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

Amendment No. 1
To
FORM 8-K/A

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

Date of Report (Date of earliest event reported): February 23, 2015 (December 16, 2014)

CHURCHILL DOWNS
INCORPORATED

(Exact name of registrant as specified in its charter)

Kentucky	001-33998	61-0156015
(State of incorporation)	(Commission file number)	(IRS Employer Identification No.)

600 North Hurstbourne Parkway, Suite 400, Louisville, Kentucky 40222
(Address of principal executive offices)
(Zip Code)

(502) 636-4400
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (18 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Explanatory Note

As previously disclosed in a Current Report on Form 8-K filed by Churchill Downs Incorporated ("CDI") with the Securities and Exchange Commission on December 16, 2014 (the "Original 8-K"), CDI announced the completion of the acquisition of Big Fish Games, Inc., a Washington corporation ("Big Fish"), pursuant to an Agreement and Plan of Merger dated November 12, 2014 by and among CDI, Ocean Acquisition Corp., a Washington corporation and wholly-owned subsidiary of CDI ("Merger Corp"), Big Fish and Paul J. Thelen ("Thelen"), as Big Fish securityholders' agent (the "Merger Agreement").

CDI is filing this Form 8-K/A to amend and supplement Item 9.01 of the Original 8-K to include the financial statements of Big Fish and present certain financial information required under Items 9.01(a) and 9.01(b) of Form 8-K.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

The following financial statements are filed as Exhibits 99.1 and 99.2 and are incorporated by reference in this report:

The audited consolidated financial statements of Big Fish, including the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2013 and the related notes to the consolidated financial statements; and

The unaudited consolidated financial statements of Big Fish, including the consolidated balance sheet as of September 30, 2014 and the related consolidated statements of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2014 and 2013, the consolidated statement of stockholders' equity for the nine-month period ended September 30, 2014 and the related consolidated statements of cash flows for the nine-month periods ended September 30, 2014 and 2013, and the related notes thereto.

(b) Pro Forma Financial Information

The following pro forma information of CDI after giving effect to the acquisition of Big Fish is filed as Exhibit 99.3 and is incorporated by reference in this report.

The unaudited pro forma condensed combined balance sheet as of September 30, 2014;

The unaudited pro forma condensed combined statement of comprehensive income for the nine months ended September 30, 2014; and

The unaudited pro forma condensed combined statement of comprehensive income for the year ended December 31, 2013.

(d) Exhibits.

The exhibits listed on the Exhibit Index (following the Signature section of this report) are incorporated by reference in this report.

SIGNATURE

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.

CHURCHILL DOWNS INCORPORATED

February 23, 2015

/s/ Alan K. Tse

By: Alan K. Tse

Title: Executive Vice President, General Counsel and Secretary

EXHIBIT INDEX

Exhibit No.	Description
15.1	Awareness letter from KPMG LLP, independent auditors of Big Fish Games, Inc.
23.1	Consent of KPMG LLP, independent auditors of Big Fish Games, Inc.
99.1	Audited consolidated financial statements of Big Fish Games, Inc. as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013; together with the notes thereto and the auditors' report thereon.
99.2	Unaudited consolidated financial statements of Big Fish Games, Inc. as of September 30, 2014 and for each of the three and nine-month periods ended September 30, 2014 and 2013; together with the notes thereto and the auditors' review report thereon.
99.3	Unaudited pro forma condensed combined balance sheet and statements of comprehensive income of Churchill Downs Incorporated as of and for the nine months ended September 30, 2014; and the unaudited pro forma condensed combined statement of comprehensive income for the year ended December 31, 2013.

Exhibit 15.1

February 20, 2015

Churchill Downs Incorporated
Louisville, Kentucky

Re: Amendment No. 1 to Form 8-K/A

With respect to the subject current report on Form 8-K/A of Churchill Downs Incorporated, we acknowledge our awareness of the use therein of our report dated February 20, 2015 related to our review of interim financial information of Big Fish Games, Inc.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by independent auditors, or a report prepared or certified by independent auditors within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

Seattle, Washington

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the registration statements (No. 333-197102, 333-182929, 333-182928, 333-62013, 333-41376, 333-43486, 333-100574, 333-106310, 333-116734, 333-127057, 333-135360, 033-61111, 333-116733, 333-144182, 333-144191 and 333-144192) on Form S-8 of Churchill Downs Incorporated, of our report dated May 23, 2014, with respect to the consolidated balance sheets of Big Fish Games, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2013, which report appears in this current report (Form 8-K/A) of Churchill Downs Incorporated filed on February 23, 2015.

/s/ KPMG LLP

Seattle, Washington
February 20, 2015

Exhibit 99.1

BIG FISH GAMES, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

BIG FISH GAMES, INC. AND SUBSIDIARIES

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Independent Auditors' Report

The Board of Directors
Big Fish Games, Inc.:

We have audited the accompanying consolidated financial statements of Big Fish Games, Inc. (and its subsidiaries), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Big Fish Games, Inc. and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013 in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(m) to the consolidated financial statements, the Company has elected to change its method of presenting revenue and cost of revenue for revenues generated from sales through mobile and social platforms in 2012 and 2011 from a net basis to a gross basis. Our opinion is not modified with respect to this matter.

/s/ KPMG LLP

Seattle, Washington
May 23, 2014

BIG FISH GAMES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013 and 2012

(In thousands, except share data)

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 27,533	12,781
Accounts receivable, net of allowances of $44 and $43, respectively	14,791	10,280
Prepaid income tax	188	2,579
Prepaid expenses and other	3,487	3,258
Prepaid developer payments	4,542	4,318
Game technology and rights, net	15,077	13,949
Deferred tax assets, net	5,534	3,216
Total current assets	71,152	50,381
Property, equipment and software, net	7,175	8,888
Intangible assets, net	6,118	16,951
Goodwill	21,877	21,877
Other assets	991	650
Deferred tax assets, noncurrent, net	9,287	2,960
Total assets	$ 116,600	101,707
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 6,323	5,735
Accrued expenses	13,105	19,066
Royalties payable	4,967	7,041
Income taxes payable	873	215
Deferred revenue	80,702	67,823
Total current liabilities	105,970	99,880
Other long-term liabilities	2,358	1,148
Stock appreciation rights liability	2,002	1,907
Total liabilities	110,330	102,935
Stockholders' equity (deficit):		
Common stock, no par value:		
60,000,000 shares authorized; 41,610,487 and 41,211,615 shares issued and outstanding, respectively	33,296	25,103
Accumulated other comprehensive income	18	9
Accumulated deficit	(27,044)	(26,340)
Total stockholders' equity (deficit)	6,270	(1,228)
Total liabilities and stockholders' equity (deficit)	$ 116,600	101,707

See accompanying notes to consolidated financial statements.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2013, 2012 and 2011

(In thousands)

	2013	2012	2011
Revenue	$265,221	224,378	187,596
Cost of revenue	101,256	89,003	69,730
Gross profit	163,965	135,375	117,866
Operating expenses:			
Sales and marketing	51,061	50,662	27,279
Research and development	47,740	42,555	24,374
General and administrative	30,439	26,533	41,933
Game operations	25,737	23,248	18,354
Restructuring and impairment charges	10,205	—	—
Total operating expenses	165,182	142,998	111,940
Income (loss) from operations	(1,217)	(7,623)	5,926
Interest income (expense), net	(46)	(274)	37
Other income (expense), net	(453)	1,312	542
Income (loss) before provision for income taxes	(1,716)	(6,585)	6,505
Income tax benefit	(1,012)	(1,457)	(3,211)
Net income (loss)	$ (704)	(5,128)	9,716

See accompanying notes to consolidated financial statements.

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BIG FISH GAMES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2013, 2012 and 2011

(In thousands)

	2013	2012	2011
Net income (loss)	$(704)	(5,128)	9,716
Other comprehensive income (loss):			
Foreign currency translation, net of tax	9	(76)	85
Comprehensive income (loss)	$(695)	(5,204)	9,801

See accompanying notes to consolidated financial statements.

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BIG FISH GAMES, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)

Years ended December 31, 2013, 2012 and 2011

(In thousands, except share data)

	Common stock Shares	Common stock Amount	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity (deficit)
Balances at December 31, 2010	36,601,366	$ 42,841	$ —	$ (30,928)	$ 11,913
Comprehensive income:					
Foreign currency translation adjustment, net of $46 tax effect	—	—	85	—	85
Net income	—	—	—	9,716	9,716
Total comprehensive income	—	—	85	9,716	9,801
Common stock issued on exercise of stock options, including tax benefit of $223	1,908,189	5,439	—	—	5,439
Settlement of compensation expense	—	547	—	—	547
Share-based compensation expense	—	10,741	—	—	10,741
Dividends declared	—	(51,969)	—	—	(51,969)
Balance at December 31, 2011	38,509,555	7,599	85	(21,212)	(13,528)
Comprehensive income (loss):					
Foreign currency translation adjustment, net of $41 tax effect	—	—	(76)	—	(76)
Net loss	—	—	—	(5,128)	(5,128)
Total comprehensive income (loss)	—	—	(76)	(5,128)	(5,204)
Common stock issued on exercise of stock options, including tax benefit of $111	99,576	389	—	—	389
Issuance of restricted shares of common stock	82,485	—	—	—	—
Common stock issued in connection with an acquisition	2,519,999	13,129	—	—	13,129
Share-based compensation expense	—	3,986	—	—	3,986
Balance at December 31, 2012	41,211,615	25,103	9	(26,340)	(1,228)
Comprehensive income (loss):					
Foreign currency translation adjustment, net of $(5) tax effect	—	—	9	—	9
Net loss	—	—	—	(704)	(704)
Total comprehensive income (loss)	—	—	9	(704)	(695)
Common stock issued on exercise of stock options, including tax expense of $4	92,066	141	—	—	141
Issuance of restricted shares of common stock	66,806	—	—	—	—
Common stock issued in connection with an acquisition	240,000	1,078	—	—	1,078
Share-based compensation expense	—	6,974	—	—	6,974
Balances at December 31, 2013	41,610,487	$ 33,296	$ 18	$ (27,044)	$ 6,270

See accompanying notes to consolidated financial statements.

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BIG FISH GAMES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2013, 2012 and 2011

(In thousands)

	2013	2012	2011
Operating activities:			
Net income (loss)	$ (704)	(5,128)	9,716
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Share-based compensation expense	7,071	4,111	11,035
Payments on redemption of stock appreciation rights	—	(10)	(834)
Depreciation	6,478	4,358	3,278
Amortization of intangible assets and game technology and rights	22,557	17,566	10,343
Intangible asset impairment	6,096	—	—
Deferred tax benefit	(8,722)	(1,871)	(7,028)
(Excess tax benefit) tax deficiency from stock plans	4	(111)	(223)
Net loss on disposal of assets	49	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(4,401)	(7,591)	(447)
Prepaid expenses and other current assets	(453)	(2,787)	(2,543)
Other assets	(270)	(267)	(44)
Game technology and rights	(18,948)	(18,838)	(10,656)
Accounts payable and accrued expenses	(550)	4,660	4,226
Income taxes payable and prepaid income tax	3,050	(712)	(2,699)
Royalties payable	(2,074)	580	414
Deferred revenues	12,874	13,903	4,974
Net cash provided by operating activities	22,057	7,863	19,512
Investing activities:			
Purchases of short-term investments	—	—	(21,249)
Redemptions of short-term investments	—	18,688	35,000
Purchases of property and equipment	(4,974)	(6,231)	(5,200)
Proceeds from sale of property, equipment, and software	23	—	—
Acquisitions, net of cash acquired	(2,500)	(18,500)	(5,000)
Other assets	—	15	(15)
Net cash provided by (used in) investing activities	(7,451)	(6,028)	3,536
Financing activities:			
Proceeds from stock option exercises	145	277	5,216
Excess tax benefit (tax deficiency) from stock plans	(4)	111	223
Payment of dividends	—	(329)	(51,091)
Net cash provided by (used in) financing activities	141	59	(45,652)
Net increase (decrease) in cash and cash equivalents	14,747	1,894	(22,604)
Foreign exchange adjustments	5	(7)	85
Cash and cash equivalents, beginning of year	12,781	10,894	33,413
Cash and cash equivalents, end of year	$ 27,533	12,781	10,894
Supplemental information:			
Deferred purchase payments related to an acquisition	$ —	—	7,100
Cash paid for income taxes	2,826	849	6,401
Settlement of limited recourses note for shares	—	—	547
Deferred issuance of shares related to an acquisition	—	1,078	—
Value of shares issued related to an acquisition	1,078	13,129	—

See accompanying notes to consolidated financial statements.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(1) Organization and Description of Business

Big Fish Games, Inc. and its consolidated subsidiaries (the Company) are leading international producers of casual, free-to-play, and casino style games that can be played on a PC, Mac, smartphone, tablet, or online. Through its internal studios and global network of game development partners, the Company has created many of the industry's leading casual game brands.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and notes thereto. Significant estimates and assumptions reflected in the consolidated financial statements include, but are not limited to, the determination of breakage revenue, judgments relating to multiple-element arrangements and evidence of the value of undelivered elements, the estimated lives of virtual goods and paying players used for revenue recognition, useful lives of property, equipment, software and intangible assets, accrued liabilities, income taxes including the recoverability of deferred tax assets, accounting for business combinations, fair value of share-based awards, and evaluation of goodwill, intangible assets, and long-lived assets for impairment. Actual results could differ materially from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2013 and 2012 consist of cash on hand. The Company regularly has cash and cash equivalents on deposit with financial institutions in excess of federally insured limits.

(d) Accounts Receivable and Allowance for Doubtful Accounts

The Company's accounts receivable consist primarily of amounts due from mobile, retail and publishing partners and are recorded at the original invoiced amount less an allowance for potential uncollectible amounts. The Company reviews its accounts receivable balance on a regular basis and makes estimates for the allowance for doubtful accounts based on historical collection experience, age of the receivable, knowledge of the customer, and other currently available evidence. Account balances are written off against the allowance for doubtful accounts after all collection efforts have been exhausted and the potential for recovery is considered remote.

(e) Game Technology and Rights, Net

Game technology and rights are purchased from third-party developers before the games have been produced or launched and the Company pays amounts to these developers as they reach agreed-upon milestones. Once the game is launched, the Company amortizes its game technology and rights on an accelerated basis over the useful life of the game, which is generally one year.

(Continued)

Game technology and rights as of December 31, 2013 and 2012 were $15.1 million and $13.9 million, respectively. During the year ended December 31, 2013, amortization of game technology and rights included in cost of revenue was $17.0 million and amortization of game technology and rights included in research and development was $0.8 million. For the years ended December 31, 2012 and 2011, amortization included in cost of revenue was $12.4 million and $9.2 million, respectively.

The Company reviews its game technology and rights at each balance sheet date to determine if any impairment exists by comparing the unamortized amounts to the estimated net realizable value. Any amounts in excess of the net realizable value are written off. Impairments of game technology and rights have not been material to date.

(f) Property, Equipment and Software, Net

Property, equipment and software are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets, generally two to five years. The cost of leasehold improvements is amortized over the shorter of the estimated useful life of the improvements or the lease term. Maintenance and repairs are expensed as incurred.

(g) Intangible Assets, Net

Intangible assets consist primarily of acquired license agreements and unpatented technology. Intangible assets have a finite life and are stated at historical cost less accumulated amortization. Intangible assets are amortized using the straight-line method over the estimated useful life of the assets, generally one to seven years.

(h) Goodwill

Goodwill is tested for impairment whenever circumstances indicate, but at least annually at year-end, that the fair value of the reporting unit to which goodwill relates may be less than the carrying value. The Company uses an approach commonly referred to as a “step zero” where qualitative factors are assessed to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. If the qualitative assessment indicates that the fair value of the reporting unit is more likely than not less than its carrying value, the Company does not perform further goodwill impairment testing. Where a significant change or events occur, and where potential impairment indicators exist, the Company continues to utilize a two-step quantitative assessment to test goodwill for impairment. The first step is comparing the carrying value of the reporting unit to its estimated fair value. If step one indicates that impairment potential exists, the second step is performed to measure the amount of impairment. The implied estimated fair value of goodwill for the reporting unit is calculated and compared to the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied estimated fair value, the carrying value of the goodwill is reduced to fair value through an impairment charge recorded in the Company’s consolidated statements of operations.

The Company performed a qualitative assessment during the year ended December 31, 2013 and determined that it was not more likely than not that the fair value of the reporting unit was less than its carrying value. As a result, the two-step goodwill impairment test was not required and no impairments of goodwill were recognized in the year ended December 31, 2013.

The Financial Accounting Standards Board published Accounting Standards Update No. 2014-02, which provides private companies with an accounting alternative for the measurement of goodwill after it is initially recognized. The accounting alternative, if elected, is applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in fiscal years beginning after December 15, 2014. Although early adoption is permitted, the Company has decided not to implement the standard early.

(i) Impairment of Intangible and Other Long-Lived Assets

Intangible and other long-lived asset groups are evaluated for impairment whenever events or changes in circumstances indicate an asset's carrying value may not be recoverable. If such circumstances are present, the Company assesses the recoverability of assets by comparing the carrying amount to the estimated undiscounted cash flow associated with the related assets. If the future undiscounted cash flows are less than the carrying amount of the assets, the assets are considered impaired and an expense equal to the excess of the carrying amount over the fair value is recorded in the Company's consolidated statements of operations. In conjunction with the restructuring plan discussed in Note 14, *Restructuring*, the Company recorded $6.1 million of impairment charges related to certain intangible assets during the year ended December 31, 2013, which are included in restructuring and impairment charges in the consolidated statements of operations. No impairment charges were recorded in the years ended December 31, 2012 and 2011.

(j) Other Assets

Included in other assets is restricted cash of $0.3 million at December 31, 2013 and 2012. Restricted cash consists primarily of collateral for one of the Company's operating lease agreements.

(k) Royalties Payable

Royalties payable consist of amounts due to third-party game developers based on revenue generated from sales of their games. Amounts are accrued based on agreed-upon royalty rates in the month the related game is purchased by the customer. Total expense related to third-party royalties included in cost of revenue for the years ended December 31, 2013, 2012, and 2011 was $38.3 million, $45.7 million, and $42.8 million, respectively.

(l) Comprehensive Income

The Company's accumulated other comprehensive income as of December 31, 2013 and 2012 consisted of foreign currency translation gains.

(m) Change in Accounting Principle

During the year ended December 31, 2013, the Company elected to change its method of presenting revenue and cost of revenue such that substantially all revenues generated from sales to customers through the Digital Storefronts, such as Apple's iTunes store, of the Company's existing games are recorded on a gross basis, whereas in all prior years such revenue and cost of revenues were previously presented on a net basis. The gross basis of presentation was adopted as it more clearly represents the economics of the Company's principal transactions, and the comparative financial statements of prior years have been adjusted to a gross basis retrospectively. As a result of the change, revenue and cost of revenue increased $17.7 million for the year ended December 31, 2012 and $5.1 million for the year ended December 31, 2011 and Deferred Revenue and Prepaid expenses and other increased $0.1 million and $0.0 million as of December 31, 2012 and 2011, respectively.

(n) Revenue Recognition

The Company's revenue is primarily derived from sales of premium casual games and virtual goods within games. The Company recognizes revenue when the following criteria are met: persuasive evidence of an arrangement exists; the product or services have been delivered; the fee is fixed or determinable; and collectibility is reasonably assured. The Company also considers industry-specific software revenue recognition rules and as such, the Company makes estimates and judgments in order to determine whether certain customer offerings represent marketing and promotional activities or are elements to be accounted for separately. Once that determination is made, the Company determines whether and when each element has been delivered; determines whether undelivered products or services are essential to the functionality of the delivered products and services; determines whether vendor specific objective evidence (VSOE) exists for each undelivered element, and allocates the total price among the various elements the Company must deliver.

Monthly subscriptions constitute a substantial portion of the Company's business. Subscribers receive a game credit each month with their subscription. The Company has determined that the price of a monthly subscription is equivalent to the VSOE of the game credit and that the additional benefits of the monthly subscription are marketing and promotional activities. The value of the game credit is recognized when a customer redeems the game credit. The Company also sells game credits on its websites that are redeemable for the download of games. Revenue is recognized when the customer redeems the game credit for a game.

The Company offers a promotion whereby a free game credit is issued each time a customer purchases six games within a month. The fair value of the free game credit is deferred and recognized as revenue when the credit is redeemed or expires. Deferred revenue for these game credits as of December 31, 2013 and 2012 was $2.0 million and $2.1 million, respectively.

The Company records breakage revenue, which is recognized based upon historical game credit redemption patterns and represents the balance of credits where the Company has determined the likelihood of redemption is remote or the credits have legally expired. As the Company has certain groups of game credits that expire, and other groups that don't have an expiration period, the Company's assessment as to when the redemption is remote is dependent upon a number of factors, including whether the credit has legally expired, the amount of time the credit has been outstanding, historical redemption patterns by its customers, the impact of specific marketing and promotional efforts designed to retain its customers, and state escheatment laws, among others. Breakage revenue for the years ended December 31, 2013, 2012, and 2011 was $24.0 million, $18.8 million, and $21.2 million, respectively. Breakage revenue is recorded in revenue and as a reduction to deferred revenue.

The Company offers casual and casino games that customers can play at no cost and customers can purchase in-game virtual goods to enhance the game-playing experience. The proceeds from the sale of virtual goods are recorded as deferred revenue, and recognized as the service is provided or the good is consumed. For purposes of determining when the service has been provided to the player, an implied obligation exists to the paying player to continue to make available the purchased virtual goods within the games until they are consumed. Substantially all of the Company's virtual goods can be consumed by a specific player action. For casino games, the Company recognizes revenue as the goods are consumed, which approximates four days. For all other casual free-to-play games, the Company recognizes revenue ratably over the estimated average playing period of paying players, which represents the Company's best estimate of the estimated average life of these virtual goods.

As noted in Note 2(m), *Change in Accounting Principle*, revenue earned through certain mobile and social platforms is recognized on a gross basis. As revenue from sales to paying players is deferred, the related direct and incremental platform commissions and fees as well as third-party royalties are deferred. The deferred platform commissions, fees, and royalties are recognized as cost of revenues in the period in which the related sales are recognized as revenue.

Taxes collected from customers and remitted to governmental authorities are presented on a net basis in the consolidated statements of operations.

(o) Cost of Revenue

The Company's cost of revenue consists primarily of expenses related to third-party developer royalties, amortization of game technology and rights, and platform commissions and fees. In addition, cost of revenue includes processing fees, content delivery costs, internal developer royalties and costs to host the Company's websites.

(p) Advertising

Advertising expenses include search engine marketing and optimization, direct mailing, and other marketing. These costs are expensed as incurred and are included in sales and marketing expenses. Advertising expense for the years ended December 31, 2013, 2012, and 2011 was $39.9 million, $37.0 million, and $17.7 million, respectively.

(q) Research and Development and Software Development Costs

Costs incurred for research and development activities are expensed as incurred. Development costs associated with software to be sold are capitalized when technological feasibility has been established through the date the product is available for general release. As of December 31, 2013 and 2012, there were no material amounts capitalized.

(r) Other Income and Expense

Other income and expense consists primarily of foreign exchange gains (losses), fair value remeasurement adjustments on contingent purchase consideration and cash received in connection with the settlement of a lawsuit.

(s) Stock Appreciation Rights

The Company has a Stock Appreciation Rights (SARs) Plan whereby certain employees have been granted SARs with a base price equal to the fair value of the common stock on the date of grant.

Historically, the grant date fair value of SARs was based upon the most recent value of the Company's common stock as determined by management based in part on an independent third-party valuation. Based on the contractual terms which limit the settlement price, the majority of the SARs are not subject to upward remeasurement above a contractual limit but may be remeasured downward in the event that the fair value of the shares decreases below the grant price. In the event of remeasurement, the Company recognizes adjustments to compensation expense equal to the difference between the base price and the fair value of the underlying common stock ratably over the vesting period, generally over four years. Outstanding SARs can be redeemed by the Company at any time or will be redeemed automatically under certain conditions as defined in the SARs plan. The value of the SARs increases 5% per annum from the time that the employee is terminated until the SARs are settled. Interest expense on the outstanding SARs is recorded in share-based compensation.

On November 3, 2011, the Company's Board of Directors approved the redemption of 153,000 outstanding SARs for an aggregate amount of $0.7 million, which included all SARs which were previously subject to remeasurement.

(t) Share-Based Compensation

The Company has established the 2005 Stock Incentive Plan (2005 Stock Plan). Under the 2005 Stock Plan, the Company's board of directors may grant stock-based awards, including incentive and nonqualified stock options, restricted stock awards, and restricted stock units to employees, officers, directors, consultants and contractors. The Company measures and recognizes compensation expense for all stock-based awards made to employees, officers and directors based on the grant date fair value of the awards. Compensation expense is generally recognized on a straight-line basis, net of estimated forfeitures, over the requisite service period, which generally is the vesting period.

The Company estimates the fair value of stock options using the Black-Scholes option pricing model. This model incorporates the most recent value of the Company's common stock as determined by management based in part on an independent third-party valuation and requires the use of the following estimates and assumptions: expected volatility of the Company's common stock, which is based on the Company's peer group in the industry in which it does business; expected life of the option award, which is based on the option lives for comparable companies; expected dividend yield, which is 0%, as the Company had not paid any dividends prior to the November 2011 dividend and does not anticipate paying dividends on its common stock in the future; and the risk-free interest rate, which is based on the U.S. Treasury yield curve in effect at the time of grant with maturities equal to the grant's expected life. Stock option grants generally vest over four years, with 25% vesting after one year and the remainder vesting monthly thereafter over 36 months. Stock options generally have a contractual term of 10 years.

Stock-based compensation expense is recorded net of estimated forfeitures so that expense is recorded for only those stock-based awards that are expected to vest. The Company estimates forfeitures based on its historical forfeiture of equity awards adjusted to reflect changes in facts and circumstances, if any. The Company will revise its estimated forfeiture rate if actual forfeitures differ from its initial estimates.

For restricted stock awards and restricted stock units, the Company estimates the fair value of the award based on the current valuation of the Company, net of an estimated discount for liquidity. The restricted stock units are only settled into shares of common stock upon a liquidity event that occurs within seven years of grant.

For stock options issued to nonemployees, including consultants and contractors, the Company records expense equal to the fair value of the options calculated using the Black-Scholes model, using the full contractual term of the options, over the service performance period. The fair value of options granted to nonemployees is remeasured on a quarterly basis over the service period, and the resulting value is recognized as an expense over the period the services are rendered.

(u) Income Taxes

The Company accounts for income taxes using the asset and liability method under Accounting Standards Codification 740, *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded when it is more likely than not that the assets will not be realized. The Company's policy is to recognize interest and/or penalties related to unrecognized tax benefits as income tax expense. The Company evaluates the uncertainties of tax positions taken or expected to be taken based on the probability of whether the position taken will be sustained upon examination by tax authorities. The Company uses a more likely than not threshold for recognition and derecognition of tax positions taken or to be taken in a tax return. Earnings of the Company's foreign subsidiaries are not considered to be reinvested outside of the United States, and accordingly, U.S. federal and state income taxes have been provided for all undistributed earnings net of related foreign tax credits.

(v) Foreign Currency Transactions

The functional currency of the Company's international subsidiaries is the U.S. dollar, with the exception of the Company's Luxembourg subsidiary whose functional currency is the euro. For subsidiaries with a functional currency of the U.S. dollar, foreign currency denominated monetary assets and liabilities are remeasured into U.S. dollars at current exchange rates and foreign currency denominated nonmonetary assets and liabilities are remeasured into U.S. dollars at historical exchange rates. Foreign currency denominated revenue and expenses are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in other income and expense. For the Luxembourg subsidiary, assets and liabilities are translated into U.S. dollars using exchange rates in effect at the end of a reporting period. Income and expense accounts are translated into U.S. dollar using average rates of exchange. The net gain or loss resulting from translation is recorded as foreign currency translation adjustment and included in accumulated other comprehensive income in stockholders' equity (deficit).

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(w) Concentrations of Risk

A majority of the Company's revenues are received by third-party payment processing companies. The Company relies primarily on one such vendor to facilitate all credit card transactions. The Company believes other such vendors could be secured if it became necessary. The Company increasingly relies on third-party providers to directly distribute and serve as the payment platform for its games. During the years ended December 31, 2013, 2012, and 2011, 38%, 26%, and 9% of the Company's revenues, respectively, were derived from one provider. As of December 31, 2013 and 2012, 87% of accounts receivable was due from that same provider.

(3) Fair Value Measurements

The Company's financial instruments consist of cash equivalents, SARs, and accounts receivable. Accounts receivable are stated at amounts due from customers net of an allowance for uncollectible accounts, which approximates fair value due to the short time to expected receipt of cash. Cash equivalents are carried at fair value. The Company determines the fair value of its cash equivalents, and SARs using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities in active markets

Level 2 – Includes other inputs that are directly or indirectly observable in the active marketplace

Level 3 – Unobservable inputs that are supported by little or no market activity

The following tables present the fair value of the Company's assets and liabilities that are remeasured on a recurring basis and indicate the fair value hierarchy of the valuation inputs utilized to determine such fair value:

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Cash and cash equivalents:				
Cash	$27,533	—	—	27,533
	$27,533	—	—	27,533

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Cash and cash equivalents:				
Cash	$12,781	—	—	12,781
	$12,781	—	—	12,781

As of December 31, 2013 and 2012, the Company had SARs totaling 995,450 units that are not subject to remeasurement on a recurring basis and have been excluded from the table above.

(4) Property, Equipment and Software, Net

Property, equipment and software consists of the following:

	December 31	
	2013	2012
	(In thousands)	
Computers and related equipment, including software	$ 26,184	22,698
Furniture and equipment	3,409	3,718
Leasehold improvements	2,236	2,135
	31,829	28,551
Accumulated depreciation	(24,654)	(19,663)
	$ 7,175	8,888

Depreciation expense for the years ended December 31, 2013, 2012, and 2011 was $6.5 million, $4.4 million, and $3.3 million, respectively.

(5) Acquisitions

(a) iSwifter

On August 8, 2011, the Company acquired certain assets of iSWIFTER, Inc. (iSwifter) as part of the Company’s cloud-based streaming initiative. The acquisition was deemed to be a business combination for accounting purposes and for tax purposes was considered an asset acquisition. The acquired assets include an exclusive three-year right to the iSwifter technology platform, as well as a perpetual, nonexclusive right to the platform after the exclusive three year license expires. The Company also employed three former engineers of iSwifter and entered into nonsolicitation agreements. Of the $12.5 million purchase price, $5 million was paid upon the signing of the agreement and the remainder in three payments of $2.5 million. The Company paid the required payments due in February 2012, August 2012 and February 2013. The estimated fair value of the intangible assets acquired was determined by management based in part on a third-party valuation. The Company used the excess earnings method to measure the fair value of the exclusive and nonexclusive license. The fair value of the nonsolicitation agreement was measured based on the with-and-without method. These fair value measurements were based on significant inputs not observable in the market and thus represent Level 3 measurements under the fair value hierarchy.

The following table summarizes the acquisition-date fair value of the asset acquired (in thousands):

Identifiable intangible assets	$ 10,944
Goodwill	1,156
Total net assets acquired	$ 12,100

Intangible assets acquired consisted of the following (in thousands):

		Amortization period (years)
Noncompete and nonsolicitation agreements	$ 824	3
Exclusive license agreement	2,878	3
Nonexclusive license agreement	7,242	7
Total intangible assets acquired	$10,944	

In conjunction with the restructuring plan discussed in Note 14, *Restructuring*, the Company assessed the impairment of intangible assets acquired from iSwifter and determined intangible assets of $6.1 million will no longer be utilized and were impaired. These intangible assets were written down to their fair value of zero. As a result, the Company recorded $6.1 million in charges related to these items during the year ended December 31, 2013, which are included in restructuring and impairment charges in the consolidated statements of operations for the year ended December 31, 2013.

(b) Self Aware Games

On April 4, 2012, the Company acquired 100% of the operating assets of Self Aware Games, Inc. (Self Aware Games). As a result of this acquisition, the Company diversified its operations and expanded its customer base. The primary identifiable intangible assets acquired were unpatented game technology and customer relationships of a popular casual casino style game to PC and mobile devices. The estimated fair value of the intangible assets acquired was determined by management based in part on a third-party valuation. The Company used the excess earnings method to measure the fair value of the customer relationships. The fair value of the existing core technology and trade name was measured based on the relief from royalty method. These fair value measurements were based on significant inputs not observable in the market and thus represent Level 3 measurements under the fair value hierarchy. Goodwill associated with this transaction is not deductible for income tax purposes. The aggregate purchase price was $26.6 million, which included $13.6 million in cash, and 2,519,999 shares of the Company's common stock. A portion of the purchase price that was paid in common stock of the Company was based on the net sales of Self Aware Games for the year ended December 31, 2012, and as a result, the Company issued 240,000 shares of common stock during the year ended December 31, 2013. The gain of $0.7 million between the fair market value of the common stock as of the purchase date as compared to the fair market value of the stock as of the date the contingency was determined has been included in other income (expense) for the year ended December 2012 as a fair value remeasurement adjustment on contingent purchase consideration.

In connection with the acquisition, the Company agreed to pay $10.3 million of incremental compensation to certain employees of Self Aware Games. Cash payments totaling $7.0 million, of which $2.5 million was paid upon close of the transaction, and $4.5 million is payable over eight equal quarterly payments beginning in the quarter following the date of acquisition. The cash payments of $2.5 million and $4.5 million are expensed ratably over one and two year periods, respectively, from the date of acquisition. Certain cash payments are accelerated upon termination without cause, voluntary termination for specified reasons, death or disability. The Company also issued 640,000 restricted stock units (RSUs) valued at $3.3 million and is recognizing the compensation expense consistent with other employee RSU grants.

The following table summarizes the acquisition-date fair value of the assets acquired (in thousands):

Identifiable intangible assets	$ 11,893
Goodwill	20,721
Accrued liabilities	(1,750)
Deferred tax liability	(4,235)
Total net assets acquired	$ 26,629

Intangible assets acquired consisted of the following (in thousands):

		Amortization period (years)
Self Aware Games trade name	$ 464	—
Customer relationships	3,926	2
Unpatented technology	7,503	7
Total intangible assets acquired	$11,893	

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(6) Intangible Assets, Net

Intangible assets consist of the following:

	December 31, 2013		
	Cost	Accumulated amortization	Net book value
		(In thousands)	
Unpatented technology	$ 8,615	(2,988)	5,627
Noncompete and nonsolicitation agreements	1,139	(1,139)	—
Domain and trade names	496	(496)	—
Customer relationships	3,926	(3,435)	491
License agreements	10,120	(10,120)	—
	$24,296	(18,178)	6,118

	December 31, 2012		
	Cost	Accumulated amortization	Net book value
		(In thousands)	
Unpatented technology	$ 8,615	(1,915)	6,700
Noncompete and nonsolicitation agreements	1,139	(696)	443
Domain and trade names	496	(496)	—
Customer relationships	3,926	(1,472)	2,454
License agreements	10,120	(2,766)	7,354
	$24,296	(7,345)	16,951

As discussed in Note 14, *Restructuring*, during the year ended December 31, 2013, the Company recorded $6.1 million in impairment charges related to its noncompete and nonsolicitation agreements and license agreements.

Amortization of customer relationships is included in selling and marketing expense and amortization of other intangible assets is included in research and development expenses. Total amortization expense for the years ended December 31, 2013, 2012, and 2011 was $4.7 million, $5.1 million, and $1.1 million, respectively. The remaining weighted average amortization period as of December 31, 2013 and 2012, was approximately 4.9 and 4.8 years, respectively.

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Amortization expense for each year ending December 31 is estimated as follows:

2014	$ 1,563
2015	1,072
2016	1,072
2017	1,072
Thereafter	1,339
Total	$ 6,118

(7) Accrued Expenses

Accrued expenses consist of the following:

	December 31	
	2013	2012
	(In thousands)	
Accrued payroll and employee related expenses	$ 6,209	5,930
Accrued marketing expense	2,117	4,683
Accrued licensing agreement payments	—	2,500
Accrued value-added, sales and other taxes	1,733	1,991
Accrued marketing affiliate commissions	820	830
Other	2,226	3,132
	$13,105	19,066

(8) Related Party Transactions

In June 2006, the Company's former chief executive officer purchased 6,081,000 shares of the Company's common stock with a limited recourse promissory note in the amount of $8.2 million with a maturity date of June 2013, and a stated interest rate of 4.99% per annum. As a result of the limited recourse note, the Company accounted for the issuance of this common stock similar to a stock option. On an annual basis, any interest accrued was forgiven by the Company. Effective July 2011, the Company's board of directors approved the forgiveness of the full principal amount of the promissory note. In addition, the Company provided him a tax gross up to cover the tax obligations arising from the forgiveness of the principal amount of the promissory note. As a result of this modification, the Company recognized compensation expense of $12.9 million for the year ended December 31, 2011, which is recorded in general and administrative expenses in the Company's consolidated statements of operations.

In April 2007, the Company's former chief financial officer exercised two stock option grants for a total of 500,000 shares of the Company's common stock. He paid the exercise price with a limited recourse promissory note in the amount of $547,000, accruing interest at the rate of 4.61% per annum. As a result of the limited recourse loan, the Company accounted for the issuance of common stock similar to a stock option. The loan was later amended on November 6, 2009. Under the terms of the amended loan, the principal balance of the note and all interest accrued and unpaid to date was to be immediately due and payable in full as a result of specified triggering events, including upon the effectiveness of the Company's initial public offering and the expiration of all resale restrictions on his shares in connection with the offering. This note was repaid in November 2011 in conjunction with the 2011 dividend payment.

(Continued)

BIG FISH GAMES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(9) Commitments and Contingencies

(a) Lease Commitments

The Company has various operating leases for office space expiring through August 2019. Future minimum commitments as of December 31, 2013 for the Company's operating leases are as follows (in thousands):

Year ending December 31:	
2014	$ 3,113
2015	3,498
2016	3,607
2017	3,701
Thereafter	2,616
	$16,535

Rent expense for the years ended December 31, 2013, 2012, and 2011 was $3.6 million, $3.0 million, and $2.6 million, respectively.

(b) Legal Matters

From time to time, the Company may become involved in litigation and claims that arise in the ordinary course of business, including claims alleging infringement of patent or other intellectual property rights. The Company is not currently a party to any material legal proceedings, nor is it aware of any pending or threatened litigation that in the Company's opinion would have a material adverse effect on its business, financial position, results of operations, or cash flows.

Included in other income for the years ended December 31, 2012 and 2011 is cash received related to the settlement of a lawsuit totaling $0.7 million and $0.8 million, respectively. There were no legal settlements for which the Company received cash during the year ended December 31, 2013.

(10) Stockholders' Equity

(a) Common Stock

The Company has one class of common stock with no par value. The Company's common stock has no preferences or privileges and is not redeemable.

In October 2011, the Company's Board of Directors approved the payment of a cash dividend of $1.35 per common share. This cash dividend was paid on November 30, 2011 to shareholders of record as of October 26, 2011. The aggregate amount of the cash dividend declared was $52.0 million. In addition, and although not required by plan documents to do so, a bonus was paid to vested option holders equal to $1.35 per vested option. This bonus resulted in expense of $6.1 million and is recorded in general and administrative expenses for the year ended December 31, 2011. This bonus was intended to reward the longest tenured employees and thus holders of unvested stock options were not entitled to the bonus.

On March 29, 2012, the Company's board of directors approved an increase in the number of authorized common stock from 50,000,000 to 60,000,000.

(b) *Stock Appreciation Rights*

The Company has a SARs plan that was used to compensate certain employees for services performed. SARs are generally granted at a base price equal to the fair value of the Company's common stock on the date of grant, vest over four years and do not expire.

A summary of the Company's SARs activity is as follows:

	Stock appreciation rights	Weighted average grant price
Balance at December 31, 2011	998,780	$ 0.26
SARs repurchased	(3,330)	1.40
Balance at December 31, 2012	995,450	0.26
SARs repurchased	—	—
Balance at December 31, 2013	995,450	0.26

For the years ended December 31, 2013, 2012, and 2011, total SARs compensation expense was $0.1 million, $0.1 million, and $0.3 million, respectively.

For the years ended December 31, 2013 and 2012, no SARs are subject to remeasurement at the current fair market value of the underlying common stock. The total awards outstanding at December 31, 2013 and 2012 have a weighted average settlement price of $1.72. The SAR holder will receive an amount that is the lesser of (i) the current fair market value at the time of surrender less the fair market value at the time of grant, or (ii) the fair market value at the time of the employee's termination less the fair market value at the time of grant.

(c) *Stock Options*

The Company uses its 2005 Stock Plan to compensate certain employees, officers, directors, consultants and contractors for services performed. As of December 31, 2013, an aggregate of 16,698,000 shares of common stock had been reserved for issuance under the 2005 Stock Plan.

On February 28, 2012, the Company's board of directors approved an increase in the number of shares authorized for issuance under the Company's 2005 Stock Plan by 2,500,000 from 14,198,000 to 16,698,000.

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The Company grants stock options that have an exercise price that is equal to the fair value of the common stock on the date of grant, expire ten years from the date of grant and vest over four years, 25% after the first year and monthly thereafter based on continuous employment.

A summary of the Company's awards available for grant is as follows:

	Options outstanding		
	Number of shares	Weighted average exercise price	Aggregate intrinsic value
Balance at December 31, 2010	8,075,707	$ 2.21	
Options granted	3,531,700	5.66	
Options exercised	(1,908,189)	2.68	
Options canceled or forfeited	(572,899)	3.81	
Balance at December 31, 2011	9,126,319	3.34	
Options granted	393,500	4.80	
Options exercised	(99,576)	2.79	
Options canceled or forfeited	(553,004)	5.43	
Balance at December 31, 2012	8,867,239	3.28	
Options granted	10,000	4.49	
Options exercised	(92,066)	1.58	
Options canceled or forfeited	(981,526)	4.84	
Balance at December 31, 2013	7,803,647	$ 3.11	26,394,411
Vested and exercisable at December 31, 2013	6,872,109	$ 2.78	25,491,316

The aggregate intrinsic value of options exercised for the years ended December 31, 2013, 2012, and 2011 was $0.3 million, $0.2 million, and $3.9 million, respectively.

The total grant date fair value of options that vested for the years ended December 31, 2013, 2012, and 2011 was $2.1 million, $3.8 million, and $1.3 million, respectively.

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The fair value of options granted was estimated at the date of grant using the Black-Scholes-Merton valuation model with the following assumptions:

	Year ended December 31		
	2013	2012	2011
Expected volatility	55.0%	50.0%	51.0%
Expected term	5.0 years	5.0 years	4.7 years
Risk-free interest rate	0.8%	0.8%	1.7%
Expected dividend yield	—	—	—

For the years ended December 31, 2013, 2012, and 2011, the weighted average grant date fair value of options granted was $2.12, $2.07, and $2.58, respectively.

The following tables summarize information about the Company’s outstanding stock options:

	December 31, 2013				
	Options outstanding			Options vest and exercisable	
Exercise price range	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 0.08–0.75	2,423,242	3.3	$ 0.34	2,423,242	$ 0.34
1.35–3.65	2,216,267	4.8	2.93	2,215,410	2.93
4.03–4.83	765,438	6.1	4.20	627,130	4.18
5.21–5.74	2,125,036	6.9	5.64	1,436,184	5.64
6.02–6.49	273,664	7.3	6.38	170,143	6.38
	7,803,647	5.1	3.11	6,872,109	2.78

	December 31, 2012				
	Options outstanding			Options rest and exercisable	
Exercise price range	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 0.08–0.75	2,503,242	4.2	$ 0.35	2,503,242	$ 0.35
1.35–3.65	2,328,968	5.8	2.91	2,095,574	2.86
4.03–4.83	1,178,422	8.2	4.33	501,668	4.15
5.21–5.74	2,521,942	8.4	5.64	1,097,773	5.64
6.02–6.49	334,665	8.6	6.33	118,574	6.33
	8,867,239	6.5	3.28	6,316,831	2.52

The Company recognizes compensation expense for its stock options on a straight-line basis over the vesting period for only the portion of options that are expected to vest based on its estimate of forfeitures. Total compensation expense for stock options for the years ended December 31, 2013, 2012, and 2011 was $2.3 million, $2.6 million, and $10.7 million, respectively. For the year ended December 31, 2011, compensation expense for stock options includes $8.2 million relating to the forgiveness of the Company's former Chief Executive Officer note, as described in Note 8, *Related Party Transactions*. As of December 31, 2013 and 2012, total unrecognized compensation expense related to nonvested stock options was $2.6 million and $5.9 million, respectively. This unrecognized compensation expense is expected to be recognized over a weighted average period of 1.4 years and 2.3 years, respectively.

Effective November 2012, the Company's board of directors approved the cancellation of 314,344 of the chief financial officer's outstanding stock options for the issuance of an equal amount of RSUs, 25% of which would immediately vest and the remaining amount which would vest in 6.25% increments every three months. As a result of this modification, the Company recognized compensation expense of $0.6 million for the year ended December 31, 2012, which is recorded in general and administrative expenses in the Company's consolidated statement of operations.

Effective April 4, 2013 and October 17, 2013, the Company's board of directors approved the cancellation of 100,000 and 150,000, respectively, of the president and chief operating officer's outstanding options for the issuance of an equal amount of RSUs of which 45.83% and 58.33%, respectively, immediately vest. The remaining amount vests over remaining term which is four years. As a result of these modifications, the Company recognized compensation expense of $0.7 million for the year ended December 31, 2013, which is recorded in general and administrative expenses in the Company's consolidated statement of operations.

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(d) Restricted Stock Units

During the years ended December 31, 2013 and 2012, the Company granted to employees RSUs, which are settled by issuance of shares of Company common stock only upon or following a Liquidity Event and only if such Liquidity Event occurs on or prior to the Expiration Date, which is 7 years from the grant date. Compensation expense for RSUs is determined based upon the market price of the shares underlying the awards on the date of grant and expensed over the vesting period, which is a four-year service period. Forfeitures for RSUs are estimated on the date of grant based on historical forfeiture rates. On an annual basis, the Company adjusts the compensation expense based on actual forfeitures and revises the forfeiture rate as necessary. The total fair value of RSUs that vested during the years ended December 31, 2013 and 2012 was $3.6 million and $0.6 million, respectively. Total unrecognized compensation cost related to nonvested RSUs at December 31, 2013 and 2012 was $9.0 million and $6.5 million, respectively. This unrecognized compensation expense is expected to be recognized over a weighted average period of approximately 3.13 and 3.54 years, respectively. The following table summarizes the Company's RSU activity during the years ended December 31, 2013 and 2012:

	Restricted stock units	Weighted average grant date fair value
Unvested outstanding at December 31, 2011	—	$ —
Granted	2,207,089	4.90
Vested	(124,474)	4.73
Forfeited or canceled	(127,691)	5.13
Unvested outstanding at December 31, 2012	1,954,924	4.89
Granted	2,386,724	5.17
Vested	(940,232)	4.91
Forfeited or canceled	(630,421)	4.73
Unvested outstanding at December 31, 2013	2,770,995	$ 5.18

(e) Restricted Stock Awards

Commencing in 2012, the Company granted to its board members Restricted Stock Awards (RSAs), which are settled by issuance of shares of Company common stock upon vesting. Compensation expense for RSAs is determined based upon the market price of the shares underlying the awards on the date of grant and expensed over the vesting period, which is a two-year service period. The total fair value of RSAs that vested during the years ended December 31, 2013 and 2012 was $0.3 million and $0.2 million, respectively. Total unrecognized compensation cost related to nonvested RSAs at December 31, 2013 and 2012 was $0.2 million. This unrecognized compensation expense is expected to be recognized over a weighted average period of approximately 1.0 and 1.1 years, respectively.

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The following table summarizes the Company's RSA activity during the years ended December 31, 2013 and 2012:

	Shares of restricted stock
Unvested outstanding at December 31, 2011	—
Granted	82,485
Vested	(34,605)
Unvested outstanding at December 31, 2012	47,880
Granted	66,806
Vested	(71,860)
Unvested outstanding at December 31, 2013	42,826

As of the grant date, the weighted average value of the RSAs granted during the years ended December 31, 2013 and 2012 was $4.49 and $4.85, respectively.

(f) *Allocation of Stock-Based Compensation Expense*

The following table presents the effect of share-based compensation expense from stock options, RSUs, RSAs, and SARs on the Company's consolidated statements of operations:

	Year ended December 31		
	2013	2012	2011
	(In thousands)		
Sales and marketing	$ 370	212	164
Research and development	2,260	1,325	1,014
General and administrative	4,204	2,288	9,457
Game operations	237	286	400
	$7,071	4,111	11,035

Stock-based compensation expense of $11.0 million for the year ended December 31, 2011 includes $8.2 million relating to the July 2011 modification relating to the forgiveness of the aforementioned limited recourse note associated with the Company's former chief executive officer.

(11) Benefit Plan

The Company has a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code. All of the Company's employees qualify for participation in the plan. The Company matches a portion of its employee's contributions to the plan up to 3% of the employee's total compensation. Total employer contributions for the years ended December 31, 2013, 2012, and 2011 were $0.8 million, $0.6 million, and $0.5 million, respectively.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(12) Income Taxes

The components of the Company's income (loss) before income tax (benefit) are as follows:

	Year ended December 31		
	2013	2012	2011
		(In thousands)	
United States	$(2,688)	(7,459)	5,861
International	972	874	644
	$(1,716)	(6,585)	6,505

The components of the Company's income tax expense (benefit) are as follows:

	Year ended December 31		
	2013	2012	2011
		(In thousands)	
Current:			
Federal	$ 7,180	254	3,486
State	377	(19)	142
International	153	179	240
	7,710	414	3,868
Deferred:			
Federal	(8,123)	(1,840)	(6,999)
State	(664)	(63)	(22)
International	65	32	(58)
	(8,722)	(1,871)	(7,079)
Total income tax benefit	$(1,012)	(1,457)	(3,211)

The Company prepares its income tax provision using the U.S. federal statutory rate of 35% and a blended state tax rate of 1%, net of the federal benefit. The difference between the expected expense (benefit) computed using the statutory tax rate and the recorded tax benefit in 2013 and 2012 was primarily due to incentive stock options not deductible for tax purposes, taxes on earnings of foreign subsidiaries, tax credits related to research and development, unrecognized tax benefits and related interest, and nondeductible or nontaxable items associated with the acquisition of Self Aware Games.

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The Company's deferred income tax assets and liabilities are as follows:

	December 31	
	2013	2012
	(In thousands)	
Deferred tax assets:		
Share-based compensation	$ 6,134	4,062
Deferred revenue	4,104	2,230
Payroll related accruals	685	678
Intangible assets	4,691	676
Other accruals	336	305
Other	467	11
Net deferred tax assets	16,417	7,962
Deferred tax liabilities:		
Property and equipment	(801)	(1,272)
Other	(794)	(514)
	(1,595)	(1,786)
Net deferred tax assets	$14,822	6,176

During 2011, after considering both positive and negative factors including the 2010 utilization of net operating loss carryforwards and the availability of taxable income in carryback years and projected future taxable income, the Company released its remaining valuation allowance, which was recorded as a deferred tax benefit and was in excess of the current tax expense. For the year ended December 31, 2011, the net change in the Company's valuation allowance was $5.6 million. Prior to 2010, a valuation allowance was recorded to reduce the net deferred tax assets to zero because it was not more likely than not that the deferred tax assets would be realized.

As of December 31, 2013, the Company had $1.5 million of unrecognized tax benefits related to uncertain tax positions. As of December 31, 2012, the Company did not have any significant income tax positions that were considered uncertain.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as income tax expense. During the year ended December 31, 2013, the Company recognized approximately $0.1 million in interest and penalties. For the years ended December 31, 2012 and 2011, the Company did not incur any interest or penalties related to uncertain tax positions. The Company had approximately $0.1 million for the payment of interest and penalties accrued at December 31, 2013. The Company did not have an accrual for the payment of interest and penalties at December 31, 2012.

The Company and its subsidiaries file income tax returns in the U.S. federal and various state and foreign jurisdictions. The Company is open to examination by U.S. federal tax jurisdictions and various state jurisdictions for the years ended December 31, 2008 and forward. The Company is open to examination by certain foreign jurisdictions for tax years 2009 forward.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(13) Geographical Information

The Company has both domestic and international customers. Revenue by geographic region is as follows:

	Year ended December 31		
	2013	2012	2011
		(In thousands)	
United States	$150,250	120,267	105,138
International	114,971	104,111	82,458
	$265,221	224,378	187,596

(14) Restructuring

During 2013, the Company took steps to better align its cost structure with market and growth opportunities. As a result, the Company reduced its work force by approximately 140 employees, closed certain offices, and shut down its streaming games business resulting in impairment of certain intangible assets. As a result, the Company recorded restructuring charges of $10.2 million during the year ended December 31, 2013. This restructuring charge was composed of $2.5 million of employee severance, $1.0 million related to office closures and accelerated depreciation and $6.1 million related to the impairment, through an accelerated amortization, of intangible assets acquired from iSwifter. The remaining restructuring charge related to cost to communicate and administer the restructuring plan. Substantially all amounts have been paid as of December 31, 2013.

(15) Subsequent Events

On November 13, 2013, the Company entered into an operating lease for approximately 20,755 square feet of office space located in Oakland, California. The sixty-six month lease began April 2014 and expires September 2019. Total future minimum lease payments of $3.7 million are included in Note 9, *Commitments and Contingencies*.

On January 23, 2014, the Company's board of directors approved an increase in the number of shares authorized for issuance under the Company's 2005 Stock Plan by 2,500,000 from 16,698,000 to 19,198,000.

On January 23, 2014, the Company's board of directors approved an increase in the number of common stock shares authorized from 60,000,000 to 70,000,000.

On January 24, 2014, the Company's board of directors authorized the grant of 1.2 million shares of restricted stock units to the Company's employees and 0.1 million shares of restricted stock awards to the Company's board members. The weighted average grant date fair value of these shares was $6.49.

On March 6, 2014, the Company entered into a Loan and Security Agreement with Silicon Valley Bank whereby the Company has access to a $15 million revolving line of credit. The Company has not drawn any advances on the line of credit.

The Company has evaluated subsequent events through the date these consolidated financial statements were issued and has included all necessary disclosures.

Exhibit 99.2

BIG FISH GAMES, INC. AND SUBSIDIARIES

Unaudited Consolidated Financial Statements

Three-month and nine-month periods ended September 30, 2014 and 2013

(With Independent Auditors' Review Report Thereon)

BIG FISH GAMES, INC. AND SUBSIDIARIES

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Independent Auditors' Review Report

The Board of Directors and Stockholders
Churchill Downs Incorporated:

Report on the Financial Statements

We have reviewed the accompanying consolidated balance sheet of Big Fish Games, Inc. (the Company) and its subsidiaries as of September 30, 2014, the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2014 and 2013, the related consolidated statements of comprehensive income (loss) for the three and nine-month periods ended September 30, 2014 and 2013, the related consolidated statement of stockholders' equity for the nine-month period ended September 30, 2014, and the related consolidated statements of cash flows for the nine-month periods ended September 30, 2014 and 2013.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with U.S. generally accepted accounting principles.

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Report on Balance Sheet as of December 31, 2013

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity (deficit), and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 23, 2014. In our opinion, the accompanying consolidated balance sheet of Big Fish Games, Inc. and its subsidiaries as of December 31, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

/s/ KPMG LLP

Seattle, Washington
February 20, 2015

BIG FISH GAMES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2014 and December 31, 2013

(In thousands, except share data)

	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Assets		
Current assets:		
Cash	$ 48,579	27,533
Accounts receivable, net of allowances of $42 and $44, respectively	24,087	14,791
Prepaid income tax	1,964	188
Prepaid expenses and other	5,333	3,487
Prepaid developer payments	3,287	4,542
Game technology and rights, net	16,311	15,077
Deferred tax assets, net	5,622	5,534
Total current assets	105,183	71,152
Property, equipment and software, net	9,906	7,175
Intangible assets, net	4,824	6,118
Goodwill	21,877	21,877
Other assets	661	991
Deferred tax assets, noncurrent, net	9,124	9,287
Total assets	$ 151,575	116,600
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,361	6,323
Accrued expenses	23,608	13,105
Royalties payable	5,038	4,967
Income taxes payable	166	873
Deferred revenue	82,942	80,702
Total current liabilities	115,115	105,970
Other long-term liabilities	3,083	2,358
Stock appreciation rights liability	2,077	2,002
Total liabilities	120,275	110,330
Stockholders' equity:		
Common stock, no par value:		
70,000,000 shares authorized; 41,669,196 and 41,610,487 shares issued and outstanding, respectively	38,520	33,296
Accumulated other comprehensive income (loss)	(215)	18
Accumulated deficit	(7,005)	(27,044)
Total stockholders' equity	31,300	6,270
Total liabilities and stockholders' equity	$ 151,575	116,600

See accompanying notes to unaudited consolidated financial statements.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Operations

Three and nine month periods ended September 30, 2014 and 2013

(In thousands)

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenue	$ 85,579	64,771	238,422	195,204
Cost of revenue	29,554	24,670	84,800	74,928
Gross profit	56,025	40,101	153,622	120,276
Operating expenses:				
Sales and marketing	23,102	12,854	53,409	37,219
Research and development	10,860	13,310	33,470	37,975
General and administrative	7,555	8,130	20,748	23,445
Game operations	5,620	7,264	16,895	20,348
Restructuring and impairment charges		9,679	—	9,679
Total operating expenses	47,137	51,237	124,522	128,666
Income (loss) from operations	8,888	(11,136)	29,100	(8,390)
Interest expense, net	—	(5)	(4)	(41)
Other income (expense), net	95	(417)	270	(750)
Income (loss) before provision for income taxes	8,983	(11,558)	29,366	(9,181)
Income tax expense (benefit)	2,616	(4,114)	9,327	(3,591)
Net income (loss)	$ 6,367	(7,444)	20,039	(5,590)

See accompanying notes to unaudited consolidated financial statements.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Comprehensive Income (Loss)

Three and nine month periods ended September 30, 2014 and 2013

(In thousands)

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net income (loss)	$ 6,367	(7,444)	20,039	(5,590)
Other comprehensive income (loss):				
Foreign currency translation, net of tax	(163)	71	(233)	276
Comprehensive income (loss)	$ 6,204	(7,373)	19,806	(5,314)

See accompanying notes to unaudited consolidated financial statements.

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BIG FISH GAMES, INC. AND SUBSIDIARIES

Unaudited Consolidated Statement of Stockholders' Equity

Nine month period ended September 30, 2014

(In thousands, except share data)

	Common stock		Accumulated Other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount			
Balances at December 31, 2013	41,610,487	$33,296	18	(27,044)	6,270
Comprehensive income (loss):					
Foreign currency translation adjustment, net of $0 tax effect	—	—	(233)	—	(233)
Net income	—	—	—	20,039	20,039
Total comprehensive income (loss)	—	—	(233)	20,039	19,806
Common stock issued on exercise of stock options, including tax expense of $0	2,811	3	—	—	3
Issuance of restricted shares of common stock	55,898	—	—	—	—
Share-based compensation expense	—	5,221	—	—	5,221
Balances at September 30, 2014	41,669,196	$38,520	(215)	(7,005)	31,300

See accompanying notes to unaudited consolidated financial statements.

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BIG FISH GAMES, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows

Nine month periods ended September 30, 2014 and 2013

(In thousands)

	September 30, 2014	September 30, 2013
Operating activities:		
Net income (loss)	$ 20,039	(5,590)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Share-based compensation expense	5,295	4,893
Depreciation	4,059	5,019
Amortization of intangible assets and game technology and rights	14,539	16,800
Intangible asset impairment	—	6,096
Deferred tax benefit	75	28
(Excess tax benefit) tax deficiency from stock plans	—	(75)
Net loss on disposal of assets	(65)	—
Changes in operating assets and liabilities:		
Accounts receivable	(9,232)	(4,130)
Prepaid expenses and other current assets	(564)	(313)
Other assets	330	(155)
Game technology and rights	(14,478)	(14,336)
Accounts payable and accrued expenses	8,369	2,812
Income taxes payable and prepaid income tax	(2,471)	(6,349)
Royalties payable	71	(1,095)
Deferred revenues	3,636	11,418
Net cash provided by operating activities	29,603	15,023
Investing activities:		
Purchases of property and equipment	(6,877)	(3,951)
Acquisitions, net of cash acquired	—	(2,500)
Net cash used in investing activities	(6,877)	(6,451)
Financing activities:		
Proceeds from stock option exercises	3	109
Excess tax benefit (tax deficiency) from stock plans	—	75
Net cash provided by financing activities	3	184
Net increase in cash and cash equivalents	22,729	8,756
Foreign exchange adjustments	(1,683)	319
Cash and cash equivalents, beginning of year	27,533	12,781
Cash and cash equivalents, end of period	$ 48,579	21,856
Supplemental information:		
Cash paid for income taxes	$ 11,725	2,694
Value of shares issued related to an acquisition	$ —	1,078

See accompanying notes to unaudited consolidated financial statements.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Three-month and nine-month periods ended September 30, 2014 and 2013

(1) Organization and Description of Business

Big Fish Games, Inc. and its consolidated subsidiaries (the Company) are leading international producers of casual, free-to-play, and casino style games that can be played on a PC, Mac, smartphone, tablet, or online. Through its internal studios and global network of game development partners, the Company has created many of the industry's leading casual game brands.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments necessary to present the financial position, results of operations, and cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 270, Interim Reporting. These adjustments are of a normal and recurring nature. The interim financial information does not represent complete financial statements and is to be read in conjunction with the 2013 audited financial statements of the Company.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and notes thereto. Significant estimates and assumptions reflected in the consolidated financial statements include, but are not limited to, the determination of breakage revenue, judgments relating to multiple-element arrangements and evidence of the value of undelivered elements, the estimated lives of virtual goods and paying players used for revenue recognition, useful lives of property, equipment, software and intangible assets, accrued liabilities, income taxes including the recoverability of deferred tax assets, accounting for business combinations, fair value of share-based awards, and evaluation of goodwill, intangible assets, and long-lived assets for impairment. Actual results could differ materially from those estimates.

(c) Cash

Cash consist of cash on hand. The Company regularly has cash on deposit with financial institutions in excess of federally insured limits.

(d) Accounts Receivable and Allowance for Doubtful Accounts

The Company's accounts receivable consist primarily of amounts due from mobile, retail and publishing partners and are recorded at the original invoiced amount less an allowance for potential uncollectible amounts. The Company reviews its accounts receivable balance on a regular basis and makes estimates for the allowance for doubtful accounts based on historical collection experience, age of the receivable, knowledge of the customer, and other currently available evidence. Account balances are written off against the allowance for doubtful accounts after all collection efforts have been exhausted and the potential for recovery is considered remote.

(e) Game Technology and Rights, Net

Game technology and rights are purchased from third-party developers before the games have been produced or launched and the Company pays amounts to these developers as they reach agreed-upon milestones. Once the game is launched, the Company amortizes its game technology and rights on an accelerated basis over the useful life of the game, which is generally between 12 to 18 months.

Game technology and rights as of September 30, 2014 and December 31, 2013 were $16.3 million and $15.1 million, respectively. During the three months ended September 30, 2014 and 2013, amortization of game technology and rights included in cost of revenue was $4.4 million and $4.2 million, respectively. During the nine months ended September 30, 2014 and 2013, amortization of game technology and rights included in cost of revenue was $13.2 million and $12.1 million, respectively.

During the three months ended September 30, 2014 and 2013, amortization included in research and development was nil and $0.6 million, respectively. During the nine months ended September 30, 2014 and 2013, amortization included in research and development was nil and $0.8 million, respectively.

The Company reviews its game technology and rights at each balance sheet date to determine if any impairment exists by comparing the unamortized amounts to the estimated net realizable value. Any amounts in excess of the net realizable value are written off. Impairments of game technology and rights have not been material to date.

(f) Property, Equipment and Software, Net

Property, equipment and software are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets, generally two to five years. The cost of leasehold improvements is amortized over the shorter of the estimated useful life of the improvements or the lease term. Maintenance and repairs are expensed as incurred.

(g) Intangible Assets, Net

Intangible assets consist primarily of acquired license agreements and unpatented technology. Intangible assets have a finite life and are stated at historical cost less accumulated amortization. Intangible assets are amortized using the straight-line method over the estimated useful life of the assets, generally one to seven years.

(Continued)

(h) Goodwill

Goodwill is tested for impairment whenever circumstances indicate, but at least annually at year-end, that the fair value of the reporting unit to which goodwill relates may be less than the carrying value. The Company uses an approach commonly referred to as a “step zero” where qualitative factors are assessed to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. If the qualitative assessment indicates that the fair value of the reporting unit is more likely than not less than its carrying value, the Company does not perform further goodwill impairment testing. Where a significant change or events occur, and where potential impairment indicators exist, the Company continues to utilize a two-step quantitative assessment to test goodwill for impairment. The first step is comparing the carrying value of the reporting unit to its estimated fair value. If step one indicates that impairment potential exists, the second step is performed to measure the amount of impairment. The implied estimated fair value of goodwill for the reporting unit is calculated and compared to the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied estimated fair value, the carrying value of the goodwill is reduced to fair value through an impairment charge recorded in the Company’s consolidated statements of operations.

The Company performed a qualitative assessment during the nine months ended September 30, 2014 and determined that it was not more likely than not that the fair value of the reporting unit was less than its carrying value. As a result, the two-step goodwill impairment test was not required and no impairments of goodwill were recognized in the nine months ended September 30, 2014.

(i) Impairment of Intangible and Other Long-Lived Assets

Intangible and other long-lived asset groups are evaluated for impairment whenever events or changes in circumstances indicate an asset group’s carrying value may not be recoverable. If such circumstances are present, the Company assesses the recoverability of assets by comparing the carrying amount to the estimated undiscounted cash flow associated with the related assets. If the future undiscounted cash flows are less than the carrying amount of the assets, the assets are considered impaired and an expense equal to the excess of the carrying amount over the fair value is recorded in the Company’s consolidated statements of operations. In conjunction with the restructuring plan discussed in note 11, *Restructuring*, the Company recorded $6.1 million of impairment charges related to certain intangible assets during the nine months ended September 30, 2013, which are included in restructuring and impairment charges in the consolidated statements of operations. No impairment charges were recorded in the nine months ended September 30, 2014.

(j) Royalties Payable

Royalties payable consist of amounts due to third-party game developers based on revenue generated from sales of their games. Amounts are accrued based on agreed-upon royalty rates in the month the related game is purchased by the customer. Total expense related to third-party royalties included in cost of revenue for the three months ended September 30, 2014 and 2013 was $6.9 million and $8.9 million, respectively. Total expense related to third-party royalties included in cost of revenue for the nine months ended September 30, 2014 and 2013 was $23.6 million and $29.5 million, respectively.

(k) Comprehensive Income

The Company's accumulated other comprehensive income as of September 30, 2014 and December 31, 2013 consisted of foreign currency translation gains.

(l) Revenue Recognition

The Company's revenue is primarily derived from sales of premium casual games and virtual goods within games. The Company recognizes revenue when the following criteria are met: persuasive evidence of an arrangement exists; the product or services have been delivered; the fee is fixed or determinable; and collectability is reasonably assured. The Company also considers industry-specific software revenue recognition rules and as such, the Company makes estimates and judgments in order to determine whether certain customer offerings represent marketing and promotional activities or are elements to be accounted for separately. Once that determination is made, the Company determines whether and when each element has been delivered; determines whether undelivered products or services are essential to the functionality of the delivered products and services; determines whether vendor specific objective evidence (VSOE) exists for each undelivered element, and allocates the total price among the various elements the Company must deliver.

Monthly subscriptions constitute a substantial portion of the Company's business. Subscribers receive a game credit each month with their subscription. The Company has determined that the price of a monthly subscription is equivalent to the VSOE of the game credit and that the additional benefits of the monthly subscription are marketing and promotional activities. The value of the game credit is recognized when a customer redeems the game credit. The Company also sells game credits on its websites that are redeemable for the download of games. Revenue is recognized when the customer redeems the game credit for a game.

The Company offers a promotion whereby a free game credit is issued each time a customer purchases six games within a month. The fair value of the free game credit is deferred and recognized as revenue when the credit is redeemed or expires. Deferred revenue for these game credits as of September 30, 2014 and December 31, 2013 was $1.5 million and $2.0 million, respectively.

The Company records breakage revenue, which is recognized based upon historical game credit redemption patterns and represents the balance of credits where the Company has determined the likelihood of redemption is remote or the credits have legally expired. As the Company has certain groups of game credits that expire, and other groups that don't have an expiration period, the Company's assessment as to when the redemption is remote is dependent upon a number of factors, including whether the credit has legally expired, the amount of time the credit has been outstanding, historical redemption patterns by its customers, the impact of specific marketing and promotional efforts designed to retain its customers, and state escheatment laws, among others. Breakage revenue for the three months ended September 30, 2014 and 2013 was $7.2 million and $5.9 million, respectively. Breakage revenue for the nine months ended September 30, 2014 and 2013 was $21.0 million and $16.7 million, respectively. Breakage revenue is recorded in revenue and as a reduction to deferred revenue.

The Company offers casual and casino games that customers can play at no cost and customers can purchase in-game virtual goods to enhance the game-playing experience. The proceeds from the sale of virtual goods are recorded as deferred revenue, and recognized as the service is provided or the good is consumed. For purposes of determining when the service has been provided to the player, an implied obligation exists to the paying player to continue to make available the purchased virtual goods within the games until they are consumed. Substantially all of the Company's virtual goods can be consumed by a specific player action. For casino games, the Company recognizes revenue as the goods are consumed, which approximates four days. For all other casual free-to-play games, the Company recognizes revenue ratably over the estimated average playing period of paying players, which represents the Company's best estimate of the estimated average life of these virtual goods.

Revenue earned through certain mobile and social platforms is recognized on a gross basis. As revenue from sales to paying players is deferred, the related direct and incremental platform commissions and fees as well as third-party royalties are deferred. The deferred platform commissions, fees, and royalties are recognized as cost of revenues in the period in which the related sales are recognized as revenue.

Taxes collected from customers and remitted to governmental authorities are presented on a net basis in the consolidated statements of operations.

(m) Cost of Revenue

The Company's cost of revenue consists primarily of expenses related to third-party developer royalties, amortization of game technology and rights, and platform commissions and fees. In addition, cost of revenue includes processing fees, content delivery costs, internal developer royalties and costs to host the Company's websites.

(n) Advertising

Advertising expenses include search engine marketing and optimization, direct mailing, television advertising and other marketing. These costs are expensed as incurred and are included in sales and marketing expenses. Advertising expense for the three months ended September 30, 2014 and 2013 was $21.3 million and $10.4 million, respectively. Advertising expense for the nine months ended September 30, 2014 and 2013 was $47.4 million and $28.5 million, respectively.

(o) Research and Development and Software Development Costs

Costs incurred for research and development activities are expensed as incurred. Development costs associated with software to be sold are capitalized when technological feasibility has been established through the date the product is available for general release. As of September 30, 2014 and December 31, 2013, there were no material amounts capitalized.

(p) Other Income and Expense

Other income and expense consists primarily of foreign exchange gains (losses), fair value remeasurement adjustments on contingent purchase consideration and cash received in connection with the settlement of a lawsuit.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Three-month and nine-month periods ended September 30, 2014 and 2013

(q) Stock Appreciation Rights

The Company has a Stock Appreciation Rights (SARs) Plan whereby certain employees have been granted SARs with a base price equal to the fair value of the common stock on the date of grant. Historically, the grant date fair value of SARs was based upon the most recent value of the Company's common stock as determined by management based in part on an independent third-party valuation. Based on the contractual terms which limit the settlement price, the majority of the SARs are not subject to upward remeasurement above a contractual limit but may be remeasured downward in the event that the fair value of the shares decreases below the grant price. In the event of remeasurement, the Company recognizes adjustments to compensation expense equal to the difference between the base price and the fair value of the underlying common stock ratably over the vesting period, generally over four years. Outstanding SARs can be redeemed by the Company at any time or will be redeemed automatically under certain conditions as defined in the SARs plan. The value of the SARs increases 5% per annum from the time that the employee is terminated until the SARs are settled. Interest expense on the outstanding SARs is recorded in share-based compensation.

(r) Share-Based Compensation

The Company has established the 2005 Stock Incentive Plan (2005 Stock Plan). Under the 2005 Stock Plan, the Company's board of directors may grant stock-based awards, including incentive and nonqualified stock options, restricted stock awards, and restricted stock units to employees, officers, directors, consultants and contractors. The Company measures and recognizes compensation expense for all stock-based awards made to employees, officers and directors based on the grant date fair value of the awards. Compensation expense is generally recognized on a straight-line basis, net of estimated forfeitures, over the requisite service period, which generally is the vesting period.

The Company estimates the fair value of stock options using the Black-Scholes option pricing model. This model incorporates the most recent value of the Company's common stock as determined by management based in part on an independent third-party valuation and requires the use of the following estimates and assumptions: expected volatility of the Company's common stock, which is based on the Company's peer group in the industry in which it does business; expected life of the option award, which is based on the option lives for comparable companies; expected dividend yield, which is 0%, as the Company had not paid any dividends prior to the November 2011 dividend and does not anticipate paying dividends on its common stock in the future; and the risk-free interest rate, which is based on the U.S. Treasury yield curve in effect at the time of grant with maturities equal to the grant's expected life. Stock option grants generally vest over four years, with 25% vesting after one year and the remainder vesting monthly thereafter over 36 months. Stock options generally have a contractual term of 10 years.

Stock-based compensation expense is recorded net of estimated forfeitures so that expense is recorded for only those stock-based awards that are expected to vest. The Company estimates forfeitures based on its historical forfeiture of equity awards adjusted to reflect changes in facts and circumstances, if any. The Company will revise its estimated forfeiture rate if actual forfeitures differ from its initial estimates.

(Continued)

For restricted stock awards and restricted stock units, the Company estimates the fair value of the award based on the current valuation of the Company, net of an estimated discount for liquidity. The restricted stock units are only settled into shares of common stock upon a liquidity event that occurs within seven years of grant.

For stock options issued to nonemployees, including consultants and contractors, the Company records expense equal to the fair value of the options calculated using the Black-Scholes model, using the full contractual term of the options, over the service performance period. The fair value of options granted to nonemployees is remeasured on a quarterly basis over the service period, and the resulting value is recognized as an expense over the period the services are rendered.

(s) Income Taxes

The Company accounts for income taxes using the asset and liability method under Accounting Standards Codification 740, Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded when it is more likely than not that the assets will not be realized. The Company's policy is to recognize interest and/or penalties related to unrecognized tax benefits as income tax expense. The Company evaluates the uncertainties of tax positions taken or expected to be taken based on the probability of whether the position taken will be sustained upon examination by tax authorities. The Company uses a more likely than not threshold for recognition and derecognition of tax positions taken or to be taken in a tax return. Earnings of the Company's foreign subsidiaries are not considered to be reinvested outside of the United States, and accordingly, U.S. federal and state income taxes have been provided for all undistributed earnings net of related foreign tax credits.

(t) Foreign Currency Transactions

The functional currency of the Company's international subsidiaries is the U.S. dollar, with the exception of the Company's Luxembourg subsidiary whose functional currency is the euro. For subsidiaries with a functional currency of the U.S. dollar, foreign currency denominated monetary assets and liabilities are remeasured into U.S. dollars at current exchange rates and foreign currency denominated nonmonetary assets and liabilities are remeasured into U.S. dollars at historical exchange rates. Foreign currency denominated revenue and expenses are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in other income and expense. For the Luxembourg subsidiary, assets and liabilities are translated into U.S. dollars using exchange rates in effect at the end of a reporting period. Income and expense accounts are translated into U.S. dollar using average rates of exchange. The net gain or loss resulting from translation is recorded as foreign currency translation adjustment and included in accumulated other comprehensive income in stockholders' equity (deficit).

(Continued)

(u) Concentrations of Risk

A majority of the Company's revenues are received by third-party payment processing companies. The Company relies primarily on one such vendor to facilitate all credit card transactions. The Company believes other such vendors could be secured if it became necessary. The Company increasingly relies on third-party providers to directly distribute and serve as the payment platform for its games. During the three months ended September 30, 2014 and 2013, 48% and 40% of the Company's revenues, respectively, were derived from one provider. During the nine months ended September 30, 2014 and 2013, 56% and 41% of the Company's revenues, respectively, were derived from one provider. As of September 30, 2014 and December 31, 2013, 83% and 87% of accounts receivable, respectively, were due from that same provider.

(3) Fair Value Measurements

The Company's financial instruments consist of SARs and accounts receivable. Accounts receivable are stated at amounts due from customers net of an allowance for uncollectible accounts, which approximates fair value due to the short time to expected receipt of cash. As of September 30, 2014 and December 31, 2013, the Company had SARs totaling 995,450 units that are not subject to remeasurement on a recurring basis.

(4) Acquisitions

(a) iSwifter

On August 8, 2011, the Company acquired certain assets of iSWIFTER, Inc. (iSwifter) as part of the Company's cloud-based streaming initiative. The acquisition was deemed to be a business combination for accounting purposes and for tax purposes was considered an asset acquisition. The acquired assets include an exclusive three-year right to the iSwifter technology platform, as well as a perpetual, nonexclusive right to the platform after the exclusive three year license expires. The Company also employed three former engineers of iSwifter and entered into nonsolicitation agreements. Of the $12.5 million purchase price, $5 million was paid upon the signing of the agreement and the remainder in three payments of $2.5 million. The Company paid the required payments due in February 2012, August 2012 and February 2013.

In conjunction with the restructuring plan discussed in note 11, *Restructuring*, the Company assessed the impairment of intangible assets acquired from iSwifter and determined intangible assets of $6.1 million will no longer be utilized and were impaired. These intangible assets were written down to their fair value of zero. As a result, the Company recorded $6.1 million in charges related to these items during the three and nine months ended September, 2013, which are included in restructuring and impairment charges in the consolidated statements of operations for the three and nine months ended September 30, 2014.

(b) Self Aware Games

On April 4, 2012, the Company acquired 100% of the operating assets of Self Aware Games, Inc. (Self Aware Games). As a result of this acquisition, the Company diversified its operations and expanded its customer base. The primary identifiable intangible assets acquired were unpatented game technology and customer relationships of a popular casual casino style game to PC and mobile devices. The estimated fair value of the intangible assets acquired was determined by management based in part on a third-party valuation. The Company used the excess earnings method to measure the fair value of the customer relationships. The fair value of the existing core technology and trade name was measured based on the relief from royalty method. These fair value measurements were based on significant inputs not observable in the market and thus represent Level 3 measurements under the fair value hierarchy. Goodwill associated with this transaction is not deductible for income tax purposes. The aggregate purchase price was $26.6 million, which included $13.6 million in cash, and 2,519,999 shares of the Company's common stock. A portion of the purchase price that was paid in common stock of the Company was based on the net sales of Self Aware Games for the year ended December 31, 2012, and as a result, the Company issued 240,000 shares of common stock during the period ended September 30, 2013.

(5) Intangible Assets, Net

Intangible assets consist of the following:

	September 30, 2014		
	Cost	Accumulated amortization	Net book value
		(In thousands)	
Unpatented technology	$ 8,615	(3,791)	4,824
Noncompete and nonsolicitation agreements	1,139	(1,139)	—
Domain and trade names	496	(496)	—
Customer relationships	3,926	(3,926)	—
License agreements	10,120	(10,120)	—
	$24,296	(19,472)	4,824

	December 31, 2013		
	Cost	Accumulated amortization	Net book value
		(In thousands)	
Unpatented technology	$ 8,615	(2,988)	5,627
Noncompete and nonsolicitation agreements	1,139	(1,139)	—
Domain and trade names	496	(496)	—
Customer relationships	3,926	(3,435)	491
License agreements	10,120	(10,120)	—
	$24,296	(18,178)	6,118

As discussed in note 11, *Restructuring*, during the nine months ended September 30, 2013, the Company recorded $6.1 million in impairment charges related to its noncompete and nonsolicitation agreements and license agreements.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Three-month and nine-month periods ended September 30, 2014 and 2013

Amortization of customer relationships is included in selling and marketing expense and amortization of other intangible assets is included in research and development expenses. Total amortization expense for the three months ended September 30, 2014 and 2013 was $0.3 million and $1.3 million, respectively. Total amortization expense for the nine months ended September 30, 2014 and 2013 was $1.3 million and $4.0 million, respectively. The remaining weighted average amortization period as of September 30, 2014 and December 31, 2014 was approximately 4.5 and 4.9 years, respectively.

Amortization expense for each year ending December 31 is estimated as follows:

2014 (remaining 3 months)	$ 268
2015	1,072
2016	1,072
2017	1,072
2018	1,072
2019	268
Total	$4,824

(6) Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2014	December 31, 2013
	(In thousands)	
Accrued payroll and employee related expenses	$ 10,148	6,209
Accrued marketing expense	9,338	2,117
Accrued value-added, sales and other taxes	1,584	1,733
Accrued marketing affiliate commissions	657	820
Other	1,881	2,226
	$ 23,608	13,105

(7) Loan and Security Agreement

In March 2014, the Company entered into a Loan and Security Agreement with Silicon Valley Bank whereby the Company has access to a $15 million revolving line of credit. The Company has not drawn any advances on the line of credit. In conjunction with the acquisition of the Company by Churchill Downs Incorporated in December 2014, the Loan and Security Agreement was terminated. See note 12 for further discussion of acquisition.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Three-month and nine-month periods ended September 30, 2014 and 2013

(8) Commitments and Contingencies

(a) Lease Commitments

The Company has various operating leases for office space expiring through August 2019. Future minimum commitments as of September 30, 2014 for the Company's operating leases are as follows (in thousands):

Year ending December 31:	
2014 (remaining 3 months)	$ 940
2015	3,748
2016	3,895
2017	3,997
2018	2,140
2019	600
	$15,320

Rent expense for the three months ended September 30, 2014 and 2013 was $0.8 million and $0.9 million, respectively and $2.5 million and $2.7 million for the nine months ended September 30, 2014 and 2013, respectively.

(b) Legal Matters

From time to time, the Company may become involved in litigation and claims that arise in the ordinary course of business, including claims alleging infringement of patent or other intellectual property rights. The Company is not currently a party to any material legal proceedings, nor is it aware of any pending or threatened litigation that in the Company's opinion would have a material adverse effect on its business, financial position, results of operations, or cash flows.

(9) Stockholders' Equity

(a) Common Stock

The Company has one class of common stock with no par value. The Company's common stock has no preferences or privileges and is not redeemable.

(b) Stock Appreciation Rights

The Company has a SARs plan that was used to compensate certain employees for services performed. SARs are generally granted at a base price equal to the fair value of the Company's common stock on the date of grant, vest over four years and do not expire.

For the three months ended September 30, 2014 and 2013, total SARs compensation expense was nil. For the three and nine months ended September 30, 2014 and 2013, no SARs are subject to remeasurement at the current fair market value of the underlying common stock. The total awards outstanding at September 30, 2014 and December 31, 2013 have a weighted average settlement price of $1.72. The SAR holder will receive an amount that is the lesser of (i) the current fair market value at the time of surrender less the fair market value at the time of grant, or (ii) the fair market value at the time of the employee's termination less the fair market value at the time of grant.

(c) Stock Options

The Company uses its 2005 Stock Plan to compensate certain employees, officers, directors, consultants and contractors for services performed. As of September 30, 2014, an aggregate of 19,198,000 shares of common stock had been reserved for issuance under the 2005 Stock Plan.

The Company grants stock options that have an exercise price that is equal to the fair value of the common stock on the date of grant, expire ten years from the date of grant and vest over four years, 25% after the first year and monthly thereafter based on continuous employment.

For the nine months ended September 30, 2014 and 2013, 345,000 and 10,000 options were granted, respectively. The fair value of options granted was estimated at the date of grant using the Black-Scholes-Merton valuation model using a term of 5 years, volatility between 50% and 55% and a 0.8% risk free interest rate. The weighted average fair value of the options granted was $3.33 and $2.12 per share in 2014 and 2013 respectively.

(d) Restricted Stock Units

During the nine months ended September 30, 2014 and 2013, the Company granted to employees RSUs, which are settled by issuance of shares of Company common stock only upon or following a Liquidity Event and only if such Liquidity Event occurs on or prior to the Expiration Date, which is 7 years from the grant date. Compensation expense for RSUs is determined based upon the market price of the shares underlying the awards on the date of grant and expensed over the vesting period, which is a four-year service period. Forfeitures for RSUs are estimated on the date of grant based on historical forfeiture rates. On an annual basis, the Company adjusts the compensation expense based on actual forfeitures and revises the forfeiture rate as necessary. Total unrecognized compensation cost related to nonvested RSUs at September 30, 2014 was $11.3 million. This unrecognized compensation expense is expected to be recognized over a weighted average period of approximately 2.91 years. For the nine months ended September 30, 2014 and 2013, 1,531,872 and 1,999,881 RSUs were granted, respectively.

(e) Restricted Stock Awards

Commencing in 2012, the Company granted to its board members Restricted Stock Awards (RSAs), which are settled by issuance of shares of Company common stock upon vesting. Compensation expense for RSAs is determined based upon the market price of the shares underlying the awards on the date of grant and expensed over the vesting period, which is a two-year service period. Total unrecognized compensation cost related to nonvested RSAs at September 30, 2014 was $0.3 million. This unrecognized compensation expense is expected to be recognized over a weighted average period of approximately 1.1 years. For the nine months ended September 30, 2014 and 2013, 55,898 and 66,806 RSAs were granted, respectively.

As of the grant date, the weighted average value of the RSAs granted during the nine months ended September 30, 2014 was $6.49.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Three-month and nine-month periods ended September 30, 2014 and 2013

(f) Allocation of Stock-Based Compensation Expense

The following table presents the effect of share-based compensation expense from stock options, RSUs, RSAs, and SARs on the Company's consolidated statements of operations:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Sales and marketing	$ 88	58	231	163
Research and development	630	586	2,013	1,806
General and administrative	998	1,149	2,615	2,789
Game operations	121	57	436	135
	$ 1,837	1,850	5,295	4,893

(10) Geographical Information

The Company has both domestic and international customers. Revenue by geographic region is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
United States	$55,843	37,473	151,790	111,414
International	29,736	27,298	86,632	83,790
	$85,579	64,771	238,422	195,204

(11) Restructuring

During 2013, the Company took steps to better align its cost structure with market and growth opportunities. As a result, the Company reduced its work force by approximately 140 employees, closed certain offices, and shut down its streaming games business resulting in impairment of certain intangible assets. As a result, the Company recorded restructuring charges of $9.7 million during the nine months ended September 30, 2014. This restructuring charge was composed primarily of $2.5 million of employee severance, $0.5 million related to office closures and accelerated depreciation and $6.1 million related to the impairment, through an accelerated amortization, of intangible assets acquired from iSwifter. The remaining restructuring charge related to cost to communicate and administer the restructuring plan. Substantially all amounts were paid as of December 31, 2013.

BIG FISH GAMES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Three-month and nine-month periods ended September 30, 2014 and 2013

(12) Subsequent Events

On November 12, 2014, Churchill Downs Incorporated entered into an Agreement and Plan of Merger with the Company. In exchange for 100% of the outstanding capital stock, Company shareholders received initial merger consideration of $485 million, subject to customary working capital adjustments. Shareholders have the potential to earn up to an additional $350 million based on the Company's 2015 performance relative to 2014 results. The merger was completed on December 16, 2014.

The Company has evaluated subsequent events through the date these consolidated financial statements were issued and has included all necessary disclosures.

Exhibit 99.3

CHURCHILL DOWNS INCORPORATED AND BIG FISH GAMES, INC. UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On December 16, 2014, Churchill Downs Incorporated, a Kentucky corporation ("CDI") completed the Plan of Merger (the "Merger Agreement") with Big Fish Games, Inc., a Washington corporation ("Big Fish") and Ocean Acquisition Corp., a Washington corporation and wholly-owned subsidiary of CDI ("Merger Corp"). The Merger Agreement provides, among other things that, upon the terms and subject to the conditions set forth therein, Merger Corp will merge with and into Big Fish, with Big Fish surviving as a wholly-owned subsidiary of CDI (the "Merger").

In the Merger, each outstanding share of capital stock, no par value per share, of Big Fish ("Big Fish Capital Stock") was converted into the right to receive a pro rata share of $485 million ("Purchase Price"), subject to working capital and other adjustments. Each outstanding option to acquire shares of Big Fish, along with outstanding warrants and restricted stock units was canceled in connection with the Merger, and holders of such interests received the same consideration as those holding Big Fish Capital Stock (with both holders collectively being "Equity Holders"), less applicable exercise prices of the warrants and options. Equity Holders may also receive a pro rata share of up to $350 million ("Earnout Consideration")(with Purchase Price and Earnout Consideration, collectively referred to hereafter as "Merger Consideration") to be paid subject to the achievement of a 2015 Adjusted EBITDA (defined as earnings before interest, taxes, depreciation, amortization, foreign exchange (gains) or losses, share-based compensation expense and acquisition-related adjustments resulting from business combination accounting rules that would not exist if the acquisition did not take place) threshold. The "Related Financing Transactions" refers to the borrowing by CDI of $200 million under the Term Loan Facility (as defined below) and other borrowings under CDI's existing Senior Secured Credit Facility to pay the cash consideration in accordance with the Merger Agreement.

The unaudited pro forma condensed combined statements of comprehensive income for the nine months ended September 30, 2014 and for the year ended December 31, 2013 give effect to the Merger and the Related Financing Transactions as if they had occurred on the first day of the earliest period presented. The unaudited pro forma condensed combined balance sheet gives effect to the Merger and the Related Financing Transactions as if they had occurred on September 30, 2014.

The historical consolidated financial information of CDI and Big Fish has been adjusted in the unaudited pro forma condensed combined financial information to give effect to pro forma events that are (i) directly attributable to the Merger, (ii) factually supportable, and (iii) with respect to the statements of comprehensive income, expect to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial information is based on various assumptions, including assumptions related to the consideration paid and the allocation thereof to the assets acquired and liabilities assumed from Big Fish based on preliminary estimates of fair value. The pro forma assumptions and adjustments are described in the accompanying notes to the unaudited pro forma condensed combined financial information. In addition, the unaudited pro forma condensed combined financial information were based on and should be read in conjunction with the following historical consolidated financial statements and accompanying notes of CDI and Big Fish for the applicable periods:

- Consolidated financial statements and related notes thereto of CDI as of and for the year ended December 31, 2013 included in CDI's Annual Report on Form 10-K for the year ended December 31, 2013 that the Company filed with the U.S. Securities and Exchange Commission ("SEC") on February 26, 2014;
- Consolidated financial statements and related notes thereto of Big Fish as of and for the year ended December 31, 2013 included in Exhibit 99.1 of this Form 8-K/A;
- Consolidated financial statements and related notes thereto of CDI as of September 30, 2014 and for the nine months ended September 30, 2014 included in CDI's Quarterly Report on Form 10-Q that the Company filed with the SEC on October 29, 2014; and
- Consolidated unaudited financial statements and related notes thereto of Big Fish as of September 30, 2014 and for the nine months ended September 30, 2014 included in Exhibit 99.2 of this Form 8-K/A.

The pro forma adjustments have been made solely for purposes of developing the pro forma financial information for illustrative purposes necessary to comply with the requirements of the SEC. The actual results reported by the combined company in periods following the Merger may differ significantly from that reflected in these unaudited pro forma condensed combined financial statements for a number of reasons, including but not limited to cost savings from operating efficiencies, synergies and the impact of the incremental costs incurred in integrating the two companies. As a result, the pro forma condensed combined financial information is not intended to represent and does not purport to be what the combined company's financial condition or results of operations would have been had the Merger and the Related Financing Transactions been completed on the applicable dates of this pro forma condensed combined financial information. In addition, the pro forma condensed combined financial information does not purport to project the future financial condition and results of operations of the combined company. The final purchase price and the allocations thereof may differ from that reflected in the pro forma condensed combined financial statements after final valuation procedures are performed and amounts are finalized following completion of the Merger.

CDI funded the cash portion of the acquisition with borrowings under its Amended and Restated Credit Agreement (the "Senior Secured Credit Facility") and the addition of a $200 million Term Loan Facility ("Term Loan") to the existing Senior Secured Credit Facility. The Senior Secured Credit Facility was amended on December 1, 2014 and the Term Loan matures on December 1, 2019 provided however, in the event the Senior Secured Credit Facility has not, prior to May 17, 2018, been extended to a maturity date of December 1, 2019, the Term Loan matures on May 17, 2018. The interest rate under the Term Loan is equal to a LIBOR-based rate per annum plus the applicable margin ranging from 1.125% to 3.0% depending on CDI's total leverage ratio.

Under the Senior Secured Credit Facility in place as of September 30, 2014, the maximum aggregate commitment was $500 million and amounts outstanding as of September 30, 2014 totaled $83.4 million. The Senior Secured Credit Facility also provides for an accordion feature which, if exercised, could increase the maximum aggregate commitment by up to an additional $225 million and reduce the pricing schedule for outstanding borrowings and commitment fees across all leverage pricing levels. Generally, borrowings made pursuant to the Senior Secured Credit Facility bear interest at a LIBOR-based rate per annum plus the applicable margin ranging from 1.125% to 3.0% depending on CDI's total leverage ratio. In addition, under the Senior Secured Credit Facility, CDI agrees to pay a commitment fee at rates that range from 0.175% to 0.45% of the available aggregate commitment, depending on CDI's leverage ratio.

Churchill Downs Incorporated and Big Fish Games, Inc.
Unaudited Pro Forma Condensed Combined Balance Sheet
September 30, 2014

(in thousands)	CDI	Big Fish	Reclassifications for Consistent Presentation (1)	Pro Forma Adjustments		Pro Forma Combined
ASSETS						
Current assets:						
Cash and cash equivalents	$ 42,041	$ 48,579	$ —	$ (16,747)	**(A)**	$ 73,873
Restricted cash	27,144	—	—	—		27,144
Accounts receivable, net	35,410	24,087	—	—		59,497
Deferred income taxes	5,357	5,622	—	(4,717)	**(B)**	6,262
Income taxes receivable	—	—	1,964	16,123	**(C)**	18,087
Prepaid income tax	—	1,964	(1,964)	—		—
Prepaid expenses and other	—	5,333	(5,333)	—		—
Prepaid developer payments	—	3,287	(3,287)	—		—
Game technology and rights, net	—	16,311	—	(16,311)	**(D)**	—
Other current assets	16,393		8,620	181	**(E)**	25,194
Total current assets	126,345	105,183	—	(21,471)		210,057
Property and equipment, net	591,678	9,906	—	4,726	**(F)**	606,310
Investment in and advances to unconsolidated affiliates	99,198	—	—			99,198
Goodwill	300,616	21,877	—	505,585	**(G)**	828,078
Other intangible assets, net	191,915	4,824	—	358,039	**(H)**	554,778
Deferred income taxes	—	9,124	—	(9,124)	**(B)**	—
Other receivable	—	—	—	1,120	**(B)**	1,120
Other assets	22,512	661	—	692	**(E)**	23,865
Total assets	$1,332,264	$151,575	$ —	$ 839,567		$2,323,406
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$ 49,024	$ 3,361	$ 4,353	$ 18,087	**(C)**	$ 74,825
Bank overdraft	2,553	—	—	—		2,553
Account wagering deposit liabilities	18,275	—	—	—		18,275
Purses payable	12,503	—	—	—		12,503
Accrued expenses	62,891	23,608	685	—		87,184
Royalties payable	—	5,038	(5,038)	—		—
Accrued interest payable	5,026	—	—	—		5,026
Income taxes payable	4,513	166	—	—		4,679
Current portion of deferred payment to Big Fish	—	—	—	27,180	**(I)**	27,180
Current maturities of long-term debt	—	—	—	11,250	**(J)**	11,250
Deferred revenue	12,496	—	—	—		12,496
Deferred revenue - Big Fish Games	—	82,942	—	(47,736)	**(K)**	35,206
Deferred income taxes	—	—	—	3,279	**(B)**	3,279
Total current liabilities	167,281	115,115	—	12,060		294,456
Long-term debt, net of current maturities	383,391	—	—	397,656	**(J)**	781,047
Non-current portion of deferred payment to Big Fish	—	—	—	50,847	**(I)**	50,847
Other liabilities	20,061	3,083	2,077	(25)	**(B)**	25,196
Big Fish Games earnout liability	—	—	—	324,747	**(L)**	324,747
Stock appreciation rights liability	—	2,077	(2,077)	—		—
Deferred revenue	15,916	—	—	—		15,916
Deferred income taxes	30,616	—	—	92,903	**(B)**	123,519
Total liabilities	617,265	120,275	—	878,188		1,615,728
Commitments and contingencies						
Shareholders' equity:						
Common stock	246,001	38,520	—	(22,727)	**(M)**	261,794
Accumulated other comprehensive loss	—	(215)	—	215	**(N)**	—
Retained earnings (deficit)	468,998	(7,005)	—	(16,109)	**(O)**	445,884
Total shareholders' equity	714,999	31,300	—	(38,621)		707,678
Total liabilities and shareholders' equity	$1,332,264	$151,575	$ —	$ 839,567		$2,323,406

(1) See Note 1 - Basis of Presentation for explanation of reclassifications

See accompanying notes to the unaudited pro forma condensed combined financial statements

Churchill Downs Incorporated and Big Fish Games, Inc.
Unaudited Pro Forma Condensed Combined Statement of Comprehensive Income
Nine Months Ended September 30, 2014

(in thousands, except per share amounts)	CDI	Big Fish	Reclassifications for Consistent Presentation (1)	Pro Forma Adjustments		Pro Forma Combined
Net revenues						
Racing	$231,069	$ —	$ —	$ —		$231,069
Casinos	250,318	—	—	—		250,318
Twinspires	149,426	—	—	—		149,426
Big Fish Games	—	—	238,422	—		238,422
Other	13,813	—	—	—		13,813
Revenue	—	238,422	(238,422)	—		—
	644,626	238,422	—	—		883,048
Operating expenses						
Racing	175,195	—	—	—		175,195
Casinos	185,017	—	—	—		185,017
Twinspires	102,260	—	—	—		102,260
Big Fish Games	—	—	155,880	32,752	**(D)**	188,632
Other	17,885	—	—	—		17,885
Cost of revenue	—	84,800	(84,800)	—		—
Sales & marketing	—	53,409	(53,409)	—		—
Research & development	—	33,470	(4,250)	—		29,220
General & administrative	—	20,748	(20,748)	—		—
Game operations	—	16,895	(16,895)	—		—
Selling, general and administrative expenses	60,604	—	24,222	—		84,826
Insurance recoveries, net of losses	(431)	—	—			(431)
Operating income (loss)	104,096	29,100	—	(32,752)		100,444
Other income (expense):						
Interest income	15	—	—	—		15
Interest expense	(15,107)	(4)	—	(6,627)	**(E)**	(21,738)
Equity in income of unconsolidated investments	5,853	—	—	—		5,853
Miscellaneous, net	482	270	—	—		752
	(8,757)	266	—	(6,627)		(15,118)
Earnings loss from continuing operations before provision for income taxes	95,339	29,366	—	(39,379)		85,326
Income tax (provision) benefit	(35,175)	(9,327)	—	14,373	**(F)**	(30,129)
Net earnings (loss)	60,164	20,039	—	(25,006)		55,197
Other comprehensive income:						
Foreign currency translation, net of tax	—	(233)	—	—		(233)
Comprehensive income (loss)	$ 60,164	$ 19,806	$ —	$ (25,006)		$ 54,964
Net earnings per common share data:						
Basic	$ 3.44	—				$ 3.13
Diluted	$ 3.40	—				$ 3.10
Weighted average shares outstanding						
Basic	17,322			157	**(G)**	17,479
Diluted	17,670			157	**(G)**	17,827

(1) See Note 1 - Basis of Presentation for explanation of reclassifications

See accompanying notes to the unaudited pro forma condensed combined financial statements

Churchill Downs Incorporated and Big Fish Games, Inc.
Unaudited Pro Forma Condensed Combined Statement of Comprehensive Income
Year Ended December 31, 2013

(in thousands, except per share amounts)	CDI	Oxford	Reclassifications for Consistent Presentation (1)	Pro Forma Adjustments	CDI Subtotal After Oxford Acquisition	Big Fish	Reclassifications for Consistent Presentation (1)	Pro Forma Adjustments	Pro Forma Combined
Net revenues:									
Racing	$274,269	$ —	$ —	$ —	$ 274,269	$ —	$ —	$ —	$ 274,269
Casinos	297,473	38,856	2,116	—	338,445	—	—	—	338,445
Twinspires	184,541	—	—	—	184,541	—	—	—	184,541
Big Fish Games	—	—	—	—	—	—	265,221	—	265,221
Other	23,042	—	—	—	23,042	—	—	—	23,042
Revenue	—	—	—	—	—	265,221	(265,221)	—	—
Non-gaming	—	2,116	(2,116)	—	—	—	—	—	—
	779,325	40,972	—	—	820,297	265,221	—	—	1,085,518
Operating expenses									
Racing	233,286	—	—	—	233,286	—	—	—	233,286
Casinos	222,879	—	30,577	—	253,456	—	—	—	253,456
Twinspires	123,449	—	—	—	123,449	—	—	—	123,449
Big Fish Games	—	—	—	—	—	—	179,115	39,593 (D)	218,708
Other	26,540	—	—	—	26,540	—	—	—	26,540
Cost of revenue	—	—	—	—	—	101,256	(101,256)	—	—
Operating	—	25,989	(25,989)	(2,858) (A)	(2,858)	—	—	—	(2,858)
Preopening	—	82	(82)	—	—	—	—	—	—
Depreciation	—	4,506	(4,506)	—	—	—	—	—	—
Sales & marketing	—	—	—	—	—	51,061	(51,061)	—	—
Research & development	—	—	—	—	—	47,740	(2,076)	—	45,664
General & administrative	—	—	—	—	—	30,439	(30,439)	—	—
Game operations	—	—	—	—	—	25,737	(25,737)	—	—
Restructuring & impairment charges	—	—	—	—	—	10,205	—		10,205
Selling, general and administrative expenses	83,446	4,527	—	—	87,973	—	31,454	—	119,427
Insurance recoveries, net of losses	(375)	—	—	—	(375)	—	—	—	(375)
Operating income (loss)	90,100	5,868	—	2,858	98,826	(1,217)	—	(39,593)	58,016
Other income (expense):									
Interest income	112	—	—	—	112	—	—	—	112
Interest expense	(6,231)	(1,558)	—	(714) (B)	(8,503)	(46)	—	(11,491) (E)	(20,040)
Equity in loss of unconsolidated investments	(4,142)	—	—	—	(4,142)	—	—	—	(4,142)
Miscellaneous, net	5,667	—	—	—	5,667	(453)	—	—	5,214
	(4,594)	(1,558)	—	(714)	(6,866)	(499)	—	(11,491)	(18,856)
Earnings (loss) from continuing operations before provision for income taxes	85,506	4,310	—	2,144	91,960	(1,716)	—	(51,084)	39,160
Income tax (provision) benefit	(30,473)	—	—	(2,485) (C)	(32,958)	1,012	—	18,646 (F)	(13,300)
Net earnings (loss) from continuing operations	55,033	4,310	—	(341)	59,002	(704)	—	(32,438)	25,860
Discontinued operations, net of income taxes:									
Loss from operations	(50)	—	—	—	(50)				(50)
Loss on sale of assets	(83)	—	—	—	(83)			—	(83)
Net earnings (loss)	54,900	4,310	—	(341)	58,869	(704)	—	(32,438)	25,727
Other comprehensive income:									
Foreign currency translation, net of tax	—	—	—	—	—	9	—	—	9
Comprehensive income (loss)	$ 54,900	$ 4,310	$ —	$ (341)	$ 58,869	$ (695)	$ —	$ (32,438)	$ 25,736
Net earnings per common share data:									
Basic									
Net earnings from continuing operations	$ 3.13				$ 3.36				$ 1.47
Discontinued operations	(0.01)				(0.01)	—			(0.01)

Net earnings	$ 3.12	$ 3.35	$ —			$ 1.46
Diluted						
Net earnings from continuing operations	$ 3.07	$ 3.29				$ 1.43
Discontinued operations	(0.01)	(0.01)	—			(0.01)
Net earnings	$ 3.06	$ 3.28	$ —			$ 1.42
Weighted average shares outstanding						
Basic	17,294	17,294		157	**(G)**	17,451
Diluted	17,938	17,938		157	**(G)**	18,095

(1) See Note 1 - Basis of Presentation for explanation of reclassifications

See accompanying notes to the unaudited pro forma condensed combined financial statements

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

Note 1 — Basis of Presentation

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting and was based on the historical audited financial statements of CDI and Big Fish for the year ended December 31, 2013 and unaudited financial statements of CDI and Big Fish as of and for the nine months ended September 30, 2014. In addition, the unaudited pro forma condensed combined statement of comprehensive income for the year ended December 31, 2013 includes the results of operations from January 1, 2013 to July 16, 2013 related to CDI's acquisition of Oxford Casino ("Oxford) on July 17, 2013. Certain reclassifications have been made to the historical financial statements of Big Fish and Oxford to conform to CDI's presentation, including the condensing of Big Fish's prepaid balances into one line item. Furthermore, royalties payable and stock appreciation rights liability have been reclassified to accounts payable and other liabilities, respectively. Finally, certain Big Fish accounts payable amounts were reclassified to accrued expenses. In addition, Oxford and Big Fish revenues and operating expenses have been reclassified to conform to CDI's presentation. The following adjustments have been made to Big Fish's cost of revenues, sales and marketing, research and development, game operations and general and administrative expense:

(in thousands)	Nine months ended September 30, 2014	Twelve months ended December 31, 2013
Reclassify cost of revenue(1)	$ (84,800)	$ (101,256)
Reclassify sales and marketing(2)	(53,409)	(51,061)
Reclassify game operations(3)	(16,895)	(25,737)
Reclassify depreciation expense(4)	(1,611)	(2,475)
Reclassify bonus expense(5)	(5,085)	(3,490)

(1) Cost of revenue recorded by Big Fish has been reclassified to operating expenses for consistent presentation in the unaudited pro forma condensed combined statements of comprehensive income.

(2) Sales and marketing recorded by Big Fish has been reclassified to operating expenses for consistent presentation in the unaudited pro forma condensed combined statements of comprehensive income.

(3) Game operations recorded by Big Fish has been reclassified to operating expenses for consistent presentation in the unaudited pro forma condensed combined statements of comprehensive income.

(4) Depreciation expense, recorded in general and administrative in Big Fish's historical financial statements, has been reclassified to operating expenses for consistent presentation in the unaudited pro forma condensed combined statements of comprehensive income.

(5) Bonus expense recorded in sales and marketing, research and development and game operations in Big Fish's historical financial statements has been reclassified to selling, general and administrative expenses for consistent presentation in the unaudited pro forma condensed combined statements of comprehensive income.

The unaudited pro forma condensed combined statements of comprehensive income for the year ended December 31, 2013 and for the nine months ended September 30, 2014 give effect to the Merger and the Related Financing Transactions as if they had occurred on the first day of the earliest period presented. The unaudited condensed combined balance sheet as of September 30, 2014 gives effect to the Merger and the Related Financing Transactions as if they had occurred on September 30, 2014.

The acquisition method of accounting is based on authoritative guidance for business combinations and uses the fair value concepts defined in authoritative guidance. The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting under these existing U.S. GAAP standards.

The authoritative guidance for business combinations requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date if fair value can reasonably be estimated. If the fair value of an asset or liability that arises from a contingency cannot be determined, the asset or liability is recognized if it is probable that an asset existed or a liability has been incurred at the acquisition date and the amount of such asset or liability can be reasonably determined. In addition, the guidance establishes that the consideration transferred be measured at the closing date of the acquisition at the then-current market price

Fair value is defined in the authoritative guidance as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” This is an exit price concept for the valuation of the asset or liability. In addition, market participants are assumed to be buyers and sellers in the principal (or the most advantageous) market for the asset or liability. Fair value measurements for an asset assume the highest and best use by these market participants. Many of these fair value measurements can be highly subjective and it is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

The pro forma adjustments described below have been developed based on assumptions and estimates, including assumptions relating to the consideration to be paid and the allocation thereof to the assets acquired and liabilities assumed from Big Fish based on preliminary estimates of fair value. The final purchase price and the allocation thereof will differ from that reflected in the pro forma condensed combined financial statements after final valuation procedures are performed and amounts are finalized.

The unaudited pro forma condensed combined financial statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of CDI would have been had the Merger and the Related Financing Transactions occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or financial position.

The unaudited pro forma condensed combined financial statements do not reflect any cost savings from operating efficiencies, synergies or other restructurings that could result from the Merger.

CDI has been determined to be the acquirer under the acquisition method of accounting based on various considerations. CDI paid cash and issued common stock as the merger consideration. Further, the Board of Directors and senior management of the combined company will be comprised primarily of current CDI board members and senior management, respectively.

CDI performed a review of Big Fish’s accounting policies to determine whether any adjustments were necessary to ensure comparability in the pro forma condensed combined financial statements. At this time, CDI is not aware of any differences that would have a material impact on the pro forma condensed combined financial statements. CDI will perform a more detailed review of Big Fish’s accounting policies and, as a result of that review, differences may be identified between the accounting policies of the two companies that, when conformed, could have a material impact on the combined financial statements.

Note 2 — Purchase Price

The total consideration for the transaction on the closing date of December 16, 2014 is $838.3 million, composed of $401.7 million in cash, a deferred payment to the Founder of Big Fish ("Founder") of $85.3 million, payable over three years and recorded at fair value of $78.0 million as of the closing date, an estimated payable related to an income tax refund of $18.1 million, $15.8 million payable in 157,115 shares of the common stock of CDI and a contingent earn-out payment recorded at fair value of $324.7 million related to the fair value of the earn-out consideration. The purchase price for the business combination is as follows:

	(in thousands)
Estimated Purchase Price:	
Cash paid to equity holders(1)	$ 401,666
Deferred Founder's payment(2)	78,027
Payable related to tax refund(3)	18,087
Value of common stock issued(4)	15,793
Value of contingent consideration(5)	324,747
Total purchase price	$ 838,320

(1) Equals cash paid at closing including working capital adjustment of $17.7 million.
(2) Equals fair value of 54% of the Founder's merger consideration to be paid in annual installments over three years. See Note (I) in Note 4 – Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet.
(3) See Note (C) in Note 4 – Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet.
(4) The value of the common stock issued to the Founder was determined by dividing 10% of the merger consideration paid to the Founder by $100.52 (as stated in the Merger Agreement) rounded to the nearest whole share.
(5) The fair value of the contingent consideration was estimated at December 16. 2014 using a discounted cash flow analysis. See Note (L) in Note 4 – Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet.

Note 3 — Pro Forma Purchase Price Allocation

CDI allocated the purchase price paid to the fair value of the Big Fish assets acquired and liabilities assumed. The pro forma purchase price allocation below has been developed based on preliminary estimates of fair value using the historical financial statements of Big Fish as of September 30, 2014. In addition, the allocation of the purchase price to acquired intangible assets is based on preliminary fair value estimates utilizing management assumptions, and reasonable and supportable assumptions.

The fair values recorded were based upon a preliminary valuation. Estimates and assumptions used in such valuation are subject to change, which could be significant, within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary valuation that are not yet finalized relate to the fair values of amounts for income taxes, adjustments to working capital, and the final amount of residual goodwill. CDI expects to continue to obtain information to assist in determining the fair values of the net assets acquired at the acquisition date during the measurement period.

The estimated intangible assets are comprised of a trade name with an indefinite useful life. Definite lived intangible assets consist of customer relationships with a weighted average estimated useful life of three years, developed technology, with a weighted average estimated useful life of four years, in-process research and development, with a weighted average estimated useful life of five years and strategic developer relationships, with a weighted average useful life of six years. The residual amount of the purchase price after allocation to tangible net assets and identifiable intangibles has been allocated to goodwill. Goodwill will not be deducted for income tax purposes. The pro forma purchase price allocation reconciled to the estimated purchase price is as follows:

	(in thousands)
Book value of net assets acquired as of September 30, 2014	$ 31,300
Less: Big Fish historical game technology and rights	(16,311)
Less: Big Fish historical goodwill	(21,877)
Less: Big Fish historical intangible assets	(4,824)
Adjusted book value of net assets acquired	$ (11,712)
Adjustments to:	
Income tax receivable	16,123
Deferred income tax assets	(13,841)
Property and equipment, net	4,726
Goodwill	527,462
Identifiable intangible assets	362,863
Other assets	1,120
Deferred revenue	47,736
Other liabilities	25
Deferred income tax liabilities	(96,182)
Total adjustments	$ 850,032
Estimate of purchase price	$ 838,320

Note 4 — Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

(A) The sources and uses of funds related to the Merger transaction are as follows:

	(in thousands)
Sources	
Term Loan	$ 199,295
Senior Secured Credit Facility	209,611
Total sources	$ 408,906
Uses	
Cash payments to Big Fish equity holders	$ 401,666
Loan origination fees(1)	873
Transaction costs(2)	23,114
Total uses	$ 425,653
Net effect on cash	$ (16,747)

(1) See Note (E) below
(2) The unaudited pro forma condensed combined balance sheet assumes that the estimated remaining acquisition costs of $23.1 million will be paid in conjunction with the closing of the merger.

In connection with the Merger, on December 1, 2014, CDI amended its Senior Secured Credit Facility and added a five-year $200 million Term Loan to the existing Senior Secured Credit Facility. The balance of the financing for the Merger will be funded by CDI's existing Senior Secured Credit Facility.

(B) The adjustments reflect a reduction of $4.7 million to current deferred tax assets, a reduction of $9.1 million to non-current deferred tax assets, an increase of $3.3 million in current deferred income tax liabilities, and an increase of $92.9 million to non-current deferred tax liabilities associated with the recording of new identifiable intangible assets for the Merger. These amounts were calculated using a tax rate of 36.04%, which represents the federal and state tax rate of Big Fish. In addition, other tax liabilities decreased by $25 thousand related to reducing research and development state tax credits by the federal tax benefit. Finally, the increase in other receivable of $1.1 million is an indemnification asset related to Big Fish's uncertain tax positions.

(C) Represents estimated income tax receivable to be received by CDI for the 2013 tax year and for the tax period of January 1, 2014 to December 16, 2014. This amount will be paid to the Equity Holders when it is received by CDI.

(D) To eliminate Big Fish's historical game technology and rights, net.

(E) Reflects adjustments for the following:

	(in thousands)
Term Loan origination fees	$ 798
Senior Secured Credit Facility origination fees	75
Total origination fees(1)	$ 873
Current portion	$ 181
Long-term portion	$ 692

(1) Origination fees will be amortized over the term of the Term Loan and the existing term of the Senior Secured Credit Facility. See (J) below for further details.

(F) To adjust the historical property and equipment balances of Big Fish as of September 30, 2014 to estimated fair value. The estimated useful lives are as follows: 1 to 5 years for computer hardware and software and 2 to 10 years for office furniture, fixtures and equipment. The estimated useful lives for leasehold improvements is 3 to 10 years based on the shorter of the estimated useful life of the improvement or the lease term.

	(in thousands)
To record the estimated fair value of the following identifiable tangible assets:	
Computer hardware & software	$ 8,642
Office furniture, fixtures and equipment	1,974
Leasehold improvements	2,509
Construction in progress	1,507
Eliminate Big Fish's historical property and equipment	(9,906)
Total	$ 4,726

(G) Reflects adjustments for the following

	(in thousands)
Estimated transaction goodwill	$ 527,462
Eliminate Big Fish's historical goodwill	(21,877)
Total	$ 505,585

(H) Reflects adjustments for the following

	(in thousands)
To record the estimated fair value of the following identifiable intangible assets:	
Tradename-indefinite life	$ 200,000
Customer relationships-estimated 3 year weighted average useful life	32,663
Developed technology-estimated 4 year weighted average useful life	87,000
In-process research and development-estimated 5 year weighted average useful life	12,700
Strategic developer relationships-estimated 6 year weighted average useful life	30,500
Eliminate Big Fish's historical intangible assets	(4,824)
Total	$ 358,039

(I) Reflects adjustments for the following:

	(in thousands)
Deferred payment to Big Fish Founder Fair Value(1)	$ 78,027
Current portion	$ 27,180
Long-term debt portion	$ 50,847

(1) On December 16, 2014, CDI withheld an amount equal to 54% of the initial merger consideration payable to the Founder. Interest will accrue and will be paid annually, on the unpaid balance, at a rate of ..34% per year which is equal to the short-term applicable Federal rate ("AFR") determined under Section 1274(d) of the Internal Revenue Code. On each of the first three anniversary dates of the closing date of the Merger, CDI will pay an amount equal to 33 1/3% of the amount withheld including interest to the Founder. CDI estimated the fair value of the deferred payment using a discounted cash flows analysis over the period in which the obligation is expected to be settled, and applied a discount rate based on CDI's cost of debt. The cost of debt as of the closing date was based on the observed market yields of CDI's Senior Unsecured Notes issued in December of 2013 and was adjusted for the difference in seniority and term of the deferred payment obligation.

(J) Reflects adjustments for the following:

	(in thousands)
New borrowings	
Term Loan(1)	$ 199,295
Senior Secured Credit Facility	209,611
Total change in debt	$ 408,906
Current debt portion	$ 11,250
Long-term debt portion	$ 397,656

(1) The cash portion of the acquisition was funded with borrowings under CDI's Senior Secured Credit Facility. The Senior Secured Credit Facility was amended on December 1, 2014 to add a $200 million Term Loan. The Term Loan matures on December 1, 2019 provided however, in the event the Senior Secured Credit Facility has not, prior to May 17, 2018, been extended to a maturity date of December 1, 2019, the Term Loan matures on May 17, 2018. The interest rate under the Term Loan is equal to a LIBOR-based rate per annum plus the applicable margin ranging from 1.125% to 3.0% depending on CDI's total leverage ratio. For each 1/8th percent fluctuation in the interest rate under the Senior Secured Credit Facility and Term Loan, there could be an annual increase or decrease in interest expense of approximately $0.9 million. CDI incurred $0.9 million of loan origination fees associated with the amended Senior Secured Credit Facility and Term Loan.

(K) To record the historical carrying amount of Big Fish's deferred revenue to its estimated fair value. The estimated fair value represents the estimated cost plus an assumed profit margin to fulfill all obligations associated with the deferred revenue assumed in the acquisition.

(L) To record the fair value of the earnout consideration that is contingent upon the achievements of certain performance milestones through December 31, 2015 and is limited to a maximum of $350 million based on Big Fish's achievement of Adjusted EBITDA. The estimated fair value of the earnout consideration at the acquisition date was $324.7 million. CDI estimated the fair value of the earnout consideration using a discounted cash flows analysis over the period in which the obligation is expected to be settled, and applied a discount rate based on CDI's cost of debt. The cost of debt as of the closing date was based on the observed market yields of CDI's Senior Unsecured Notes issued in December of 2013 and was adjusted for the difference in seniority and term of the earn-out consideration.

(M) Reflects adjustments for the following:

	(in thousands)
To record stock portion of the merger consideration at fair value	$ 15,793
Eliminate Big Fish's historical common stock	(38,520)
Total	$ (22,727)

(N) To eliminate Big Fish's accumulated other comprehensive loss

(O) Reflects adjustments for the following:

		(in thousands)
Elimination of Big Fish's retained deficit	$	7,005
To record estimated non-recurring costs for remaining CDI and Big Fish acquisition related transaction costs		(23,114)
Total	$	(16,109)

Note 5 — Adjustments to Unaudited Pro Forma Condensed Combined Statements of Comprehensive Income

(A)	Reflects adjustments for the following (in thousands:)	
	To record the net impact of Oxford's new intangible asset amortization and fixed asset depreciation based on the new asset values and useful lives offset by the elimination of the historical depreciation and amortization expense for the period January 1, 2013 to July 16, 2013.	$(1,593)
	To eliminate Oxford's management fee expense and other operating expenses that did not have a continuing impact on the combined entity's results of operations.	(1,265)
	Total	$(2,858)
(B)	Reflects adjustments for the following (in thousands):	
	To record the net impact of interest expense associated with borrowing $169 million under CDI's Senior Secured Credit Facility to fund the Oxford acquisition offset by the elimination of Oxford's historical interest expense for the period January 1, 2013 to July 16, 2013. For each 1/8th percent fluctuation in the interest rate, there could be an annual increase or decrease of interest expense of approximately $0.3 million.	$ (714)
(C)	The pro forma condensed combined income tax provision has been adjusted for the tax effect of adjustments to earnings before income taxes at the estimated blended effective rate, which approximates the statutory rate, for the period presented	

(D) The pro forma adjustment to operating expenses primarily reflects additional intangible asset amortization and property and equipment depreciation. The components of this adjustment are as follows (in thousands):

	Nine months ended September 30, 2014	Twelve months ended December 31, 2013
New intangible asset amortization(1)	$ 34,245	$ 45,660
New property and equipment depreciation(2)	3,861	5,148
Eliminate Big Fish's historical intangible asset amortization expense	(1,295)	(4,737)
Eliminate Big Fish's historical Property and equipment depreciation expense	(4,059)	(6,478)
Total	$ 32,752	$ 39,593

(1) For estimated intangible asset values and the estimated useful lives, see note (H) in Note 4 – Unaudited Pro Forma Condensed Combined Balance Sheet.
(2) For estimated property and equipment asset values and the estimated useful lives, see note (F) in Note 4 – Unaudited Pro Forma Condensed Combined Balance Sheet.

(E) The pro forma adjustment to interest expense primarily reflects additional borrowings of $408.9 million under CDI's Senior Secured Credit Facility and Term Loan. The components of this adjustment are as follows (in thousands):

	Nine months ended September 30, 2014	Twelve months ended December 31, 2013
Additional interest expense related to borrowings under the Senior Secured Credit Facility and Term Loan(1)	$ 6,491	$ 11,310
Amortization of loan origination fees related to Senior Secured Credit Facility and Term Loan(1)	136	181
Total	$ 6,627	$ 11,491

(1) For details regarding borrowings used to finance the Merger, see note (J) in Note 4-Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet. Additional interest expense related to the Senior Secured Credit Facility and Term Loan consists of (1) interest expense related to new borrowings used to finance the Merger, (2) incremental interest expense resulting from incremental borrowing rates related to the applicable margin based on CDI's leverage ratios and (3) reduction in interest expense resulting from a decrease in non-usage fees that would have been realized under the Senior Secured Credit Facility. The pro forma adjustment for incremental amortization of loan origination fees relates to the amendment to the Senior Secured Credit Facility and Term Loan.

(F) The pro forma adjustment to the income tax provision represents the tax effect of adjustments to earnings (loss) from continuing operations before provision for income taxes related to the increased amortization and depreciation expense resulting from fair value adjustments for acquired intangible assets and property and equipment and additional interest expense related to borrowings under the Senior Secured Credit Facility and Term Loan to finance the merger. CDI has assumed a 36.50% blended income tax rate representing the estimated combined U.S. federal and state statutory rates in effect during the periods for which pro forma condensed combined statements of comprehensive income have been presented.

(G) The pro forma adjustment reflects the issuance of 157,115 shares on the closing date for 10% of the purchase price payable to the Founder.