospectus. We have not, and the selling stockholders have not, authorized anyone to provide you with different information. This prospectus is not an offer to sell these securities, and the selling stockholders are not soliciting offers to buy these securities, in any state where the offer or sale of these securities is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of common stock. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus, or that the information contained in any document incorporated by reference is accurate as of any date other than the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any sale of a security.

This prospectus and the information incorporated herein by reference include trademarks, service marks and trade names owned by us or others.

Glu, Glu Mobile, our 2-D g character logo and Super K.O. Boxing are some of the registered trademarks of Glu Mobile Inc. in the United States and in some other countries. Where not registered, these marks, our 3-D g character logo, Big Time Gangsta, Bug Village, Circus City, Contra Killer, Eternity Warriors, Gun Bros, Men vs. Machines, Space City, Star Blitz and Toyshop Adventures are trademarks of Glu. All other trademarks, service marks and trade names included or incorporated by reference into this prospectus are the property of their respective owners.

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PROSPECTUS SUMMARY

This summary may not contain all the information that you should consider before investing in our securities. You should carefully read the entire prospectus, including the information included in the Risk Factors section, as well as our consolidated financial statements, notes to the consolidated financial statements and the other information incorporated by reference into this prospectus, as well as the exhibits to the registration statement of which this prospectus is a part, before making an investment decision.

GLU MOBILE INC.

Glu Mobile designs, markets and sells mobile games. We have developed and published a portfolio of casual and traditional games designed to appeal to a broad cross section of the users of smartphones and tablet devices who purchase our games through direct-to-consumer digital storefronts as well as users of feature phones served by wireless carriers and other distributors. We create games and related applications based on our own original brands and intellectual property as well as third-party licensed brands. Our original games based on our own intellectual property include *Big Time Gangsta*, *Bug Village*, *Circus City*, *Contract Killer*, *Eternity Warriors*, *Gun Bros*, *Men vs. Machines*, *Space City*, *Star Blitz*, *Super K.O. Boxing and Toyshop Adventures*. Our games based on licensed intellectual property include *Build-a-lot*, *Call of Duty*, *Deer Hunter*, *Diner Dash*, *DJ Hero*, *Guitar Hero*, *Family Feud*, *Family Guy*, *Lord of the Rings*, *Paperboy*, *The Price Is Right*, *Transformers*, *Wedding Dash*, *Who Wants to Be a Millionaire?* and *World Series of Poker*. We are based in San Francisco, California and our primary international offices are located in Brazil, Canada, China, England and Russia.

Except where the context requires otherwise, in this prospectus Company, Glu, Glu Mobile, Registrant, we, us and our refer to Glu Mobile and where appropriate, its subsidiaries.

Corporate Information

We were incorporated in Nevada in May 2001 as Cyent Studios, Inc. and changed our name to Sorrent, Inc. later that year. In November 2001, we incorporated a wholly owned subsidiary in California, and, in December 2001, we merged the Nevada corporation into this California subsidiary to form Sorrent, Inc., a California corporation. In May 2005, we changed our name to Glu Mobile Inc. In March 2007, we reincorporated in Delaware and implemented a 3-for-1 reverse split of our common stock and convertible preferred stock. Our principal executive offices are located at 45 Fremont Street, Suite 2800, San Francisco, California 94105, and our telephone number is (415) 800-6100. Our website address is www.glu.com. The information found on, or accessible through, our website is not a part of this prospectus.

Recent Acquisitions

Blammo Games Inc.

On August 1, 2011, we completed our acquisition of Blammo Games Inc., or Blammo, by entering into a Share Purchase Agreement by and among Glu, Blammo and each of the owners of the outstanding share capital of Blammo, who we refer to in this prospectus as the Sellers. Blammo, which is based in Toronto, Canada, develops games for mobile smartphone devices. The Sellers are the selling stockholders under this prospectus.

Pursuant to the terms of the Share Purchase Agreement, we purchased from the Sellers all of the issued and outstanding share capital of Blammo, and in exchange for such Blammo share capital, we (i) issued to the Sellers, in the aggregate, 1,000,000 shares of our common stock, or the Initial Shares, and (ii) agreed to issue to the Sellers, in the aggregate, up to an additional 3,312,937 shares of our common stock, which we call the Additional Shares, if Blammo achieves certain net revenue targets during the twelve months ended March 31, 2013, March 31, 2014 and March 31, 2015. We refer to the acquisition of all of the outstanding share capital of Blammo as the Share Purchase.

100,000 of the Initial Shares are being held in escrow until August 1, 2012 as security to satisfy any indemnification claims we may make under the Share Purchase Agreement. To the extent that Glu suffers any losses, damages or expenses as a result of certain events, including (i) inaccuracies in the representations, warranties or certifications made by the Sellers or Blammo in the Share Purchase Agreement and specified ancillary documents delivered pursuant to the Share Purchase Agreement and (ii) breaches of or defaults in connection with any of the covenants or agreements made by the Sellers or Blammo in the Share Purchase Agreement, then Glu will be entitled to retain all or a portion of these escrowed shares to compensate Glu for such loss, damage or expense. To the extent that any of the escrowed shares are retained by Glu to satisfy indemnification claims, such shares will not be sold under this prospectus.

Under the terms of the Share Purchase Agreement, we agreed to file a shelf registration statement with the SEC within 20 days after the closing to register the resale of the Initial Shares; we did not agree to register the Additional Shares. The registration statement of which this prospectus

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is a part has been filed to satisfy this obligation. We have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earliest of (i) the first anniversary of the date that the registration statement of which this prospectus is a part is first declared effective by the SEC, (ii) the date on which all of the shares covered by this prospectus may be sold without restriction pursuant to Rule 144 of the Securities Act, or (iii) such time as all of the shares covered by this prospectus have been sold.

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In addition, the Sellers have agreed to certain restrictions on transfer with respect to the shares registered under this prospectus. The Sellers may not in any day sell any shares registered under this prospectus exceeding 10% of the average daily volume for our common stock on The NASDAQ Global Market for the previous 10 trading days. In addition, and subject to the foregoing daily volume limitations, the Sellers may not sell more than (i) 62.5% of the shares covered by this prospectus in the three-month period following the closing of the Share Purchase, (ii) 75% of the shares covered by this prospectus in the six-month period following the closing of the Share Purchase, and (iii) 87.5% of the shares covered by this prospectus in the nine-month period following the closing of the Share Purchase; following the nine-month anniversary of the closing, the foregoing restrictions on the sale of the shares covered by this prospectus (other than the daily volume limitations) shall expire.

The above description of the Share Purchase Agreement is qualified in its entirety by the full terms of the Share Purchase Agreement included as Exhibit 2.02 to our Current Report on Form 8-K filed with the SEC on August 2, 2011, which is incorporated by reference into the registration statement of which this prospectus is a part.

Griptonite, Inc.

In addition, on August 2, 2011, we completed our acquisition of Griptonite, Inc., a Washington corporation and formerly a wholly owned subsidiary of Foundation 9 Entertainment, Inc., or F9E, pursuant to an agreement and plan of merger, or the Merger Agreement. Pursuant to the terms of the Merger Agreement, a wholly owned subsidiary of Glu merged with and into Griptonite in a statutory reverse triangular merger, with Griptonite surviving the merger as a wholly owned subsidiary of Glu. Griptonite, which is based in Kirkland, WA, develops games for the Xbox 360, Wii, DS, PSP and iPhone platforms.

In connection with the merger, we issued to F9E, as Griptonite's sole shareholder, in exchange for all of the issued and outstanding shares of Griptonite capital stock, a total of 6,106,015 shares of our common stock, or the Closing Shares. In addition, we may be required to issue additional shares of our common stock, not to exceed, when aggregated with the Closing Shares, 19.99% of our outstanding shares immediately prior to the closing of the merger, (i) in satisfaction of indemnification obligations in the case of breaches of our representations, warranties and covenants or (ii) pursuant to a potential working capital adjustment.

We have also agreed to file a shelf registration statement with the SEC within 20 days after the closing of the merger to register all of the shares of our common stock issuable to F9E under the Merger Agreement, which obligation we satisfied by filing a separate registration statement.

The Offering

Common stock covered hereby:	1,000,000 shares
Common stock to be outstanding assuming all of the shares covered hereby are sold:	63,644,855 shares (1)
NASDAQ Global Market symbol:	GLUU
Use of proceeds:	We will not receive any of the proceeds from the sale or other disposition of the shares of common stock offered by this prospectus.
Risk factors:	See Risk Factors beginning on page 3 and the other information included in this prospectus or incorporated by reference into the prospectus for a discussion of factors you should consider before making an investment decision

- (1) The number of shares of common stock shown to be outstanding is based on the number of shares of common stock issued and outstanding as of September 30, 2011 and excludes:

warrants exercisable to purchase up to 4,378,812 shares of our common stock;

8,371,836 shares issuable upon the exercise of outstanding stock options; and

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4,940,535 shares reserved for issuance under our 2007 Equity Incentive Plan, our 2008 Equity Inducement Plan and our 2007 Employee Stock Purchase Plan. The number of shares reserved for issuance under our 2007 Employee Stock Purchase Plan will increase automatically on the first day of each January through January 1, 2015 by the number of shares equal to 1% of our total outstanding shares as of the immediately preceding December 31st. Our board of directors or compensation committee may reduce the amount of the increase in any particular year.

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Investing in our securities involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus and the information incorporated by reference into this prospectus, before deciding to invest in our securities. If any of the following risks occurs, our business, financial condition, results of operations and future prospects could be materially and adversely affected. In that event, the market price of our common stock and the value of our other securities could decline and you could lose part or even all of your investment.

Risks Relating 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 \$18.2 million in 2009, a net loss of \$13.4 million in 2010 and a net loss of \$5.0 million for the six months ended June 30, 2011. As of June 30, 2011, we had an accumulated deficit of \$195.7 million. We expect to incur increased costs in order to implement additional initiatives designed to increase revenues, such as increased research and development and sales and marketing expenses related to our new games, particularly those designed for smartphones and tablets, such as Apple's iPhone and iPad and devices based on Google's Android operating system. In addition, we will incur significantly increased costs in connection with our acquisitions of Blammo and Griptonite due to the addition of approximately 200 employees. If our revenues do not increase to offset these additional expenses, if we experience unexpected increases in operating expenses or if we are required to take additional charges related to impairments or restructurings, we will continue to incur significant losses and will not become profitable. In addition, our revenues declined in each of 2009 and 2010 from the preceding year, and we expect that our revenues will likely only increase slightly in 2011 from 2010 levels. If we are not able to significantly increase our revenues, we will likely not be able to achieve profitability in the future. Furthermore, during 2009, we incurred aggregate charges of approximately \$8.5 million for royalty impairments and restructuring activities, during 2010, we incurred aggregate charges of approximately \$4.3 million for royalty impairments and restructuring activities and in the six months ended June 30, 2011, we incurred aggregate charges of approximately \$1.0 million for royalty impairments and restructuring activities. As of June 30, 2011, an additional \$734,000 of prepaid royalties remained on our balance sheet that are potentially subject to future impairment. If we continue to incur these charges, it will continue to negatively affect our operating results and our ability to achieve profitability.

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

Our revenues and operating results could vary significantly from quarter to quarter because of a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. In addition, we may not be able to predict our future revenues or results of operations. We base our current and future expense levels on our internal operating plans and sales forecasts, and our operating costs are to a large extent fixed. As a result, we may not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in revenues, and even a small shortfall in revenues could disproportionately and adversely affect financial results for that quarter. This will be particularly true for 2011, as we implemented significant cost-reduction measures in 2009 and 2010 and the first half of 2011, making it more difficult for us to further reduce our operating expenses without a material adverse impact on our prospects in future periods. We intend to only selectively enter into new licensing arrangements in 2011, if any, which we expect will contribute to the anticipated reduction in our revenues from feature phones and which may adversely impact our revenues from smartphones and tablets to the extent that our games based on original intellectual property are not successful. With respect to our games based on licensed intellectual property, we may incur impairments of prepaid royalty guarantees if our forecasts for these games are lower than we anticipated at the time we entered into the agreements. For example, in 2009, 2010 and the first six months of 2011 we impaired \$6.6 million, \$663,000 and \$371,000 respectively, of certain prepaid royalties and royalty guarantees primarily due to several distribution arrangements in our Europe, Middle East and Africa region and other global development and distribution arrangements that we entered into in 2007 and 2008. In addition, some payments from carriers that we recognize as revenue on a cash basis may be delayed unpredictably.

We are also subject to macroeconomic fluctuations in the United States and global economies, including those that impact discretionary consumer spending, which have deteriorated significantly in many countries and regions, including the United States, and may remain depressed for the foreseeable future. Some of the factors that could influence the level of consumer spending include continuing conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending. These issues can also cause foreign currency rates to fluctuate, which can have an adverse impact on our business since we transact business in

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more than 70 countries in more than 20 different currencies. In 2009, some of these currencies fluctuated by up to 40%, and we experienced continued significant fluctuations in 2010 and in the first six months of 2011. These issues may continue to negatively impact the economy and our growth. If these issues persist, or if the economy enters a prolonged period of decelerating growth or recession, our results of operations may be harmed. As a result of these and other factors, our operating results may not meet the expectations of investors or public market analysts who choose to follow our company. Our failure to meet market expectations would likely result in a decline in the trading price of our common stock.

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

the number of new 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 the prominence of storefront featuring or deck placement for our leading games and those of our competitors;

fluctuations in the size and rate of growth of overall consumer demand for mobile handsets, tablets, games and related content;

the rate at which consumers continue to migrate from traditional feature phones to smartphones, as well as the rate of adoption of tablet devices;

our success in developing and monetizing social, freemium games for smartphones and tablets;

our ability to increase the daily and monthly active users of our social, freemium games that we develop for smartphones and tablets, as well as the level of engagement of these users and the length of time these users continue to play our games;

our ability to include certain types of offers and other monetization techniques in our games sold through online storefronts, such as Apple's App Store and Google's Android Market;

changes in accounting rules, such as those governing recognition of revenue, including the period of time over which we recognize revenue for in-app purchases of virtual currency and goods within certain of our games;

the expiration of existing content licenses for particular games;

the amount and timing of charges related to impairments of goodwill, intangible assets, prepaid royalties and guarantees;

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changes in pricing policies by us, our competitors or our carriers and other distributors, including to the extent that smartphone digital storefront owners impose a platform tax on our revenues derived from offers;

changes in pricing policies by our carriers related to downloading content, such as our games, which pricing policies could be influenced by the lower average prices for content on smartphones;

changes in the mix of original intellectual property and licensed-content games, which have varying gross margins;

the timing of successful mobile device launches;

the timeliness and accuracy of reporting from carriers;

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the seasonality of our industry;

strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;

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.

Our strategy to grow our business includes developing a significant number of new titles for smartphones and tablets rather than for feature phones, which has historically comprised a significant majority of our revenues. If we do not succeed in generating considerable revenues and gross margins from smartphones and tablets, our revenues, financial position and operating results may suffer.

As a result of the expected continued migration of users from traditional feature phones to smartphones, we expect our feature phone revenues, which represented a significant majority of our revenues in 2010, to continue to decrease in 2011. For us to succeed in 2011 and beyond, we believe that we must increasingly publish mobile games that are widely accepted and commercially successful on the smartphone and tablet digital storefronts (such as Apple's App Store, Google's Android Market, Palm's App Catalog and Microsoft's Windows Marketplace for Mobile), as well as significantly increase our marketing-related expenditures in connection with the launch of our new games on these digital storefronts. Our efforts to significantly increase our revenues derived from games for smartphones and tablets may prove unsuccessful or, even if successful, it may take us longer to achieve significant revenue than anticipated because, among others reasons:

changes in digital storefront and carrier policies that limit our ability to use certain types of offers and other monetization techniques in our games;

the open nature of many of these digital storefronts increases substantially the number of our competitors and competitive products and makes it more difficult for us to achieve prominent placement or featuring for our games;

the billing and provisioning capabilities of some smartphones are currently not optimized to enable users to purchase games or make in-app purchases, which could make it difficult for users of these smartphones to purchase our games or make in-app purchases and could reduce our addressable market, at least in the short term;

competitors may have substantially greater resources available to invest in developing and publishing products for smartphones and tablets;

these digital storefronts are relatively new markets, for which we are less able to forecast with accuracy revenue levels, required marketing and developments expenses, and net income or loss;

we have less experience with open storefront distribution channels than with carrier-based distribution;

the pricing and revenue models for titles on these digital storefronts are rapidly evolving (for example, the introduction of in-app purchasing capabilities and the potential introduction of usage-based pricing for games), and have resulted, and may continue to result, in significantly lower average selling prices for our premium games developed for smartphones as compared to games developed for feature phones, and a lower than expected return on investment for these games;

the competitive advantage of our porting capabilities may be reduced as smartphones become more widely adopted;

many of our key licenses do not grant us the rights to develop games for the iPhone and certain other smartphones and tablets; and

many OEMs and carriers are developing their own storefronts and it may be difficult for us to predict which ones will be successful, and we may expend time and resources developing games for storefronts that ultimately do not succeed.

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If we do not succeed in generating considerable revenues and gross margins from smartphones and tablets, our revenues, financial position and operating results will suffer.

If we do not achieve a sufficient return on our investment with respect to our efforts to develop social, freemium games for smartphones and tablets, it could negatively affect our operating results.

We expect that a significant portion of our development activities for smartphones and tablets in 2011 and beyond will be focused on social, freemium games – games that are downloadable without an initial charge, but which enable a variety of additional features to be accessed for a fee or otherwise monetized through various advertising and offer techniques. Our efforts to develop social, freemium games for smartphones and tablets may prove unsuccessful or, even if successful, may take us longer to achieve significant revenue than anticipated because, among other reasons:

we have limited experience in successfully developing and marketing social, freemium games;

our relatively limited experience with respect to creating games that include micro-transaction capabilities, advertising and offers may cause us to have difficulty optimizing the monetization of our freemium games;

changes in digital storefront and carrier policies that limit our ability to use certain types of offers and other monetization techniques in our games;

some of our competitors have released a significant number of social, freemium games on smartphones, and this competition will make it more difficult for us to differentiate our games and derive significant revenues from them;

some of our competitors have substantially greater resources available to invest in developing and publishing social, freemium games;

we intend to continue to develop the significant majority of our social, freemium games based upon our own intellectual property rather than well-known licensed brands, and, as a result, we may encounter difficulties in generating sufficient consumer interest in our games, particularly since we historically have had limited success in generating significant revenues from games based on our own intellectual property;

social, freemium games currently represent a minority of the games available on smartphones and tablets and have a limited history, and it is unclear how popular this style of game will become or remain or its revenue potential;

our strategy with respect to developing social, freemium games for smartphones assumes that a large number of consumers will download our games because they are free and that we will subsequently be able to effectively monetize these games via in-app purchases, offers and advertisements; however, some smartphones charge users a fee for downloading content, and users of these smartphones may be reluctant to download our freemium games because of these fees, which would reduce the effectiveness of our product strategy;

our social, freemium games may otherwise not be widely downloaded by consumers for a variety of reasons, including poor consumer reviews or other negative publicity, ineffective or insufficient marketing efforts or a failure to achieve prominent storefront featuring for such games;

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even if our social, freemium games are widely downloaded, we may fail to retain users of these games or optimize the monetization of these games for a variety of reasons, including poor game design or quality, gameplay issues such as game unavailability, long load times or an unexpected termination of the game due to data server or other technical issues or our failure to effectively respond and adapt to changing user preferences through updates to our games;

we have encountered difficulties in keeping users engaged in our social, freemium games for a significant amount of time subsequent to their initial download of the games, in large part due to the limited social features currently contained in our games, and we may have difficulty increasing consumer retention in our games;

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we expect that approximately one-fourth of the social, freemium games that we intend to release during 2011 will be produced by third parties with which we have a strategic relationship, which will reduce our control over the development process and may result in product delays and games that do not meet our and consumer expectations regarding quality;

the Federal Trade Commission has indicated that it intends to review issues related to in-app purchases, particularly with respect to games that are marketed primarily to minors (a recent class action lawsuit has been filed relating to this issue; we have not been named as a party to this lawsuit) and the Federal Trade Commission might issue rules significantly restricting or even prohibiting in-app purchases or we could potentially be named as a defendant in a future class action lawsuit; and

because these are effectively new products for us, we are less able to forecast with accuracy revenue levels, required marketing and development expenses, and net income or loss.

If we do not achieve a sufficient return on our investment with respect to developing and selling social, freemium games, it will negatively affect our operating results and may require us to formulate a new business strategy.

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, characterized by frequent product introductions and rapidly emerging new platforms, technologies and storefronts. For end users, we compete primarily on the basis of game quality, brand, customer reviews and, with respect to our premium products, price. We compete for promotional and deck placement based on these factors, as well as the relationship with the digital storefront owner or wireless carrier, historical performance, perception of sales potential and relationships with licensors of brands and other intellectual property. For content and brand licensors, we compete based on royalty and other economic terms, perceptions of development quality, porting abilities, speed of execution, distribution breadth and relationships with carriers. We also compete for experienced and talented employees.

Our primary competitors have historically been Electronic Arts (EA Mobile) and Gameloft, with Electronic Arts having the largest market share of any company in the mobile games market. With respect to our social, freemium games that we publish for smartphones and tablets, we also compete with a number of other companies, including DeNA, which became a more formidable competitor through its acquisition of ngmoco, Zynga and Storm 8/Team Lava. In addition, given the open nature of the development and distribution for smartphones and tablets, we also compete or will compete with a vast number of small companies and individuals who are able to create and launch games and other content for these mobile devices utilizing limited resources and with limited start-up time or expertise. Many of these smaller developers are able to offer their games at no cost or substantially reduce their prices to levels at which we may be unable to respond competitively and still achieve profitability given their low overhead. As an example of the competition that we face, it has been estimated that more than 70,000 active games were available on the Apple App Store as of July 31, 2011. The proliferation of titles in these open developer channels makes it difficult for us to differentiate ourselves from other developers and to compete for end users who purchase content for their smartphones and tablets without substantially increasing spending to market our products or increasing our development costs.

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;

greater experience with the social, freemium games business model;

the capacity to leverage their marketing expenditures across a broader portfolio of mobile and non-mobile products;

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larger installed customer bases from related platforms such as console gaming or social networking websites to which they can market and sell mobile games;

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more substantial intellectual property of their own from which they can develop games without having to pay royalties;

lower labor and development costs and better overall economies of scale;

greater resources to make acquisitions;

greater platform-specific focus, experience and expertise; and

broader global distribution and presence.

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

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 digital storefront owners will prominently feature or wireless carriers will place on their decks and that end users will buy. We must continue to invest significant resources in research and development, analytics and marketing to enhance our offering of games and introduce new games, and we must make decisions about these matters well in advance of product release to timely implement them. Our success depends, in part, on unpredictable and volatile factors beyond our control, including end-user preferences, competing games, new mobile platforms and the availability of other entertainment activities. If our games and related applications do not respond to the requirements of digital storefront owners and carriers and 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. For example, although we have enjoyed success with respect to a number of our action/adventure freemium games, such as Gun Bros, Contract Killer and Big Time Gangsta, we have had more limited success with respect to our casual titles, with only Bug Village generating significant revenues. If we fail to develop casual titles that achieve broad market acceptance, it will limit our potential revenue growth and harm our operating results. Even if our games are successfully introduced and initially adopted, a subsequent shift in 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.

If we are unsuccessful in establishing and increasing awareness of our brand and recognition of our 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 establishing a direct relationship with end users who purchase our products from direct-to-consumer channels, such as the Apple App Store and Google's Android Market, and maintaining our existing relationships with wireless carriers and content licensors, as well as potentially developing new such relationships. Increasing awareness of our brand and recognition of our games will be particularly important in connection with our strategic focus of developing social, freemium games based on our own intellectual property. Our ability to promote the Glu brand depends on our success in providing high-quality mobile games. Similarly, recognition of our games by end users depends on our ability to develop engaging games of high quality with attractive titles. However, our success also depends, in part, on the services and efforts of third parties, over which we have little or no control. For instance, if digital storefront owners or wireless carriers fail to provide high levels of service, our end users' ability to access our games may be interrupted or end users may not receive the virtual currency or goods for which they have paid, which may adversely affect our brand. If end users, digital storefront owners, branded content owners and wireless 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, digital storefront owners and wireless carriers, then we may not succeed in building brand recognition and brand loyalty in the marketplace. In addition, globalizing and extending our brand and recognition of our games will be costly and will involve extensive management time to execute successfully, particularly as we expand our efforts to increase awareness of our brand and games among international consumers. Moreover, if a game is introduced with defects, errors or failures or unauthorized objectionable content or if a game has playability issues such as game unavailability, long load times or an unexpected termination of the game due to data server or other technical issues, we could experience damage to our reputation and brand, and our attractiveness to digital storefront owners, wireless carriers, licensors, and end users might be reduced. In addition, although we have significantly increased our sales and marketing-related expenditures in connection with the launch of our new social,

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freemium games, these efforts may not succeed in increasing awareness of our brand and new games. If we fail to increase and maintain brand awareness and consumer recognition of our games, our potential revenues could be limited, our costs could increase and our business, operating results and financial condition could suffer.

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

The open nature of the digital storefronts, such as the Apple App Store and Google's Android Market, substantially increases the number of our competitors and competitive products, which makes it more difficult for us to achieve prominent placement or featuring for our games. Our failure to achieve prominent placement or featuring for our games on the smartphone storefronts could result in our games not generating significant sales. It may also require us to expend significantly increased amounts to generate substantial revenues on these platforms, reducing or eliminating the profitability of publishing games for them. We believe that a number of factors may influence the featuring or placement of a game in these digital storefronts, including:

the perceived attractiveness of the title or brand;

the past critical or commercial success of the game or of other games previously introduced by a publisher;

the publisher's relationship with the applicable digital storefront owner and future pipeline of quality titles for it; and

the current market share of the publisher.

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

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

We recently completed the acquisitions of Griptonite and Blammo, and expect to continue to evaluate and consider a wide array of potential strategic transactions, including business combinations, joint ventures, strategic development and distribution arrangements 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, including Griptonite and Blammo, may create unforeseen operating difficulties and expenditures and is itself risky. The areas where we may face difficulties include:

diversion of management time and a shift of focus from operating the businesses to issues related to integration and administration;

declining employee morale and retention issues resulting from changes in compensation, management, reporting relationships, future prospects or the direction of the business;

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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;

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in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries; and

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

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

The integration of Griptonite may prove particularly challenging due to its size, as Griptonite has approximately 200 employees compared with approximately 400 employees at Glu prior to the Blammo and Griptonite acquisitions, as well as the fact that Griptonite has historically built premium games for non-smartphone platforms such as the Xbox 360, Wii, DS and PSP. We will need to invest considerable management time and resources in order to educate the Griptonite studio personnel with respect to the development of freemium games for smartphone platforms, and if we are not successful in these efforts, it will significantly harm our operating results given the significant increase in our operating expenses that will result from such acquisition.

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

Moreover, the terms of acquisitions may require that we make future cash or stock payments to shareholders of the acquired company, which may strain our cash resources or cause substantial dilution to our existing stockholders at the time the payments are required to be made. For example, our Blammo acquisition agreement provides that the former Blammo shareholders may earn up to 3,312,937 shares of our common stock if Blammo achieves certain net revenue targets during the years ending March 31, 2013, March 31, 2014 and March 31, 2015. In addition, our merger agreement with Griptonite provides that, in the event we breach specified representations and covenants, in order to satisfy potential indemnification obligations we may be required to issue additional shares of our common stock based on the then current market price for our common stock, subject to specified limitations. Further, pursuant to our merger agreement with MIG, we were required to make \$25.0 million in future cash and stock payments to the former MIG shareholders, which payments we renegotiated in December 2008. Had we paid the MIG earnout and bonus payments on their original terms, we could have experienced cash shortfall related to the cash payments and our stockholders could have experienced substantial dilution related to the stock payments.

Third parties are developing some of our social, freemium games, and to the extent that they do not timely deliver high-quality games that meet our and consumer expectations, our business will suffer.

Recently, we initiated our Glu Partners program, which provides for the external development of some of our games; we currently expect that approximately one-fourth of the social, freemium games that we intend to release during 2011 will be produced by third parties with which we have a strategic relationship. We have historically created and developed all of our games in our internal studios, and we have limited experience in outsourcing and managing the production of our game concepts by external developers. Because we have no direct supervision and reduced control of this external development process, it could result in development delays and games of lesser quality and that are more costly to develop than those produced by our internal studios. This may particularly be the case to the extent that we do not provide our external developers with sufficiently detailed game development documentation, which could result in us providing them with a number of change orders that would delay development and increase our production costs.

We have agreed to pay these external developers significant development fees and, in some cases, bonuses based on consumer reviews of the published games, and to the extent that these games are not commercially successful, we may not generate sufficient revenues to recoup our development costs or produce a sufficient return on investment, which would adversely affect our operating results. In addition, we may lose the services of one of our external developers for a number of reasons, including that a competitor acquires its business or signs the developer to an exclusive development arrangement. In addition, the developer might encounter financial or other difficulties that cause it to go out of business, potentially prior to completing production of our games, or otherwise render it unable to fulfill its obligations under the development agreement,

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and we may be unable to recoup our upfront payment to the developer under such circumstances. There is also significant demand for the services of external developers which may cause our developers to work for a competitor in the future or to renegotiate agreements with us on terms less favorable for us.

If sales of feature phones in our carrier-based business or the average selling prices of our games sold through wireless carriers decline more rapidly than we currently expect, it could have a material adverse impact on our revenues, financial position and results of operations.

We currently derive nearly half of our revenues from sales of our games on feature phones through wireless carriers. Our revenues for each of 2009 and 2010 declined from the prior year due to a decrease in sales in our carrier-based business, resulting primarily from the continuing migration of consumers from feature phones to smartphones that enable the download of applications from sources other than a carrier's branded e-commerce service, such as the Apple App Store and Google's Android Market. We believe that the decline in the sales of feature phones and the transition of consumers to smartphones will continue to accelerate. In addition, due to the accelerating decline in the sales of feature phones, we intend to release significantly fewer games for feature phones in future periods, which will further reduce our revenues that we derive from feature phones. Our ability to significantly grow our revenues derived from smartphones and tablets is uncertain. In addition, games sold on smartphones typically have lower average prices than our games sold on feature phones, and to the extent consumers continue to migrate to smartphones, it could result in lower average prices for our games sold on feature phones. Any unexpected acceleration in the slowdown in sales of feature phones, or any reduction in the average prices of our games sold through our wireless carriers, could have a material adverse impact on our revenues, financial position and results of operations.

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

Although we currently transact approximately one-half of our business in U.S. Dollars, we also transact approximately one-fourth of our business in Pounds Sterling and Euros and the remaining portion of our business in other currencies. Conducting business in currencies other than U.S. Dollars subjects us to fluctuations in currency exchange rates that could have a negative impact on our reported operating results. Fluctuat