

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

FORM 10-Q

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2022
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission File Number: 001-39497

UNITY SOFTWARE INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

27-0334803
(I.R.S. Employer
Identification No.)

30 3rd Street
San Francisco, California 94103-3104
(Address, including zip code, of principal executive
offices)
(415) 539-3162
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.000005 par value	U	The New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 2, 2022, there were 300,746,859 shares of the registrant's common stock outstanding.



UNITY SOFTWARE INC.
FORM 10-Q
For the Quarter Ended September 30, 2022
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NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTOR SUMMARY

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical fact, including statements regarding our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “toward,” “will,” “would,” or the negative of these words or other similar terms or expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectations regarding our financial performance, including revenue, cost of revenue, gross profit or gross margin, operating expenses, key metrics, and our ability to achieve or maintain future profitability;
- our ability to effectively manage our growth;
- anticipated trends, growth rates, and challenges in our business and in the markets in which we operate;
- our expectations regarding the demand for real-time 3D (“RT3D”) content in gaming and other industries and our ability to increase revenue from these industries;
- our expectations regarding the plans implemented or announced by Apple and Google with respect to access of advertising identifiers and related matters, and the potential impact on our financial performance;
- our ability to maintain and expand our relationships with strategic partners;
- our ability to continue to grow across all major global markets;
- our estimated market opportunity and the effects of increased competition in the markets in which we operate or may enter, including by developing new products, features, and use cases;
- our ability to identify, complete, and integrate acquisitions and mergers, like ironSource, that complement and expand the functionality of our platform;
- our plans with respect to our stock repurchase program; and
- the effects of industry trends and macroeconomic conditions, such as inflation and the COVID-19 pandemic.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, and operating results. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified, under “Part II—Other Information, Item 1A. Risk Factors” and summarized below.

- We have a history of losses and may not achieve or sustain profitability in the future.

- We have a limited history operating our business at its current scale, and as a result, our past results may not be indicative of future operating performance.
- Our core value of putting our users first may cause us to forgo short-term gains and may not lead to the long-term benefits we expect.
- Our business and operations have experienced recent rapid growth, which may not be indicative of our future growth. Our rapid growth also makes it difficult to evaluate our future prospects.
- If we are unable to retain our existing customers and expand their use of our platform, our growth and operating results could be adversely affected, and we may be required to reconsider our growth strategy.
- If we are unable to attract new customers, our business, financial condition and results of operations will be adversely affected.
- We derive a significant portion of our revenue from our Operate Solutions. If we fail to attract and retain Operate Solutions customers, our business and results of operations would be adversely affected.
- Operating system platform providers or application stores may change terms of service, policies or technical requirements to require us or our customers to change data collection and privacy practices, business models, operations, practices, advertising activities or application content, which could adversely impact our business.
- If we are unable to further expand into new industries, or if our solutions for any new industry fail to achieve market acceptance, our growth and operating results could be adversely affected, and we may be required to reconsider our growth strategy.
- Our business relies in part on strategic relationships with hardware, operating system, device, game console and other technology providers. If we are unable to maintain favorable terms and conditions and business relations with respect to our strategic relationships, our business could be harmed.
- If we do not make our platform, including new versions or technology advancements, easier to use or properly train customers on how to use our platform, our ability to broaden the appeal of our platform and solutions and to increase our revenue could suffer.
- Interruptions, performance problems, or defects associated with our platform may adversely affect our business, financial condition, and results of operations.
- The markets in which we participate are competitive, and if we do not compete effectively, our business, financial condition, and results of operations could be harmed.

Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements. In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q. While we believe such information provides a reasonable basis for these statements, such information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information, actual results, revised expectations, or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments.

Additional Information

Unless the context otherwise requires, all references in this Quarterly Report on Form 10-Q to "we," "us," "our," "our company," "Unity," and "Unity Technologies" refer to Unity Software Inc. and its consolidated subsidiaries. The Unity design logos, "Unity" and our other registered or common law trademarks, service marks, or trade names appearing in this Quarterly Report on Form 10-Q are the property of Unity Software Inc. or its affiliates. Other trade names, trademarks, and service marks used in this Quarterly Report on Form 10-Q are the property of their respective owners.

Investors and others should note that we may announce material business and financial information using our investor relations website (www.investors.unity.com), our filings with the Securities and Exchange Commission, press releases, public conference calls, and public webcasts as means of complying with our disclosure obligations under Regulation FD. We encourage investors and others interested in our company to review the information that we make available.

PART I—FINANCIAL INFORMATION**Item 1. Financial Statements**

UNITY SOFTWARE INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	As of	
	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,239,337	\$ 1,055,776
Marketable securities	446,766	681,323
Accounts receivable, net	316,337	340,491
Prepaid expenses and other	81,960	73,520
Total current assets	2,084,400	2,151,110
Property and equipment, net	112,458	106,106
Goodwill	1,657,863	1,620,127
Intangible assets, net	724,926	814,386
Other assets	147,514	149,617
Total assets	<u>\$ 4,727,161</u>	<u>\$ 4,841,346</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 14,182	\$ 14,009
Accrued expenses and other	221,931	233,976
Publisher payables	172,646	237,637
Deferred revenue	202,984	140,528
Total current liabilities	611,743	626,150
Convertible notes	1,706,403	1,703,035
Long-term deferred revenue	118,170	15,945
Other long-term liabilities	88,159	101,825
Total liabilities	2,524,475	2,446,955
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$0.000005 par value:		
Authorized shares - 1,000,000 and 1,000,000		
Issued and outstanding shares - 300,588 and 292,592	2	2
Additional paid-in capital	4,179,621	3,729,874
Accumulated other comprehensive loss	(13,576)	(3,858)
Accumulated deficit	(1,963,361)	(1,331,627)
Total stockholders' equity	2,202,686	2,394,391
Total liabilities and stockholders' equity	<u>\$ 4,727,161</u>	<u>\$ 4,841,346</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

UNITY SOFTWARE INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 322,881	\$ 286,328	\$ 940,050	\$ 794,662
Cost of revenue	111,903	63,517	302,572	179,976
Gross profit	210,978	222,811	637,478	614,686
Operating expenses				
Research and development	248,380	178,413	685,380	486,644
Sales and marketing	109,639	97,425	314,486	242,106
General and administrative	92,585	73,723	246,065	272,772
Total operating expenses	450,604	349,561	1,245,931	1,001,522
Loss from operations	(239,626)	(126,750)	(608,453)	(386,836)
Interest expense	(1,135)	—	(3,369)	(600)
Interest income and other expense, net	2,208	(64)	91	1,571
Loss before income taxes	(238,553)	(126,814)	(611,731)	(385,865)
Provision for (benefit from) Income taxes	11,468	(11,662)	20,003	(14,911)
Net loss	(250,021)	(115,152)	(631,734)	(370,954)
Basic and diluted net loss per share	\$ (0.84)	\$ (0.41)	\$ (2.13)	\$ (1.32)
Weighted-average shares used in computation of basic and diluted net loss per share	299,062	283,714	296,768	280,080

See accompanying Notes to Condensed Consolidated Financial Statements.

UNITY SOFTWARE INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	\$ (250,021)	\$ (115,152)	\$ (631,734)	\$ (370,954)
Other comprehensive loss, net of taxes:				
Change in foreign currency translation adjustment	(3,858)	(9)	(4,205)	41
Change in unrealized losses on marketable securities	206	72	(5,513)	(34)
Other comprehensive income (loss)	(3,652)	63	(9,718)	7
Comprehensive loss	<u>(253,673)</u>	<u>(115,089)</u>	<u>(641,452)</u>	<u>(370,947)</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

UNITY SOFTWARE INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

Three Months Ended September 30, 2022						
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at June 30, 2022	298,027,552	\$ 2	\$ 4,005,333	\$ (9,924)	\$ (1,713,340)	\$ 2,282,071
Issuance of common stock from employee equity plans	857,179	—	18,766	—	—	18,766
Issuance of common stock for settlement of RSUs	1,703,186	—	—	—	—	—
Stock-based compensation expense	—	—	154,479	—	—	154,479
Net loss	—	—	1,043	—	(250,021)	(248,978)
Other comprehensive loss	—	—	—	(3,652)	—	(3,652)
Balance at September 30, 2022	<u>300,587,917</u>	<u>\$ 2</u>	<u>\$ 4,179,621</u>	<u>\$ (13,576)</u>	<u>\$ (1,963,361)</u>	<u>\$ 2,202,686</u>

Three Months Ended September 30, 2021						
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at June 30, 2021	282,177,044	\$ 2	\$ 3,028,077	\$ (3,474)	\$ (1,054,822)	\$ 1,969,783
Issuance of common stock from employee equity plans	2,764,097	—	15,091	—	—	15,091
Issuance of common stock for settlement of RSUs	770,143	—	—	—	—	—
Stock-based compensation expense	—	—	97,317	—	—	97,317
Net loss	—	—	—	—	(115,152)	(115,152)
Other comprehensive income	—	—	—	63	—	63
Balance at September 30, 2021	<u>285,711,284</u>	<u>\$ 2</u>	<u>\$ 3,140,485</u>	<u>\$ (3,411)</u>	<u>\$ (1,169,974)</u>	<u>\$ 1,967,102</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

UNITY SOFTWARE INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY—
CONTINUED

(In thousands, except share data)
(Unaudited)

Nine Months Ended September 30, 2022						
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss		Total Stockholders' Equity
	Shares	Amount			Accumulated Deficit	
Balance at December 31, 2021	292,592,356	\$ 2	\$ 3,729,874	\$ (3,858)	\$ (1,331,627)	\$ 2,394,391
Issuance of common stock from employee equity plans	4,103,922	—	56,484	—	—	56,484
Issuance of common stock for settlement of RSUs	3,722,318	—	—	—	—	—
Common stock issued in connection with acquisitions	169,321	—	16,072	—	—	16,072
Stock-based compensation expense	—	—	376,148	—	—	376,148
Net loss	—	—	1,043	—	(631,734)	(630,691)
Other comprehensive loss	—	—	—	(9,718)	—	(9,718)
Balance at September 30, 2022	<u>300,587,917</u>	<u>\$ 2</u>	<u>\$ 4,179,621</u>	<u>\$ (13,576)</u>	<u>\$ (1,963,361)</u>	<u>\$ 2,202,686</u>

Nine Months Ended September 30, 2021						
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss		Total Stockholders' Equity
	Shares	Amount			Accumulated Deficit	
Balance at December 31, 2020	273,537,218	\$ 2	\$ 2,838,057	\$ (3,418)	\$ (797,498)	\$ 2,037,143
Cumulative effect of accounting change	—	—	—	—	(1,522)	(1,522)
Issuance of common stock from employee equity plans	9,596,079	—	53,150	—	—	53,150
Issuance of common stock for settlement of RSUs	2,577,987	—	—	—	—	—
Stock-based compensation expense	—	—	249,278	—	—	249,278
Net loss	—	—	—	—	(370,954)	(370,954)
Other comprehensive income	—	—	—	7	—	7
Balance at September 30, 2021	<u>285,711,284</u>	<u>\$ 2</u>	<u>\$ 3,140,485</u>	<u>\$ (3,411)</u>	<u>\$ (1,169,974)</u>	<u>\$ 1,967,102</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

UNITY SOFTWARE INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
Operating activities		
Net loss	\$ (631,734)	\$ (370,954)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	127,598	39,222
Stock-based compensation expense	376,148	249,278
Other	9,386	11,004
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	21,258	(26,336)
Prepaid expenses and other	(8,499)	(4,821)
Other assets	25,898	(16,713)
Accounts payable	974	(183)
Accrued expenses and other	(6,643)	39,443
Publisher payables	(64,991)	16,417
Other long-term liabilities	(27,506)	(18,072)
Deferred revenue	167,741	9,775
Net cash used in operating activities	(10,370)	(71,940)
Investing activities		
Purchases of marketable securities	(150,911)	(295,859)
Proceeds from principal repayments on marketable securities	58,883	14,853
Maturities of marketable securities	315,776	229,800
Purchases of non-marketable investments	(15,000)	(4,600)
Sales of non-marketable investments	1,000	—
Purchases of property and equipment	(42,344)	(27,959)
Business acquisitions, net of cash acquired, and other	(25,840)	(425,198)
Net cash provided by (used in) investing activities	141,564	(508,963)
Financing activities		
Proceeds from issuance of common stock from employee equity plans	56,484	53,150
Net cash provided by financing activities	56,484	53,150
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(4,185)	58
Increase (decrease) in cash, cash equivalents, and restricted cash	183,493	(527,695)
Cash and restricted cash, beginning of period	1,066,599	1,293,947
Cash, cash equivalents, and restricted cash, end of period	\$ 1,250,092	\$ 766,252
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ —	\$ 110
Cash paid for income taxes, net of refunds	\$ 21,818	\$ 6,889
Cash paid for operating leases	\$ 19,031	\$ 23,248
Supplemental disclosures of non-cash investing and financing activities:		
Accrued property and equipment	\$ 4,349	\$ 7,138
Assets acquired under operating lease	\$ 11,575	\$ 19,061

The below table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets to the total of the same amounts shown on the condensed consolidated statements of cash flows (in thousands):

	As of September 30,	
	2022	2021
Cash and cash equivalents	\$ 1,239,337	\$ 755,429
Restricted cash, included in other assets	10,755	10,823
Total cash, cash equivalents, and restricted cash	<u>\$ 1,250,092</u>	<u>\$ 766,252</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

UNITY SOFTWARE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Accounting Policies

Basis of Presentation and Consolidation

We prepared the accompanying unaudited condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. The condensed consolidated financial statements include the accounts of Unity Software Inc., its wholly owned subsidiaries, and entities consolidated under the voting interest model. We have eliminated all intercompany balances and transactions. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In our opinion, all adjustments, which include normal recurring adjustments necessary for a fair presentation, have been included. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year or other periods. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in our 2021 Annual Report on Form 10-K.

Beginning in the second quarter of 2022, we further condensed our Consolidated Balance Sheet and Statements of Cash Flows. Prior period amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on the previously reported total assets, liabilities, stockholders' equity, or net loss.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and such differences could be material to our financial position and results of operations.

2. Revenue

The following table presents our revenue disaggregated by source, which also have similar economic characteristics (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Create Solutions	\$ 128,629	\$ 83,743	\$ 365,918	\$ 226,744
Operate Solutions	171,699	185,021	514,218	514,515
Strategic Partnerships and Other	22,553	17,564	59,914	53,403
Total revenue	<u>\$ 322,881</u>	<u>\$ 286,328</u>	<u>\$ 940,050</u>	<u>\$ 794,662</u>

The following table presents our revenue disaggregated by geography, based on the invoice address of our customers (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
United States	\$ 80,272	\$ 68,668	\$ 223,986	\$ 188,240
Greater China ⁽¹⁾	44,341	43,717	130,471	122,157
EMEA ⁽²⁾	112,012	107,135	329,159	298,497
APAC ⁽³⁾	76,969	57,303	228,730	156,887
Other Americas ⁽⁴⁾	9,287	9,505	27,704	28,881
Total revenue	<u>\$ 322,881</u>	<u>\$ 286,328</u>	<u>\$ 940,050</u>	<u>\$ 794,662</u>

⁽¹⁾ Greater China includes China, Hong Kong, and Taiwan.

⁽²⁾ Europe, the Middle East, and Africa ("EMEA")

⁽³⁾ Asia-Pacific, excluding Greater China ("APAC")

⁽⁴⁾ Canada and Latin America ("Other Americas")

Accounts Receivable, Net

Accounts receivable are recorded at the original invoiced amount, net of allowances for uncollectible amounts. We estimate losses on uncollectible amounts based on expected losses, including our historical experience of actual losses. The estimated losses on uncollectible amounts are recorded in general and administrative expense on our condensed consolidated statement of operations. As of September 30, 2022 and December 31, 2021, the allowance for uncollectible amounts was \$6.7 million and \$5.4 million, respectively.

We record unbilled receivables within accounts receivable, net, when revenue is earned in advance of customer billing schedules. Unbilled receivables totaled \$30.5 million and \$28.3 million as of September 30, 2022 and December 31, 2021, respectively.

Sales Commissions

Sales commissions that have a benefit beyond one year are capitalized and amortized on a straight line method over the expected period of benefit, which is generally three years. As of September 30, 2022, capitalized commissions, net of amortization, included in prepaid expenses and other and other assets were \$8.8 million and \$5.6 million, respectively. During the three and nine months ended September 30, 2022, we recorded amortization costs of \$2.4 million and \$6.9 million in sales and marketing expenses, as compared to \$1.6 million and \$3.8 million during the three and nine months ended September 30, 2021, respectively.

Contract Liabilities and Remaining Performance Obligations

Contract liabilities (deferred revenue) relate to payments received in advance of performance under the contract. Revenue recognized during the nine months ended September 30, 2022 that was included in the deferred revenue balances at January 1, 2022 was \$124.8 million.

Additionally, we have performance obligations associated with commitments in customer contracts to perform in the future that have not yet been recognized in our consolidated financial statements. For contracts with original terms that exceed one year, those commitments not yet recognized were \$580.7 million as of September 30, 2022 and relate primarily to Create Solutions subscriptions, Enterprise Support, and Strategic Partnerships. These commitments generally extend over the next 1 to 5 years and we expect to recognize approximately 40% of the balance as revenue over the next 12 months.

3. Financial Instruments

Restricted cash, cash equivalents, and marketable securities are recorded at fair value. Fair value is defined 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. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value.

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities.
- Level 2—Valuations based on quoted prices for similar assets and liabilities in active markets or inputs that are observable for the assets or liabilities, either directly or indirectly through market corroboration.
- Level 3—Valuations based on unobservable inputs reflecting our own assumptions used to measure assets and liabilities at fair value. These valuations require significant judgment.

The following table summarizes, by major security type, our restricted cash, cash equivalents, and marketable securities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in thousands):

	September 30, 2022				December 31, 2021
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Fair Value
Level 1:					
Restricted cash and cash equivalents:					
Restricted cash	\$ 10,755	\$ —	\$ —	\$ 10,755	\$ 10,823
Money market funds	163,683	—	—	163,683	73,138
Total restricted cash and cash equivalents	<u>\$ 174,438</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 174,438</u>	<u>\$ 83,961</u>
Level 2:					
Marketable securities:					
Commercial paper	\$ 96,383	\$ —	\$ —	\$ 96,383	\$ 59,792
Asset-backed securities	—	—	—	—	40,942
Corporate bonds	177,516	—	(3,675)	173,841	237,402
U.S. treasury securities	126,546	—	(1,896)	124,650	272,300
Supranational bonds	52,803	—	(911)	51,892	70,887
Total marketable securities	<u>\$ 453,248</u>	<u>\$ —</u>	<u>\$ (6,482)</u>	<u>\$ 446,766</u>	<u>\$ 681,323</u>

We did not recognize any credit losses related to our available-for-sale debt securities during the three and nine months ended September 30, 2022 and 2021.

The following table summarizes the amortized cost and fair value of our marketable securities as of September 30, 2022, by contractual years to maturity (in thousands):

	Amortized Cost	Fair Value
Due within one year	\$ 425,618	\$ 420,261
Due between one and two years	27,630	26,505
Total	<u>\$ 453,248</u>	<u>\$ 446,766</u>

There were no material realized or unrealized gains or losses, either individually or in the aggregate, during the three and nine months ended September 30, 2022 and 2021.

Nonrecurring Fair Value Measurements

We hold equity investments in certain unconsolidated entities without a readily determinable fair value. These strategic investments represent less than a 20% ownership interest in each of the entities, and we do not have significant influence over or control of the entities. We measure these investments at cost less any impairment, adjusted for observable price changes, if any. As of September 30, 2022, the equity investments totaled \$15.6 million.

4. Investment in Unity China

In August 2022, we formed a company in China ("Unity China") to perform research and development activities and to facilitate commercialization in the Greater China region. Upon formation, we agreed to sell to third-party investors an ownership interest of approximately 20.5% in Unity China that we valued at approximately \$100.0 million. As of September 30, 2022, shares in Unity China had been issued to the investors, but we had not yet received the cash consideration. Accordingly, the receivable associated with the outstanding shares are netted on our condensed consolidated balance sheet as of September 30, 2022. The results of Unity China for the three months ended September 30, 2022 were not material.

5. Acquisitions

Completed acquisition

MindKick, Inc.

On January 28, 2022, we completed the purchase of MindKick, Inc. ("MindKick") for a total purchase consideration of approximately \$46.6 million. This amount was payable in a combination of approximately \$26.7 million in cash and the issuance of 169,321 shares of common stock valued at approximately \$16.1 million. An additional 42,330 shares of common stock subject to a service-based vesting condition were granted to certain employees of Mindkick; these shares of common stock are accounted for outside of the business combination and will be recognized as post-combination expense. MindKick provides 2D game creation tools and game templates with the goal of providing consumers the ability to create, play, and share their own 2D games on mobile. Prior to the completion of the acquisition, we held a minority investment in MindKick that we accounted for using the equity method of accounting. In circumstances where a business combination is achieved in stages, previously-held equity interests are remeasured at fair value. The remeasured fair value assigned to the previously-held equity interest in MindKick of \$3.7 million approximates cost, and therefore, no gain or loss was recognized. The identifiable assets and liabilities acquired are primarily \$37.0 million in goodwill, \$7.5 million in intangible assets, \$2.8 million in cash, and (\$0.7 million) in other net assets and liabilities. The transaction costs associated with the acquisition are not material. The revenue and earnings of the acquired business have been included in our results since the acquisition date and are not material to our consolidated results.

Subsequent event acquisition

On November 7, 2022, we completed the acquisition of ironSource Ltd. ("ironSource"), a leading business platform for the app economy. The purchase consideration for this acquisition was approximately \$2.8 billion exchanged in shares of our common stock. In connection with the completion of the acquisition of ironSource on November 7, 2022, we completed the sale and issuance of \$1.0 billion in aggregate principal amount of our 2.0% convertible senior notes due in 2027 (the "2027 Notes") to Silver Lake Alpine II, L.P., Silver Lake Partners VI, L.P. and Sequoia Capital Fund, L.P., certain affiliates of members of our board of directors. The proceeds from the issuance and sale of the 2027 Notes are expected to be used to partially fund a plan to repurchase of up to \$2.5 billion of shares of our common stock pursuant to our previously announced stock repurchase program. The initial accounting for the acquisition has not yet been completed.

6. Leases

We have operating leases for offices, which have remaining lease terms of up to 9.3 years, some of which include options to extend the lease with renewal terms from one year to five years. Some leases include an option to terminate the lease for up to five years from the lease commencement date.

Components of lease expense were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease expense	\$ 6,550	\$ 7,285	\$ 22,334	\$ 21,993
Variable lease expense	1,292	1,173	4,130	3,619
Sublease income	—	(93)	—	(279)
Total lease expense	<u>\$ 7,842</u>	<u>\$ 8,365</u>	<u>\$ 26,464</u>	<u>\$ 25,333</u>

Supplemental balance sheet information related to leases was as follows (in thousands, except weighted-average figures):

	Classification	As of	
		September 30, 2022	December 31, 2021
Operating lease assets	Other assets	\$ 89,517	\$ 98,393
Current operating lease liabilities	Accrued expenses and other	\$ 23,582	\$ 23,729
Long-term operating lease liabilities	Other long-term liabilities	81,048	92,539
Total operating lease liabilities		<u>\$ 104,630</u>	<u>\$ 116,268</u>

As of September 30, 2022, our operating leases had a weighted-average remaining lease term of 5.5 years and a weighted-average discount rate of 4.3%.

As of September 30, 2022, our lease liabilities were as follows (in thousands):

	Operating Leases ⁽¹⁾
Gross lease liabilities	117,624
Less: imputed interest	(12,994)
Present value of lease liabilities	<u>\$ 104,630</u>

⁽¹⁾ Excludes future minimum payments for leases which have not yet commenced as of September 30, 2022.

As of September 30, 2022, we had entered into leases that have not yet commenced with future minimum lease payments of \$47.2 million that are not yet reflected on our condensed consolidated balance sheet. These operating leases will commence in 2022 and 2023 with lease terms of 3.3 to 10.3 years.

7. Borrowings

Convertible Notes

In November 2021, we issued an aggregate of \$1.7 billion principal amount of 0% Convertible Senior Notes due 2026 (the "2026 Notes"). Proceeds from the issuance of the 2026 Notes were \$1.7 billion, net of debt issuance costs and cash used to purchase the capped call transactions ("Capped Call Transactions") discussed below. The debt issuance costs are amortized to interest expense using the straight-line method, which approximates the effective interest method.

The 2026 Notes are general unsecured obligations which do not bear regular interest and for which the principal balance will not accrete. We may elect for special interest to accrue on the 2026 Notes as the sole remedy for any failure by us to comply with certain reporting requirements for the first 365 days after the occurrence of such failure pursuant to an indenture dated as of November 19, 2021 (the "Indenture"). Holders of the 2026 Notes may receive special interest under specified circumstances as outlined in the Indenture. Special interest will accrue for any failure by us to comply with certain reporting requirements during the six-month period beginning on, and including, the date that is six months after the last date of original issuance of the 2026 Notes. Special interest will also accrue if, and for so long as: the restrictive legend on the 2026 Notes has not been removed, the 2026 Notes are assigned a restricted CUSIP number or the 2026 Notes are not otherwise freely tradeable by holders other than our affiliates as of the de-legending deadline date set forth in the Indenture, until the restrictive legend has been removed from the 2026 Notes, the 2026 Notes are assigned an unrestricted CUSIP number and the 2026 Notes are freely tradable. Special interest, if any, will be payable semiannually in arrears on November 15 and May 15 of each year, which began on May 15, 2022 (if and to the extent that special interest is then payable on the 2026 Notes). The 2026 Notes will mature on November 15, 2026 unless earlier converted, redeemed, or repurchased.

The 2026 Notes are convertible into cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election, at an initial conversion rate of 3.2392 shares of common stock per \$1,000 principal amount of 2026 Notes, which is equivalent to an initial conversion price of approximately \$308.72 per share of our common stock. The conversion rate is subject to customary adjustments for certain events as described in the Indenture governing the 2026 Notes.

We may not redeem the 2026 Notes prior to November 20, 2024. We may redeem for cash all or any portion of the 2026 Notes, at our option, on or after November 20, 2024 if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during a 30-trading day window (including the last day of such period). On any such date, the redemption price shall equal 100% of the principal amount of the 2026 Notes to be redeemed, plus accrued and unpaid special interest, if any. If we redeem less than all the outstanding 2026 Notes, at least \$150.0 million aggregate principal amount of 2026 Notes must be outstanding and not subject to redemption as of, and after giving effect to, delivery of the relevant notice of redemption. No sinking fund is provided for the convertible notes, which means that we are not required to redeem or retire them periodically.

Holders of the 2026 Notes may convert all or a portion of their 2026 Notes at their option at any time prior to the close of business on the business day prior to August 15, 2026, in multiples of \$1,000 principal amounts, only under the following circumstances:

- during any calendar quarter if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30-trading day window is greater than or equal to 130% of the applicable conversion price of the 2026 Notes on each such trading day;
- during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount of the 2026 Notes for each trading day of that ten consecutive trading day period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate of the 2026 Notes on each such trading day;
- if we call such 2026 Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date, but only with respect to the 2026 Notes called (or deemed called) for redemption; or
- on the occurrence of specified corporate events set forth in the Indenture.

On or after August 15, 2026, the 2026 Notes are convertible at any time until the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing circumstances.

In connection with a make-whole fundamental change, as defined in the Indenture, or in connection with certain corporate events that occur prior to the maturity date or following our issuance of a notice of redemption, in each case as described in the Indenture, we will increase the conversion rate for a holder of the 2026 Notes who elects to convert its 2026 Notes in connection with such a corporate event or during the related redemption period in certain circumstances. Additionally, in the event of a fundamental change, subject to certain limitations described in the Indenture, holders of the 2026 Notes may require us to repurchase all or a portion of the 2026 Notes at a price equal to 100% of the principal amount of 2026 Notes to be repurchased, plus any accrued and unpaid special interest, if any.

We accounted for the issuance of the 2026 Notes as a single liability measured at its amortized cost, as no other embedded features require bifurcation and recognition as derivatives.

	As of
	September 30, 2022
Convertible note:	
Principal	\$ 1,725,000
Unamortized debt issuance cost	(18,597)
Net carrying amount	<u>\$ 1,706,403</u>

Interest expense related to the amortization of debt issuance costs was \$1.1 million and \$3.4 million for the three and nine months ended September 30, 2022, respectively.

As of September 30, 2022, the if-converted value of the 2026 Notes did not exceed the principal amount. The sale price for conversion was not satisfied and the 2026 Notes were not eligible for conversion as of September 30, 2022.

Capped Call Transactions

In connection with the pricing of the 2026 Notes, we entered into the Capped Call Transactions with certain counterparties at a net cost of \$48.1 million with call options totaling approximately 5.6 million of our common shares, and expiration dates beginning on September 18, 2026 and ending on November 12, 2026. The strike price of the Capped Call Transactions is \$308.72, and the cap price is initially \$343.02 per share of our common stock and is subject to certain adjustments under the terms of the Capped Call Transactions. The Capped Call Transactions are freestanding and are considered separately exercisable from the 2026 Notes.

The Capped Call Transactions are intended to reduce potential dilution to our common stock upon any conversion of the 2026 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2026 Notes, as the case may be, with such reduction and/or offset subject to a cap based on the cap price described above. The cost of the Capped Call Transactions was recorded as a reduction of our additional paid-in capital on our consolidated balance sheets. The Capped Call Transactions will not be remeasured as long as they continue to meet the conditions for equity classification. As of September 30, 2022, the Capped Call Transactions were not in the money.

8. Commitments and Contingencies

The following table summarizes our contractual commitments as of September 30, 2022 (in thousands):

	Total	Remainder of 2022	2023-2024	2025-2026	Thereafter
Operating leases ⁽¹⁾	\$ 117,624	\$ 7,189	\$ 50,310	\$ 29,216	\$ 30,909
Purchase commitments ⁽²⁾	892,719	43,343	403,498	416,453	29,425
Convertible notes ⁽³⁾	1,725,000	—	—	1,725,000	—
Total	<u>\$ 2,735,343</u>	<u>\$ 50,532</u>	<u>\$ 453,808</u>	<u>\$ 2,170,669</u>	<u>\$ 60,334</u>

⁽¹⁾ The operating lease obligations consist of obligations for real estate.

⁽²⁾ The substantial majority of our purchase commitments are related to agreements with our data center hosting providers..

⁽³⁾ Convertible notes due 2026. See Note 7, "Borrowings," of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion.

We expect to meet our remaining commitments.

Legal Matters

In the normal course of business, we are subject to various legal matters. We accrue a liability when management believes both that it is probable that a liability has been incurred and that the amount of loss can be reasonably estimated. We also disclose material contingencies when we believe a loss is not probable but reasonably possible. Legal costs related to such potential losses are expensed as incurred. In addition, recoveries are shown as a reduction in legal costs in the period in which they are realized. With respect to our outstanding matters, based on our current knowledge, we believe that the resolution of such matters will not, either individually or in aggregate, have a material adverse effect on our business or our consolidated financial statements. However, litigation is inherently uncertain, and the outcome of these matters cannot be predicted with certainty. Accordingly, cash flows or results of operations could be materially affected in any particular period by the resolution of one or more of these matters.

We are currently subject to a putative class action complaint, which we believe is without merit and intend to vigorously defend against. See "Part II—Other Information, Item 1. Legal Proceedings" for additional information regarding the class action complaint.

Indemnifications

In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, investors, directors, officers, employees and other parties with respect to certain matters. Indemnification may include losses from our breach of such agreements, services we provide, or third-party intellectual property infringement claims. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future indemnification payments may not be subject to a cap. As of September 30, 2022, there were no known events or circumstances that have resulted in a material indemnification liability to us and we did not incur material costs to defend lawsuits or settle claims related to these indemnifications.

Letters of Credit

We had \$10.8 million of secured letters of credit outstanding as of September 30, 2022 and December 31, 2021. These primarily relate to our office space leases and are fully collateralized by certificates of deposit which we record in restricted cash on our condensed consolidated balance sheets.

9. Stock-Based Compensation

We recorded stock-based compensation expense related to grants to employees on our condensed consolidated statements of operations as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	\$ 18,097	\$ 7,780	\$ 38,768	\$ 18,237
Research and development	81,490	49,169	196,853	114,046
Sales and marketing	31,381	22,168	80,340	48,728
General and administrative	23,511	18,200	60,187	68,267
Total stock-based compensation expense	<u>\$ 154,479</u>	<u>\$ 97,317</u>	<u>\$ 376,148</u>	<u>\$ 249,278</u>

Stock Options

A summary of our stock option activity under the 2009 Stock Plan, 2019 Stock Plan, and 2020 Equity Incentive Plan (the "2020 Plan") is as follows:

	Options Outstanding		
	Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)
Balance as of December 31, 2021	29,226,041	\$ 13.28	6.26
Granted	1,821,700	\$ 70.18	
Exercised	(3,496,913)	\$ 6.63	
Forfeited, cancelled, or expired	(728,531)	\$ 35.85	
Balance as of September 30, 2022	26,822,297	\$ 17.41	5.78

The calculated grant-date fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Expected dividend yield	—	—	—	—
Risk-free interest rate	3.3%	1.0%	1.7% - 3.3%	0.9% - 1.2%
Expected volatility	33.5%	32.9%	33.3% - 33.8%	32.9% - 36.2%
Expected term (in years)	6.25	6.25	6.25	6.25
Fair value of underlying common stock	\$42.72	\$126.50	\$38.47 - \$89.01	\$100.60 - \$126.50

Restricted Stock Units

A summary of our RSU activity under the 2019 Stock Plan and 2020 Plan is as follows:

	Unvested RSUs	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2021	13,696,836	\$ 85.96
Granted	21,854,987	\$ 45.81
Vested	(3,725,339)	\$ 76.98
Forfeited	(1,883,106)	\$ 76.91
Unvested as of September 30, 2022	29,943,378	\$ 58.34

Employee Stock Purchase Plan

In determining the fair value of the shares subject to our Employee Stock Purchase Plan (the "ESPP"), we use the Black-Scholes option pricing model that employs the following weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Expected dividend yield	—	—	—	—
Risk-free interest rate	3.3%	0.1%	0.6% - 3.3%	0.1%
Expected volatility	35.5%	27.2%	35.5% - 40.0%	27.2%
Expected term (in years)	0.50	0.50	0.50	0.50
Estimated fair value	\$10.51	\$28.64	\$10.51 - \$27.42	\$28.64

Additional information related to the ESPP is provided below (in thousands, except per share amounts):

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Share issued under the ESPP	399,023	607,009
Weighted-average price per share issued	\$36.31	\$54.87

No shares were issued under the ESPP during the three and nine months ended September 30, 2021.

10. Income Taxes

Our tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, we update the estimated annual effective tax rate and make a year-to-date adjustment to the provision. The estimated annual effective tax rate is subject to volatility due to several factors, including variability in accurately predicting our pre-tax income or loss and the mix of jurisdictions to which they relate, intercompany transactions, changes in how we do business, and tax law developments.

Our effective tax rate for the three and nine months ended September 30, 2022 differs from the U.S. federal statutory tax rate of 21% primarily due to the base-erosion and anti-abuse tax ("BEAT") mainly arising as a result of mandatory research and development capitalization under the IRC Section 174, losses that cannot be benefited due to the valuation allowance on U.S., Denmark, and United Kingdom ("U.K.") entities, and to a lesser extent, foreign earnings taxed at different tax rates. Our effective tax rate for the three and nine months ended September 30, 2021 differs from the U.S. federal statutory tax rate of 21% primarily due to foreign earnings taxed at different tax rates, credits and losses that cannot be benefited due to the valuation allowance on U.S. and Denmark entities, the tax benefit from stock-based compensation activities during the period, and an income tax benefit recognized in the quarter as a result of a partial release of a valuation allowance against our U.S. deferred tax assets in connection with business combinations.

The realization of deferred tax assets is dependent upon the generation of sufficient taxable income of the appropriate character in future periods. We regularly assess the ability to realize our deferred tax assets and establish a valuation allowance if it is more-likely-than-not that some portion of the deferred tax assets will not be realized. In performing this assessment with respect to each jurisdiction, we review all available positive and negative evidence. Primarily due to our history of losses, we believe that it is more likely than not that the deferred tax assets of our U.S. federal, certain state, Denmark, U.K., and certain non-U.S. jurisdictions will not be realized and as such, we have maintained a full valuation allowance against such deferred tax assets.

As of September 30, 2022, we had \$144.5 million of gross unrecognized tax benefits, of which \$12.7 million would impact the effective tax rate, if recognized. It is reasonably possible that the amount of unrecognized tax benefits as of September 30, 2022 could increase or decrease significantly as the timing of the resolution, settlement, and closure of audits is highly uncertain. However, we believe that it is reasonably possible the amount of unrecognized tax benefits could decrease by \$1.1 million in the next 12 months due to the lapse of statutes of limitation. We believe that we have adequately provided for any reasonably foreseeable outcome related to our tax audits and that any settlement will not have a material impact on our financial condition and operating results at this time.

On August 16, 2022, the Inflation Reduction Act (the "IRA") was signed into law. The IRA contains a number of tax related provisions including a 15% minimum corporate income tax on certain large corporations as well as an excise tax on stock repurchases. Both provisions are effective for tax years beginning after December 31, 2022 and, therefore, will not impact our 2022 financial statements.

11. Net Loss per Share of Common Stock

Basic and diluted net loss per share is the same for all periods presented because the effects of potentially dilutive items were antidilutive given our net loss in each period.

The following table presents potentially dilutive items excluded from the computation of diluted net loss per share for the following periods (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Convertible notes	45,951	—	12,441	—
Stock options	26,822	31,396	26,822	31,396
Unvested RSUs	29,943	14,581	29,943	14,581

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Please read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes included under Part I, Item 1 of this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Forward-looking statements are statements that attempt to forecast or anticipate future developments in our business, financial condition or results of operations. When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that could impact our business. In particular, we encourage you to review the risks and uncertainties described in "Part II—Other Information, Item 1A. Risk Factors" included elsewhere in this report. These risks and uncertainties could cause actual results to differ materially from those projected in forward-looking statements contained in this report or implied by past results and trends. Forward-looking statements, like all statements in this report, speak only as of their date (unless another date is indicated), and we undertake no obligation to update or revise these statements in light of future developments. See the section titled "Note Regarding Forward-Looking Statements" in this report.

Overview

Unity is the world's leading platform for creating and operating interactive, RT3D content.

Our platform provides a comprehensive set of software solutions to create, run, and monetize interactive, real-time 2D and 3D content for mobile phones, tablets, PCs, consoles, and augmented and virtual reality devices.

Our platform consists of two distinct, but connected and synergistic, sets of solutions: Create Solutions and Operate Solutions.

Impact of Macroeconomic Trends

Recent negative macroeconomic factors, such as inflation and corresponding higher interest rates, the strengthening of the U.S. dollar, and the softening of the advertising market could negatively impact our business, particularly our Operate Solutions. We are managing costs in light of these factors and continuing to monitor their potential direct and indirect impacts. The impact of these macroeconomic trends remains uncertain, and we cannot reasonably estimate the impact on our future results of operations, cash flows, or financial condition. For additional details, refer to the section titled "Risk Factors."

Key Metrics

As further discussed in Item 2 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K, we monitor the following key metrics to help us evaluate the health of our business, identify trends affecting our growth, formulate goals and objectives, and make strategic decisions.

Customers Contributing More Than \$100,000 of Revenue

We had 1,075 and 973 customers contributing more than \$100,000 of revenue in the trailing 12 months as of September 30, 2022 and 2021, respectively. While we continue to demonstrate our ability to grow our revenues with existing customers year over year, and our strong and growing penetration of larger enterprises, including AAA gaming studios and large organizations in industries beyond gaming, our rate of growth slowed due to challenges in Operate Solutions. While these customers represented the substantial majority of revenue for the nine months ended September 30, 2022 and 2021, respectively, no one customer accounted for more than 10% of our revenue for either period.

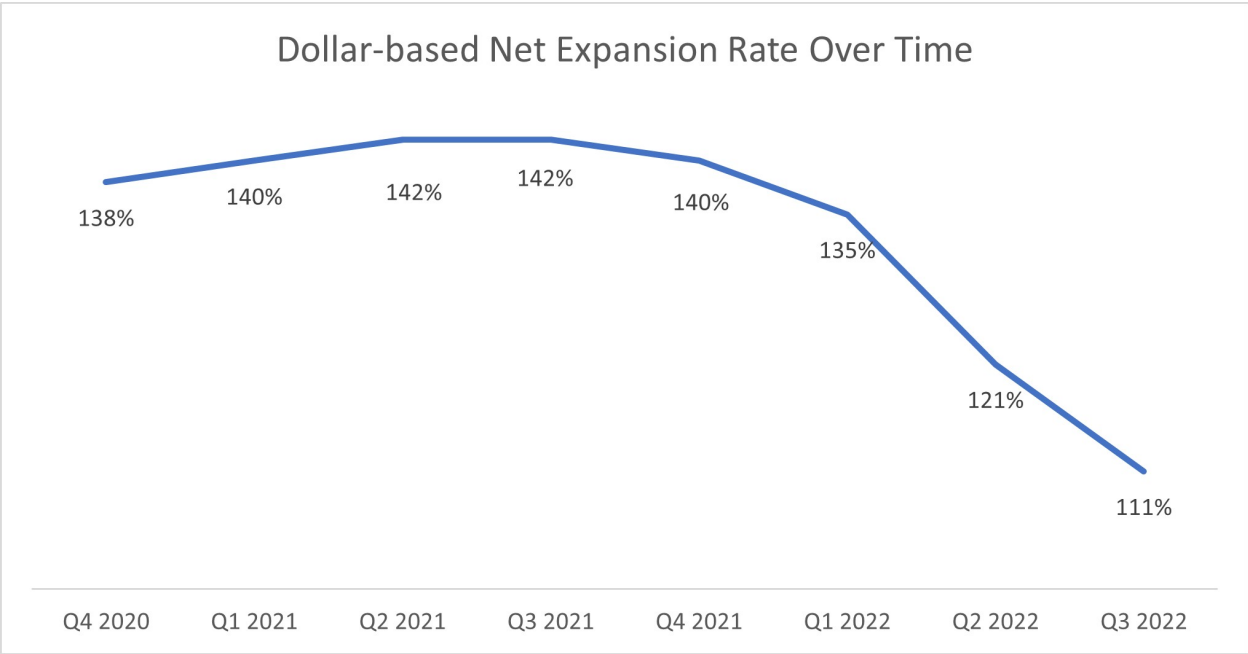
Dollar-Based Net Expansion Rate

Our ability to drive growth and generate incremental revenue depends, in part, on our ability to maintain and grow our relationships with our Create and Operate Solutions customers and to increase their use of our platform. We track our performance by measuring our dollar-based net expansion rate, which compares our Create and Operate Solutions revenue from the same set of customers across comparable periods, calculated on a trailing 12-month basis.

	As of	
	September 30, 2022	September 30, 2021
Dollar-based net expansion rate	111 %	142 %

Our dollar-based net expansion rate as of September 30, 2022 and 2021, was driven primarily by the sales of additional subscriptions and services to our existing Create Solutions customers, consumption among our existing Operate Solutions customers, and cross-selling our solutions to all of our customers. The decrease in dollar-based net expansion rate, compared to the comparable prior year period, is attributable to Operate Solutions and follows a similar trend to the revenue decrease seen from those solutions.

The chart below illustrates that our dollar-based net expansion rate has been declining over the last year. Despite this decline, we are still maintaining strong relationships with our existing customers.



Results of Operations

The following table summarizes our historical consolidated statements of operations data for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 322,881	\$ 286,328	\$ 940,050	\$ 794,662
Cost of revenue	111,903	63,517	302,572	179,976
Gross profit	210,978	222,811	637,478	614,686
Operating expenses				
Research and development	248,380	178,413	685,380	486,644
Sales and marketing	109,639	97,425	314,486	242,106
General and administrative	92,585	73,723	246,065	272,772
Total operating expenses	450,604	349,561	1,245,931	1,001,522
Loss from operations	(239,626)	(126,750)	(608,453)	(386,836)
Interest expense	(1,135)	—	(3,369)	(600)
Interest income and other expense, net	2,208	(64)	91	1,571
Loss before income taxes	(238,553)	(126,814)	(611,731)	(385,865)
Provision for (benefit from) income taxes	11,468	(11,662)	20,003	(14,911)
Net loss	(250,021)	(115,152)	(631,734)	(370,954)

The following table sets forth the components of our condensed consolidated statements of operations data as a percentage of revenue for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	35	22	32	23
Gross margin	65	78	68	77
Operating expenses				
Research and development	77	62	73	61
Sales and marketing	34	34	33	30
General and administrative	29	26	26	34
Total operating expenses	140	122	132	125
Loss from operations	(74)	(44)	(65)	(49)
Interest expense	—	—	—	—
Interest income and other expense, net	1	—	—	—
Loss before income taxes	(73)	(44)	(65)	(49)
Provision for (benefit from) income taxes	4	(4)	2	(2)
Net loss	(77)%	(40)%	(67)%	(47)%

Revenue

We derive revenue from Create Solutions, Operate Solutions, and Strategic Partnerships and Other.

Create Solutions

We generate Create Solutions revenue primarily through the sale of subscription arrangements for the use of our products and related support services.

We offer subscription plans at various price points and recognize revenue over a service period that generally ranges from one to three years. We typically bill our customers on a monthly, quarterly or annual basis, depending on the size of the contract.

We generate additional Create Solutions revenue from the sale of professional services to our subscription customers. These services primarily consist of consulting, integration, training and custom application and workflow development, and may be billed in advance or on a time and materials basis. We generate Create revenue from a mix of customers both within and outside of gaming, with an increasing proportion generated from customers outside of gaming.

Operate Solutions

We generate Operate Solutions revenue through a combination of revenue-share and consumption-based business models that we manage as a portfolio of products and services.

Our monetization products are primarily based on a revenue-share model and account for a majority of our Operate Solutions revenue. We recognize monetization revenue when an end user installs an application after seeing an advertisement (contracted on a cost-per-install basis), and when an advertisement starts (contracted on a cost-per-impression basis). Our revenue represents the amount we retain from the transaction we facilitate through our Unified Auction, a real-time bidding exchange that gives our customers access to Unity's network of over 60+ diverse demand sources. Actions by operating system platform providers or application stores such as Apple or Google may affect the manner in which we or our customers collect, use and share data from end-user devices.

We also provide cloud-based services to support the ongoing operation of games and applications. These include application hosting services, as well as end-user engagement tools and voice chat services. These services are generally sold based on consumption and billed monthly in arrears. Some of our consumption-based contracts include a minimum fixed-fee consumption amount. We expect that our Operate Solutions beyond monetization, including cloud operations and hosting services, such as Multiplay, will grow as a percentage of our revenue as we further scale newer products and services for gaming customers as well as customers in other industries.

The results of our Operate Solutions were impacted by the data quality and accuracy challenges we initially observed in the first quarter of 2022. Our interventions to address these challenges through the third quarter of 2022 have been effective. However, external factors, including the competitive landscape, recent negative macroeconomic conditions, and the softening of the advertising market and reduced advertiser spend lead us to believe that the growth of our Operate Solutions revenue will be adversely impacted into 2023.

Strategic Partnerships and Other

We generate Strategic Partnerships revenue primarily from partnership contracts with hardware, operating system, device, game console, and other technology providers. Typically, we recognize revenue from these contracts as services are performed. In addition, certain partners pay us royalties based on the sales of applications sold on their platform that incorporate or use our customized software.

We generate Other revenue primarily from our share of sales from our Asset Store, a marketplace and scaled aggregator for software, content, and tools used in the creation of real-time interactive games and applications, and from our Verified Solutions Partners, which sell software and tools certified for quality and compatibility with our platform.

Our total revenue is summarized as follows (in thousands, except percentages):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Create Solutions	\$ 128,629	\$ 83,743	\$ 365,918	\$ 226,744
Operate Solutions	171,699	185,021	514,218	514,515
Strategic Partnerships and Other	22,553	17,564	59,914	53,403
Total revenue	<u>\$ 322,881</u>	<u>\$ 286,328</u>	<u>\$ 940,050</u>	<u>\$ 794,662</u>

The increase in total revenue in the three and nine months ended September 30, 2022, compared to the comparable prior year periods, was primarily due to an increase in new customers as well as growth among existing customers within Create Solutions. Revenue from Operate Solutions declined in the three and nine months ended September 30, 2022 as we recovered from the challenges with our Operate Solutions services observed in earlier quarters of 2022 and further adversely impacted by external factors, including the competitive landscape, negative macroeconomic conditions, and reduced advertiser spend.

Cost of Revenue, Gross Profit, and Gross Margin

Cost of revenue consists primarily of hosting expenses, personnel costs (including salaries, benefits, and stock-based compensation) for employees associated with our product support and professional services organizations, allocated overhead (including facilities, information technology ("IT"), and security costs), third-party license fees, and credit card fees, as well as amortization of related capitalized software and depreciation of related property and equipment.

Gross profit, or revenue less cost of revenue, has been and will continue to be affected by various factors, including our product mix, the costs associated with third-party hosting services, and the extent to which we expand and drive efficiencies in our hosting costs, professional services, and customer support organizations. We expect our gross profit to increase in absolute dollars in the long term, but we expect our gross profit as a percentage of revenue, or gross margin, to fluctuate from period to period.

Cost of revenue for the three and nine months ended September 30, 2022 increased, compared to the comparable prior year periods, primarily due to higher personnel-related expenses associated with increased headcount, as well as an increase of \$7.7 million and \$22.9 million, respectively, in amortization expenses related to intangible assets acquired through our business acquisitions and an increase of \$8.8 million and \$23.0 million, respectively, related to professional service fees.

Gross profit for the three months ended September 30, 2022 decreased, compared to the comparable prior year period, primarily due the decline in Operate Solutions revenue, the aforementioned expense increases in cost of revenue, and a shift in revenue mix to lower margin services. Gross profit for the nine months ended September 30, 2022 increased, compared to the comparable prior year period, primarily due to an increase in revenue in our Create Solutions.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. The most significant component of our operating expenses is personnel-related costs, including salaries and wages, sales commissions, bonuses, benefits, stock-based compensation, and payroll taxes. Although personnel-related costs contributed to the majority of the increase in expense period over period, we are slowing down our hiring efforts and focusing on containing the growth rate of other expenses in an effort to manage costs in light of the worsening macroeconomic environment.

Research and Development

Research and development expenses primarily consist of personnel-related costs for the design and development of our platform, third-party software services, professional services, and allocated overhead. We expense research and development expenses as they are incurred. We expect our research and development expenses to increase in absolute dollars and may fluctuate as a percentage of revenue from period to period as we expand our teams to develop new products, expand features and functionality with existing products, and enter new markets.

Research and development expense for the three and nine months ended September 30, 2022 increased, compared to the comparable prior year periods, primarily due to higher personnel-related expenses as headcount increased to support continued product innovation, as well as an increase of \$14.5 million and \$44.6 million, respectively, in amortization expense related to intangible assets acquired through our business acquisitions. The increase in the nine months ended September 30, 2022, is further driven, to a lesser extent, by higher hosting expenses and travel and conference expenditures due to the softening of COVID-19 restrictions.

Sales and Marketing

Our sales and marketing expenses consist primarily of personnel-related costs, advertising and marketing programs, including digital account-based marketing, user events such as developer-centric conferences and our annual Unite user conferences; and allocated overhead. We expect that our sales and marketing expense will increase in absolute dollars as we hire additional personnel, increase our account-based marketing, direct marketing and community outreach activities, invest in additional tools and technologies, and continue to build brand awareness. Our expenses may fluctuate as a percentage of revenue from period to period.

Sales and marketing expense for the three and nine months ended September 30, 2022 increased, compared to the comparable prior year periods, primarily due to higher personnel-related expenses as headcount increased to support the growth of our sales and marketing teams, as well as an increase of \$4.1 million and \$15.5 million, respectively, in amortization expense related to intangible assets acquired through our business acquisitions. The increase in the nine months ended September 30, 2022 was further driven, to a lesser extent, by increased travel and conference expenditures due to the softening of COVID-19 restrictions.

General and Administrative

Our general and administrative expenses primarily consist of personnel-related costs for finance, legal, human resources, IT, and administrative employees; professional fees for external legal, accounting, and other professional services; and allocated overhead. We expect that our general and administrative expenses will increase in absolute dollars and may fluctuate as a percentage of revenue from period to period as we scale to support the growth of our business.

General and administrative expense for the three months ended September 30, 2022 increased, compared to the comparable prior year period, primarily due to higher personnel-related expenses as headcount increased, as well as an increase in expenses associated with the formation of Unity China and acquisition-related expenses.

General and administrative expense for the nine months ended September 30, 2022 decreased, compared to the comparable prior year period, primarily due to a one-time charge of \$49.8 million for the termination of a future lease contract and the incremental compensation expense of \$10.5 million associated with the separation of our former Chief Financial Officer recognized in the nine months ended September 30, 2021. The decrease was partially offset primarily by higher personnel-related expenses as headcount increased.

Interest Expense

Interest expense consists primarily of interest expense associated with our amortization of convertible debt issuance costs.

Interest expense for the three and nine months ended September 30, 2022 increased, compared to the comparable prior year periods, due to our debt issuance costs amortization.

Interest Income and Other Expense, Net

Interest income and other expense, net, consists primarily of interest income earned on our cash, cash equivalents, and marketable securities, amortization of premium arising at acquisition of marketable securities, foreign currency remeasurement gains and losses, and foreign currency transaction gains and losses. As we have expanded our global operations, our exposure to fluctuations in foreign currencies has increased, and we expect this to continue.

Interest income and other expense, net, for the three and nine months ended September 30, 2022 increased, compared to the comparable prior year periods, primarily due to interest income earned and amortization of premium related to our deposit accounts, time deposits, and investments.

Provision for (Benefit from) Income Taxes

Provision for income taxes consists primarily of income taxes in certain foreign jurisdictions where we conduct business. We have a valuation allowance against certain of our deferred tax assets, including net operating loss ("NOL") carryforwards and tax credits related primarily to research and development. Our overall effective income tax rate in future periods may be affected by the geographic mix of earnings in the countries in which we operate. Our future effective tax rate may also be affected by changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws, regulations, or accounting principles in the jurisdictions in which we conduct business. See Note 10, "Income Taxes," of the Notes to Condensed Consolidated Financial Statements.

Provision for income taxes for the three and nine months ended September 30, 2022 increased, compared to the comparable prior year periods, primarily due to the tax expense recognized as a result of a base-erosion and anti-abuse tax ("BEAT") mainly arising as a result of mandatory research and development capitalization under the IRC Section 174. Also, for the quarter ended September 30, 2021, a tax benefit from stock-based compensation activities in the U.K. was recognized, while for the period ended September 30, 2022 we maintained a valuation allowance against the deferred tax assets in the U.K. The quarter ended September 30, 2021 also included an income tax benefit recognized in the quarter as a result of a partial release of a valuation allowance against our U.S. deferred tax assets in connection with business combinations.

Non-GAAP Financial Measures

To supplement our consolidated financial statements prepared and presented in accordance with GAAP we use certain non-GAAP financial measures, as described below, to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe the following non-GAAP measures are useful in evaluating our operating performance. We are presenting these non-GAAP financial measures because we believe, when taken collectively, they may be helpful to investors because they provide consistency and comparability with past financial performance. In the future, we may also exclude non-recurring expenses and other expenses that do not reflect our overall operating results.

However, non-GAAP financial measures have limitations in their usefulness to investors because they have no standardized meaning prescribed by GAAP and are not prepared under any comprehensive set of accounting rules or principles. In addition, other companies, including companies in our industry, may calculate similarly-titled non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. As a result, our non-GAAP financial measures are presented for supplemental informational purposes only and should not be considered in isolation or as a substitute for our consolidated financial statements presented in accordance with GAAP.

Non-GAAP Gross Profit and Non-GAAP Loss from Operations

We define non-GAAP gross profit as gross profit excluding stock-based compensation expense, employer tax related to employee stock transactions, and amortization of acquired intangible assets expense. We define non-GAAP loss from operations as loss from operations excluding stock-based compensation expense, employer tax related to employee stock transactions, amortization of acquired intangible assets expense, costs incurred in connection with the formation of Unity China, and acquisition-related costs.

We use non-GAAP gross profit and non-GAAP loss from operations in conjunction with traditional GAAP measures to evaluate our financial performance. We believe that non-GAAP gross profit and non-GAAP loss from operations provide our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as these metrics exclude expenses that we do not consider to be indicative of our overall operating performance.

Non-GAAP gross profit and non-GAAP loss from operations have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- they exclude expense associated with our equity compensation plan, although equity compensation has been, and will continue to be, an important part of our compensation strategy;
- non-GAAP gross profit and non-GAAP loss from operations excludes the expense of amortization of acquired intangible assets, and although these are non-cash expenses, the assets being amortized may have to be replaced in the future and non-GAAP gross profit and non-GAAP loss from operations does not reflect cash expenditure for such replacements;
- non-GAAP loss from operations excludes costs incurred in connection with the formation of Unity China;
- non-GAAP loss from operations excludes costs incurred from our acquisitions; and
- the expenses and other items that we exclude in our calculation of non-GAAP gross profit and non-GAAP loss from operations may differ from the expenses and other items, if any, that other companies may exclude from this measure or similarly titled measures, which reduces their usefulness as comparative measures.

The following table presents a reconciliation of our non-GAAP gross profit to our GAAP gross profit, the most directly comparable measure as determined in accordance with GAAP, for the periods presented (in thousands):

	Three Months Ended	
	September 30,	
	2022	2021
GAAP gross profit	\$ 210,978	\$ 222,811
Add:		
Stock-based compensation expense	18,097	7,780
Employer tax related to employee stock transactions	655	975
Amortization of intangible assets expense	7,713	—
Non-GAAP gross profit	<u>\$ 237,443</u>	<u>\$ 231,566</u>
GAAP gross margin	65 %	78 %
Non-GAAP gross margin	74 %	81 %

The year-over-year change in non-GAAP gross margin was primarily due to product mix of revenues, including a lower mix from Operate, and an increase of personnel-related costs to support Weta Digital.

The following table presents a reconciliation of our non-GAAP loss from operations to our GAAP loss from operations, the most directly comparable measure as determined in accordance with GAAP, for the periods presented (in thousands):

	Three Months Ended	
	September 30,	
	2022	2021
GAAP loss from operations	\$ (239,626)	\$ (126,750)
Add:		
Stock-based compensation expense	154,479	97,317
Employer tax related to employee stock transactions	3,808	10,214
Amortization of intangible assets expense	33,419	7,144
Costs incurred in connection with the formation of Unity China	909	—
Acquisition-related costs	9,576	5,923
Non-GAAP loss from operations	<u>\$ (37,435)</u>	<u>\$ (6,152)</u>

The year-over-year change in our non-GAAP loss from operations was primarily due to the slower revenue growth, outpaced by our operating expenses, which were driven by an increase in headcount across the entire company to support investments in the business.

Non-GAAP Net Loss and Non-GAAP Net Loss per Share

We define non-GAAP net loss and non-GAAP net loss per share as net loss and net loss per share excluding stock-based compensation expense, employer tax related to employee stock transactions, amortization of acquired intangible assets expense, costs incurred in connection with the formation of Unity China, and acquisition-related costs as well as the related tax effects of these items. We use non-GAAP net loss and non-GAAP net loss per share in conjunction with traditional GAAP measures to evaluate our financial performance. We believe that these non-GAAP measures provide our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations.

Non-GAAP net loss and non-GAAP net loss per share have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- they exclude expense associated with our equity compensation plan, although equity compensation has been, and will continue to be, an important part of our compensation strategy;
- they exclude the expense of amortization of acquired intangible assets, and although these are non-cash expenses, the assets being amortized may have to be replaced in the future and non-GAAP loss from operations does not reflect cash expenditure for such replacements;
- they exclude the costs incurred in connection with the formation of Unity China;
- they exclude the costs incurred from our acquisitions;
- as further described below, we must make certain assumptions in order to determine the income tax effect adjustment for non-GAAP net loss, which assumptions may not prove to be accurate; and
- the expenses and other items that we exclude in our calculation of non-GAAP net loss and non-GAAP net loss per share may differ from the expenses and other items, if any, that other companies may exclude from this measure or similarly titled measures, which reduces their usefulness as comparative measures.

Income Tax Effects of Non-GAAP Adjustments

We utilize a fixed annual projected tax rate in our computation of non-GAAP income tax effects to provide better consistency across interim reporting periods. In projecting this non-GAAP tax rate, we utilize a financial projection that excludes the direct impact of the non-GAAP adjustments described above, and eliminates the effects of those items which can vary in size and frequency. The projected rate considers other factors such as our current operating structure, existing tax positions in various jurisdictions, and key legislation in major jurisdictions where we operate. For the year ended December 31, 2021, the non-GAAP tax rate was (22)%. For the year ending December 31, 2022, we have determined the projected non-GAAP tax rate to be (10)%. We will periodically re-evaluate this tax rate, as necessary, for significant events, relevant tax law changes, material changes in the forecasted geographic earnings mix, and any significant acquisitions.

The following table presents a reconciliation of our non-GAAP net loss and non-GAAP net loss per share to our GAAP net loss and GAAP net loss per share, respectively, which are the most directly comparable measures as determined in accordance with GAAP, for the periods presented (in thousands, except per share data):

	Three Months Ended	
	September 30,	
	2022	2021
GAAP net loss	\$ (250,021)	\$ (115,152)
Add:		
Stock-based compensation expense	154,479	97,317
Employer tax related to employee stock transactions	3,808	10,214
Amortization of intangible assets expense	33,419	7,144
Costs incurred in connection with the formation of Unity China	909	—
Acquisition-related costs	9,576	5,923
Income tax effect of non-GAAP adjustments	7,832	(13,030)
Non-GAAP net loss	<u>\$ (39,998)</u>	<u>\$ (7,584)</u>
GAAP net loss per share attributable to our common stockholders, basic and diluted	\$ (0.84)	\$ (0.41)
Total impact on net loss per share, basic and diluted, from non-GAAP adjustments	0.70	0.38
Non-GAAP net loss per share attributable to our common stockholders, basic and diluted	<u>\$ (0.14)</u>	<u>\$ (0.03)</u>
Weighted-average common shares used in GAAP net loss per share computation, basic and diluted	<u>299,062</u>	<u>283,714</u>
Weighted-average common shares used in non-GAAP net loss per share computation, basic and diluted	<u>299,062</u>	<u>283,714</u>

Free Cash Flow

We define free cash flow as net cash provided by (used in) operating activities less cash used for purchases of property and equipment. We believe that free cash flow is a useful indicator of liquidity as it measures our ability to generate cash, or our need to access additional sources of cash, to fund operations and investments.

Free cash flow has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- it is not a substitute for net cash provided by (used in) operating activities;
- other companies may calculate free cash flow or similarly titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of free cash flow as a tool for comparison; and
- the utility of free cash flow is further limited as it does not reflect our future contractual commitments and does not represent the total increase or decrease in our cash balance for any given period.

The following table presents a reconciliation of free cash flow to net cash provided by (used in) operating activities, the most directly comparable measure as determined in accordance with GAAP, for the periods presented (in thousands):

	Nine Months Ended September 30,	
	2022	2021
Net cash used in operating activities	\$ (10,370)	\$ (71,940)
Less:		
Purchases of property and equipment	(42,344)	(27,959)
Free cash flow	<u>\$ (52,714)</u>	<u>\$ (99,899)</u>
Net cash provided by (used in) investing activities	\$ 141,564	\$ (508,963)
Net cash provided by financing activities	\$ 56,484	\$ 53,150

The year-over-year change in free cash flow was primarily due to the receipt of four years of license fees of approximately \$200.0 million from Weta FX, which was connected to the acquisition of certain assets from Weta Digital, partially offset by the payment in 2022 of the corporate bonus for the year ended December 31, 2021, our net loss, prepayments of software licenses, and an increase in working capital as our business grows.

Liquidity and Capital Resources

As of September 30, 2022, our principal sources of liquidity were cash, cash equivalents, and marketable securities totaling \$1.7 billion, which were primarily held for working capital purposes. Our cash equivalents and marketable securities are invested primarily in fixed income securities, including government and investment-grade debt securities and money market funds.

Our material cash requirements from known contractual and other obligations consists of our convertible notes, obligations under operating leases for office space, and contractual obligations for hosting services to support our business operations. On November 7, 2022, we completed the acquisition of ironSource, Ltd. (the "ironSource Merger"). In connection with the ironSource Merger, we entered into an investment agreement with Silver Lake Alpine II, L.P., and Silver Lake Partners VI, L.P. and Sequoia Capital Fund, L.P. (the "Investors") relating to the issuance and sale to the Investors of \$1.0 billion in aggregate principal amount of our 2.0% Convertible Senior Notes due 2027 (the "2027 Notes"). The closing of the issuance and sale of the 2027 Notes (the "PIPE") occurred promptly following the closing of the ironSource Merger. The proceeds from the issuance and sale of the 2027 Notes are expected to be used to partially fund the repurchase of shares of our common stock pursuant to a 24-month, \$2.5 billion stock repurchase program authorized by our Board of Directors effective upon the closing of the ironSource Merger. We may repurchase shares at our discretion in the open market, pursuant to accelerated repurchase agreements and/or in accordance with Rule 10b-18 under the Exchange Act and all other applicable federal and state securities laws and regulations and in accordance with Delaware General Corporation Law. The program may be modified, suspended or discontinued at any time. The amount and timing of repurchases are subject to a variety of factors, including liquidity, cash flow, and market conditions.

Since our inception, we have generated losses from our operations and we expect to continue to incur operating losses on a GAAP basis for the foreseeable future due to the investments we will continue to make in research and development, sales and marketing, and general and administrative. As a result, we may require additional capital to execute our strategic initiatives to grow our business.

We believe our existing sources of liquidity will be sufficient to meet our working capital and capital expenditures for at least the next 12 months. We believe we will meet longer-term expected future cash requirements and obligations through a combination of cash flows from operating activities, available cash balances, and potential future equity or debt transactions. Our future capital requirements, however, will depend on many factors, including our growth rate; the timing and extent of spending to support our research and development efforts; capital expenditures to build out new facilities and purchase hardware and software; the expansion of sales and marketing activities; and our continued need to invest in our IT infrastructure to support our growth. In addition, we may enter into additional strategic partnerships as well as agreements to acquire or invest in complementary products, teams and technologies, including intellectual property rights, which could increase our cash requirements. As a result of these and other factors, we may choose or be required to seek additional equity or debt financing sooner than we currently anticipate. If additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital when required, or if we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, results of operations, and financial condition would be adversely affected.

Our changes in cash flows were as follows (in thousands):

	Nine Months Ended September 30,	
	2022	2021
Net cash used in operating activities	\$ (10,370)	\$ (71,940)
Net cash provided by (used in) investing activities	141,564	(508,963)
Net cash provided by financing activities	56,484	53,150
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(4,185)	58
Net change in cash, cash equivalents, and restricted cash	<u>\$ 183,493</u>	<u>\$ (527,695)</u>

Cash Used in Operating Activities

During the nine months ended September 30, 2022, net cash used in operating activities was primarily due to payment in 2022 of the corporate bonus for our fiscal year ended December 31, 2021, our net loss, prepayments of software licenses, and an increase in working capital as our business grows, partially offset by the receipt of the prepayment of four years of license fees connected to the acquisition of certain assets from Weta Digital. Our cash flows fluctuate from period to period due to revenue seasonality, timing of billings, collections, and publisher payments. Historical cash flows are not necessarily indicative of our results in any future period.

Cash Provided by Investing Activities

During the nine months ended September 30, 2022, net cash provided by investing activities consisted of net cash provided by marketable securities offset by cash used in acquisitions, non-marketable investments, and capital expenditures.

Cash Provided by Financing Activities

During the nine months ended September 30, 2022, net cash provided by financing activities consisted solely of proceeds from the issuance of common stock under our employee equity plans.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. These principles require us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. Our estimates are based on our historical experience and on various other assumptions that we believe are reasonable under the circumstances. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

There have been no material changes to our critical accounting policies and estimates from those disclosed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 22, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our assessment of our exposures to market risk has not changed materially since the presentation set forth in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 22, 2022.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management's evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officer and principal financial officer concluded that there has not been any material change in our internal control over financial reporting during the quarter covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

On July 6, 2022, a putative class action complaint, captioned *Das v. Unity Software, Inc., et al.*, Case 3:22-cv-03962 (N.D. Cal.), was filed against the Company and its Chief Executive Officer, current Chief Financial Officer, and former Chief Financial Officer, in the U.S. District Court for the Northern District of California. The complaint, which asserts claims under Sections 10(b) and 20(a) of the Exchange Act, alleges that the Company and its executives made false or misleading statements and/or failed to disclose issues with the Company's product platform and the likely impact of those issues on the Company's fiscal 2022 guidance. The plaintiff seeks to represent a class of all persons and entities (other than the defendants) who acquired Unity securities between March 5, 2021 and May 10, 2022, and requests unspecified damages, pre- and post-judgment interest, and an award of attorneys' fees and costs. The Company believes this lawsuit is without merit and intends to vigorously defend the case.

On August 8, 2022, a putative class action complaint, captioned *Assad v. Botha et al*, Case No. 2022-0691, was filed in the Court of Chancery against the Company and its board of directors. The complaint alleged that the directors breached their fiduciary duties by failing to disclose all material information necessary to allow stockholders to make a fully informed decision on whether to approve the issuance of new shares as a part of the Company's preliminary Form S-4 filed in connection with the Company's merger with ironSource Ltd. The plaintiff was a purported stockholder and sought to represent a class of stockholders voting in connection with the stock issuance. The complaint sought additional disclosure and an award of attorneys' fees, among other remedies. On September 21, 2022, the complaint was withdrawn.

In addition, from time to time, we may be subject to legal proceedings and claims arising in the ordinary course of business.

Item 1A. Risk Factors

Risks Related to Our Business, Operations, and Industry

We have a history of losses and may not achieve or sustain profitability in the future.

We have experienced significant net losses in each period since inception. While we have experienced significant revenue growth in recent periods, we have experienced a decline in our revenue growth rate and expect that this growth rate may continue to decline in future periods, and you should not rely on the revenue growth of any given prior period as an indication of our future performance. We are not certain whether we will be able to sustain or increase our revenue or whether or when we will attain sufficient revenue to achieve or maintain profitability in the future. We also expect our costs and expenses to increase in future periods, which could negatively affect our future results of operations if our revenue does not increase by amounts sufficient to offset such costs and expenses. In particular, we intend to continue to make significant investments to grow our business in such areas as:

- research and development, including investments in our engineering teams and in further differentiating our platform and solutions with improvements to our Create and Operate Solutions, as well as the development of new products and features, including in consumer markets and live sports and entertainment;
- our sales and marketing organizations to engage our existing and prospective customers, increase brand awareness and drive adoption and expansion of our platform and solutions;
- research and development and sales and marketing initiatives to grow our presence in new industries and use cases beyond the gaming industry;
- our technology infrastructure, including systems architecture, scalability, availability, performance, and security;
- acquisitions or strategic investments;

- global expansion; and
- our general and administration organization, including increased facilities expense as well as legal, IT, and accounting expenses associated with being a public company.

Our efforts to grow our business may be costlier than we expect and may not result in increased revenue. Even if such investments increase our revenue, any such increase may not be enough to offset our increased operating expenses. We may continue to incur significant losses in the future for a number of reasons, including the other risks described herein. If we are unable to maintain or increase our revenue at a rate sufficient to offset the expected increase in our costs, our business, financial position and results of operations will be harmed, and we may not be able to achieve or maintain profitability, which could cause the value of our business and common stock to significantly decrease.

We have a limited history operating our business at its current scale, and as a result, our past results may not be indicative of future operating performance.

In recent years, we have significantly grown the scale of our business, both organically and through acquisitions, including the ironSource Merger. Accordingly, we have a limited history operating our business at its current scale and scope. You should not rely on our past results of operations as indicators of future performance. You should consider and evaluate our prospects in light of the risks and uncertainties frequently encountered by growing companies in rapidly evolving markets. These risks and uncertainties include challenges in accurate financial planning as a result of limited historical data relevant to the current scale and scope of our business and the uncertainties resulting from having had a relatively limited time period in which to implement and evaluate our business strategies as compared to companies with longer operating histories.

Our core value of putting our users first may cause us to forgo short-term gains and may not lead to the long-term benefits we expect.

One of our core values is that our users come first in everything we do, which we believe is essential to our success in increasing our growth and engagement and in serving the best, long-term interests of our company and our stockholders. Therefore, we may forgo certain expansion or short-term revenue or cost-saving opportunities that we do not believe will enhance the experience of our users, even if our decision negatively impacts our operating results. We cannot assure you that our decisions will lead to the long-term benefits that we expect, in which case our business and operating results could be harmed.

Our business and operations have experienced recent rapid growth, which may not be indicative of our future growth. Our rapid growth also makes it difficult to evaluate our future prospects.

You should not rely on our growth in any prior period as an indication of our future performance, as we may not be able to sustain our growth rate in the future. For example, in the second and third quarters of 2022, our growth rate declined below our target long-term growth due to a variety of factors discussed throughout the document which could continue to impact our business, including the maturation of our business. Overall growth of our revenue depends on our ability to execute on our growth strategies. In addition, recent negative macroeconomic factors, such as inflation and corresponding higher interest rates, and the strengthening of the U.S. dollar, could negatively impact our business. In addition, the softening of the advertising market could negatively impact our business. The impact of these macroeconomic trends remains uncertain, and we cannot reasonably estimate the impact on our future results of operations, cash flows, or financial condition.

We may not successfully accomplish any of our objectives, and as a result, it is difficult for us to forecast our future results of operations. If the assumptions that we use to plan our business are incorrect or change in reaction to changes in our market, or if we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability. You should not rely on our results or growth for any prior quarterly or annual periods as any indication of our future results or growth.

In addition, we expect to continue to expend substantial financial and other resources to grow our business, and we may fail to allocate our resources in a manner that results in increased revenue or other growth in our business. If we are unable to maintain or increase our revenue at a rate sufficient to offset the expected increase in our costs, our business, financial position, and results of operations will be harmed, and we may not be able to achieve or maintain profitability over the long term. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays, and other unknown factors that may result in losses in future periods. If our growth does not meet our expectations in future periods, our business, financial position and results of operations may be harmed, and we may not achieve or maintain profitability in the future.

If we are unable to retain our existing customers and expand their use of our platform, our growth and operating results could be adversely affected, and we may be required to reconsider our growth strategy.

Our future success depends on our ability to retain our existing customers and expand their use of our platform. An important component of our strategy is to broaden our relationships with existing customers. However, our customers have no obligation to renew their subscriptions for our Create Solutions, which are primarily one to three years in length, after they expire, and have no obligation to continue using our Operate Solutions, which are primarily sold under revenue-share or consumption-based models.

For us to maintain or improve our results of operations, it is important that our Create Solutions customers renew and expand their subscriptions with us and that our Operate Solutions customers continue using and expanding their use of our products. We invest in targeted sales and account-based marketing efforts to identify opportunities to grow use of our solutions within and across multiple studios within a single customer. However, our efforts may not be successful despite the resources we devote to them. Even if one or several studios within a customer adopts our Create or Operate Solutions, other studios within that customer may choose to adopt different solutions or to continue to employ internally-developed solutions.

It is also important for us to cross-sell more Create Solutions to our Operate Solutions customers, as well as Operate Solutions to our Create Solutions customers. While we believe there are significant cross-selling opportunities between our Create and Operate Solutions, and that our Create and Operate Solutions work together synergistically, we have only recently focused our sales efforts on targeting cross-selling opportunities, and we cannot be sure that our efforts will be successful.

Whether our customers renew or expand their subscriptions with us or continue using our platform depends on a number of factors, including the cost, performance and perceived value associated with our platform, their perception of our continued development of features important to them, the business strength or weakness of our customers, the success of our customers' games and their ability to monetize, the effects of global economic conditions, the entry and success of competitive products and the other risk factors included in this Quarterly Report on Form 10-Q.

If we do not retain our existing customers or if our existing customers do not expand their use of our platform and purchase additional products or services from us, our revenue may not increase or may decline and our business, financial condition and results of operations may be harmed.

If we are unable to attract new customers, our business, financial condition and results of operations will be adversely affected.

Our ability to increase our revenue will depend in part on our success in attracting new customers. Our success will depend to a substantial extent on the widespread adoption of our platform as an alternative to existing platforms, including internally developed products developed by large gaming companies. As our market matures, our platform evolves and competitors introduce free, lower cost or differentiated products that compete with our platform, and our ability to market our platform and solutions could be impaired. Similarly, our sales efforts could be adversely impacted if customers and their end users perceive that features incorporated into competitive platforms or their own technologies reduce the relevance or attractiveness of our platform. Likewise, our sales efforts could be adversely affected by the impacts by the macroeconomic climate, particularly longer sales cycles. Gaming companies that have invested significant development efforts in their own internally-generated technologies may be reluctant to replace their technologies with our platform unless they perceive our platform as offering significant incremental long-term benefits. Any decrease in user satisfaction with our platform or customer support would also harm our brand and word-of-mouth referrals, which in turn would hamper our ability to attract new customers.

As a result of these and other factors, we may be unable to attract new customers, which may have an adverse effect on our business, financial condition, and results of operations.

We derive a significant portion of our revenue from our Operate Solutions. If we fail to attract and retain Operate Solutions customers, our business and results of operations would be adversely affected.

We derive a significant portion of our revenue from our Operate Solutions. A majority of our Operate Solutions revenue is currently generated under a revenue-share model. The remainder of our Operate Solutions revenue is generated primarily as consumption-based revenue for various cloud-based products. We must continually add new features and functionality to our Operate Solutions to remain competitive and respond to our customers' needs. If we are not successful in retaining and attracting new customers to our Operate Solutions, our business and results of operations would be adversely affected.

Revenue-share based consumption from our Operate products, including monetization products, currently accounts for a majority of our Operate Solutions revenue. Our customers depend on us as a source of their own revenue, which in some cases may represent a significant portion of their revenue. Should customers lose confidence in the value or effectiveness of our monetization products or if our Operate products are less effective, consumption of these products could decline. For example, our revenue growth in the first half of 2022 was negatively impacted by challenges with our Operate products (including a fault in our platform that resulted in reduced accuracy of one of our monetization tools, as well as the consequences of ingesting bad data from a large customer) that reduced the efficacy of such products. We focused our resources on addressing the data quality and accuracy challenges we observed with certain monetization tools in the first quarter of 2022. Our interventions to address such challenges through the third quarter of 2022 have been effective; however, external factors, including the competitive landscape, recent negative macroeconomic conditions and reduced advertiser spend have prolonged our recovery and lead us to believe that the growth of our Operate Solutions revenue will be adversely impacted into 2023.

Additionally, revenue growth from our Operate products depends on our ability to continue to develop and offer effective features and functionality to help our customers drive value, which will require us to incur additional costs to implement. Developing and implementing these features will require us to incur additional costs.

In addition, our customers rely on us to attract a broad range of advertisers to our platform to generate demand for their impressions through our Unified Auction. If we are unable to also serve the needs of advertisers, they may reduce their consumption of our solutions and, because the advertising market is competitive, they may shift their business to other advertising solutions which could adversely affect our revenue. Our monetization products are also subject to factors and events beyond our control. For example, macroeconomic factors like labor shortages, supply chain disruptions, and inflation continue to cause logistical challenges, increased input costs, and inventory constraints for advertisers, and these factors are currently decreasing, and may in the future decrease or halt, advertiser spending.

The consumption-based revenue for our Operate Solutions comes from our Unity Gaming Services, deltaDNA, Multiplay, and Vivox products. Our revenue from these products varies depending on the number of end users of these products or a customer's hosting needs. A significant portion of the revenue generated from certain of these products in a given period can be driven by consumption by customers with large numbers of end users or high volume hosting requirements. If our customers experience a decline in the rate at which end users play their games, or if we are not able to replace customers who decrease or cease their consumption of our solution with new customers with similar consumption, our business may suffer.

Operating system platform providers or application stores may change terms of service, policies or technical requirements to require us or our customers to change data collection and privacy practices, business models, operations, practices, advertising activities or application content, which could adversely impact our business.

We and our customers are subject to the standard policies and terms of service of the operating system platforms on which we create, run and monetize applications and content, as well as policies and terms of service of the various application stores that make applications and content available to end users. These policies and terms of service govern the promotion, distribution, content, technical requirements, and operation generally of applications and content on such platforms and stores. Each of these platforms and stores has broad discretion to change and interpret its terms of service and policies with respect to us, our customers and other creators, and those changes may be unfavorable to us or our customers' use of our platform. An operating system platform or application store may also change its fee structure, add fees associated with access to and use of its platform, alter how customers are able to advertise or monetize on their platform, change how the personal or other information of its users is made available to application developers on their platform, limit the use of personal information for advertising purposes or restrict how end users can share information on their platform or across other platforms.

In particular, operating system platform providers or application stores such as Apple or Google may change their technical requirements or policies in a manner that adversely impacts the way in which we or our customers offer solutions or collect, use, and share data from end-user devices. Restrictions on our ability to collect and use data as desired could negatively impact our Operate Solutions as well as our resource planning and feature development planning for our software. Actions by operating system platform providers or application stores such as Apple or Google may affect the manner in which we or our customers offer solutions or collect, use, and share data from end-user devices. For example, Apple has recently implemented a requirement for applications using its mobile operating system, iOS, to affirmatively (on an opt-in basis) obtain an end user's permission to "track them across apps or websites owned by other companies" or access their device's advertising identifier for advertising and advertising measurement purposes, as well as other restrictions. The long-term impact of these and other privacy, platform, and regulatory changes remains uncertain. In addition, if customers have applications removed from these third-party platforms because of a change in platform guidelines that impact our code or practices, we could be exposed to legal risk and lose customers. In addition, these platforms could change their business models and could, for example, increase application store fees to our customers, which could have an adverse impact on our business.

If we or our customers were to violate, or an operating system platform provider or application store believes that we or our customers have violated, its terms of service or policies, that operating system platform provider or application store could limit or discontinue our or our customers' access to its platform or store. In some cases these requirements may not be clear and our interpretation of the requirements may not align with the interpretation of the operating system platform provider or application store, which could lead to inconsistent enforcement of these terms of service or policies against us or our customers, and could also result in the operating system platform provider or application store limiting or discontinuing access to its platform or store. An operating system platform provider or application store could also limit or discontinue our access to its platform or store if it establishes more favorable relationships with one or more of our competitors or it determines that it is in their business interests to do so. Any limitation on or discontinuation of our or our customers' access to any third-party platform or application store could adversely affect our business, financial condition or results of operations.

If we are unable to further expand into new industries, or if our solutions for any new industry fail to achieve market acceptance, our growth and operating results could be adversely affected, and we may be required to reconsider our growth strategy.

Our growth strategy is based, in part, on expanding into new industries beyond gaming, including architecture, engineering, construction, automotive, transportation, manufacturing, film, television, professional artistry, and retail, and across use cases, including automobile and building design, online and augmented reality product configurators, autonomous driving simulation and augmented reality workplace safety training, among others. The market for interactive RT3D and 2D content in industries beyond gaming is in an early stage of development, and it is uncertain whether this market will develop as we expect, how rapidly it will develop and how much it will grow. In addition, we have limited experience in addressing these markets and the investments that we are continuing to make to expand further into these markets may be ineffective.

Our success in these markets will depend, to a substantial extent, on the widespread adoption of our platform as an alternative to existing solutions, such as traditional 2D and 3D modeling and rendering tools, or adoption by customers that are not currently using any software solutions. Market acceptance of our platform in industries beyond gaming may not grow as we expect as a result of a number of factors, including the cost, performance and perceived value associated with our platform, our ability to adapt to the differing sales and marketing requirements appropriate to most effectively address these markets and our ability to develop or maintain integrations with strategic partners. In addition, our ability to achieve widespread adoption of our platform in these markets may be affected by the entry and success of competitive products, including from larger competitors with greater resources that have historically addressed these markets with legacy products, and accordingly have more brand recognition in these markets. If our platform does not achieve widespread adoption in these other markets, our ability to grow our revenue may suffer.

In addition, the investments we make to grow our business by expanding into new industries will continue to increase our costs and operating expenses on an absolute basis. We expect to invest significant research and development resources to develop and expand the functionality of our Create and Operate Solutions to meet the needs of customers in these industries, and we will need to increase our sales and marketing, legal and compliance and other efforts as we seek to expand into new industries that require a different go-to-market strategy than the gaming industry. These investments will occur in advance of our realization of significant revenue from such industries, particularly given that customers in these industries are typically enterprise customers with long contracting cycles, which will make it difficult to determine if we are allocating our resources effectively and efficiently. If the revenue we derive from these investments is not sufficient to achieve a return on investment, our business and results of operations would suffer.

Our business relies in part on strategic relationships with hardware, operating system, device, game console and other technology providers. If we are unable to maintain favorable terms and conditions and business relations with respect to our strategic relationships, our business could be harmed.

We rely in part on strategic partnerships and other strategic relationships with hardware, operating system, device, game console, and other technology providers in order to be able to offer our customers the ability to deploy their content on a variety of third-party platforms. If any of these third parties were to suspend, limit or cease their operations or otherwise terminate their relationships with us, our results of operations could be adversely affected. We have entered into separate agreements with each of our strategic partners. Our agreements with our strategic partners are non-exclusive and typically have multi-year terms. Our strategic partners could decide to stop working with us, ask to modify their agreement terms in a cost prohibitive manner when their agreement is up for renewal or enter into exclusive or more favorable relationships with our competitors. Any loss of a strategic partnership or other strategic relationship could negatively affect the attractiveness of our platform to customers. In addition, we may have disagreements or disputes with these parties that could negatively impact or threaten our relationship with them. We cannot assure you that we will be successful in sourcing additional strategic partnerships or relationships or in retaining or extending our existing relationships with the parties with whom we currently have relationships. If we are unable to source additional strategic relationships or the parties with whom we currently have strategic relationships were to terminate their relationship with us, our revenue could decline and our business could be adversely affected.

In addition, acquisitions by our competitors of parties with whom we have strategic relationships could result in a decrease in the number of our current and potential customers, as these parties may no longer facilitate the adoption of our solutions by potential customers. Further, some of the parties with whom we have strategic relationships compete or may compete with certain of our solutions and may elect to no longer integrate with our platform. If we fail to maintain relationships with such parties, fail to develop new strategic relationships in new markets or expand the number of strategic relationships in existing markets, our ability to compete in the marketplace or to grow our revenue could be impaired, and our results of operations may suffer. Even if we are successful in maintaining these relationships, we cannot assure you that these relationships will result in increased customer usage or adoption of our solutions or increased revenue.

The markets in which we participate are competitive, and if we do not compete effectively, our business, financial condition, and results of operations could be harmed.

The markets in which we operate are highly competitive. A significant number of companies have developed or are developing solutions that currently, or in the future may, compete with some or all of our offerings. As we look to market and sell our platform to potential customers with existing solutions, we must convince their internal stakeholders that our platform is superior and/or more cost-effective to their current solutions.

With respect to our Create Solutions, we primarily compete against proprietary game engines built in-house by large game studios, as well as Cocos2d-x (Chukong Technologies) and Unreal Engine (Epic Games), which offer game development tools primarily serving the PC games and mobile games sectors, and, in the case of Unreal Engine (Epic Games), industries beyond gaming. Outside of gaming, we also compete with other development platforms that offer 2D and 3D design products.

With respect to our Operate Solutions, we compete in a fragmented ecosystem composed of select divisions of large, well-established companies as well as privately held companies. The large companies in our ecosystem may play multiple roles given the breadth of their business. Examples of these large companies are Amazon, Facebook, Google, Microsoft, and Tencent. Most of these companies are also our partners and customers.

With the introduction of new technologies and market entrants, we expect that the competitive environment will remain intense or become even more intense in the future. Some of our actual and potential competitors have been acquired by other larger enterprises and have made or may make acquisitions or may enter into partnerships or other strategic relationships that may provide more comprehensive offerings than they individually had offered or achieve greater economies of scale than us.

Our competitors vary in size and in the breadth and scope of the solutions offered. Some of our competitors and potential competitors have greater name recognition, longer operating histories, more established customer relationships, larger marketing budgets and greater financial and operational resources than we do. Further, other potential competitors not currently offering competing products or services may expand their offerings to compete with our platform or enter the market through acquisitions, partnerships or strategic relationships. In particular, as we seek to invest in the expansion of our Create Solutions and Operate Solutions in new industries outside of gaming, we may encounter competition from large companies that offer 2D and 3D design products in those industries that may seek to introduce new products or new functionality to existing products that compete with our solutions. Those competitors have greater brand recognition in those industries where they already have a presence. In addition, our current and potential competitors may have or establish cooperative relationships among themselves or with our customers or other third parties that may further enhance their resources and offerings in our addressable market. Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, and customer requirements. An existing competitor or new entrant could introduce new technology that is perceived to be easier to use or otherwise favorable to ours, which could reduce demand for our platform.

In addition to platform and technology competition, we face pricing competition. Some of our competitors offer their solutions, such as their game engines, at a lower price or for free, which has resulted in, and may continue to result in, pricing pressures. In addition, with respect to our monetization solutions, some of our competitors offer more favorable payment terms to publishers. We cannot assure you that we will not be forced to engage in price-cutting or revenue limiting initiatives, change payment terms or increase our advertising and other expenses to attract and retain customers in response to competitive pressures.

For all of these reasons, we may not be able to compete successfully against our current or future competitors, which could result in the failure of our platform to continue to achieve or maintain market acceptance, which would harm our business, results of operations and financial condition.

We may not be able to successfully manage our growth, and if we are not able to grow efficiently, our business, financial condition, and results of operations could be harmed.

The growth and expansion of our business places a continuous significant strain on our management, operational and financial resources. As usage of our platform grows, we will need to devote additional resources to improving its capabilities, features and functionality. In addition, we will need to appropriately scale our internal business, IT, and financial, operating and administrative systems to serve our growing customer base, and continue to manage headcount, capital and operating and reporting processes, and integrate them with ironSource's, in an efficient manner. Any failure of or delay in these efforts could result in impaired performance and reduced customer satisfaction, resulting in decreased sales to new customers or lower dollar-based net expansion rates, which would hurt our revenue growth and our reputation. Further, any failure in optimizing the costs associated with our third-party cloud services as we scale could negatively impact our gross margins. Even if we are successful in our expansion efforts, they will be expensive and complex, and require the dedication of significant management time and attention. We may also suffer inefficiencies or service disruptions as a result of our efforts to scale our internal infrastructure. We cannot be sure that the expansion of and improvements to our internal infrastructure will be effectively implemented on a timely basis, if at all, and such failures could harm our business, financial condition and results of operations.

We are dependent on the success of our customers in the gaming market. Adverse events relating to our customers or their games could have a negative impact on our business.

Our gaming customers are not the end users of our solutions, but rather they use our platform and solutions to create and/or operate their games, which are ultimately sold or distributed to an end user. As a result, our success depends in part on the ability of our customers to market and sell games that are created or operated with our solutions. If our customers' marketing efforts are unsuccessful or if our customers experience a decrease in demand for their games, sales of our Create Solutions and our Operate Solutions could be reduced. The gaming market is characterized by intense competition, rapid technological change, increased focus by regulators, and economic uncertainty and, as such, there is no guarantee that any of our customers' games will gain any meaningful traction with end users. In addition, some of our newer products, like Multiplay and Vivox, are more reliant on certain customers. While our large and diverse customer portfolio has helped to reduce the fluctuations in our Operate Solutions revenue as a whole resulting from the success of customers' games and the timing of game releases, we cannot assure you that the size and diversification of our customer portfolio will sufficiently mitigate this risk. If our customers fail to create or operate popular games using our platform, and we are not able to maintain a diversified portfolio of "winners and losers," our results of operations may be adversely affected.

Our results of operations have fluctuated in the past and are expected to fluctuate in the future, making it difficult to project future results, and if we fail to meet the expectations of securities analysts or investors with respect to our results of operations, our stock price, and the value of your investment could decline.

Our results of operations have fluctuated in the past and are expected to fluctuate in the future due to a variety of factors, many of which are outside of our control. As a result, our past results may not be indicative of our future performance. In addition to the other risks described herein, factors that may affect our results of operations include the following:

- fluctuations in demand for or pricing of our platform;
- fluctuations in usage of our platform;
- our ability to retain and expand the use of our platform by existing customers;
- our ability to attract new customers and convert free creators to customers;
- changes in mix of solutions purchased by our customers;
- demand for our gaming customers' products and their ability to monetize those products, which in turn can have a significant impact on our revenue-share and consumption-based solutions;
- timing and amount of our investments to expand the capacity of our third-party cloud hosting providers;
- seasonality, especially with respect to our Operate Solutions, which tend to generate higher revenue during periods of increased time spent on entertainment, such as holidays, though such seasonal impacts have been and may be reduced or changed as a result of the COVID-19 pandemic;
- investments in new features and functionality of the solutions offered on our platform;
- timing of customer purchases and usage of our platform;
- timing of updates and new features on our platform;
- fluctuations or delays in purchasing decisions in anticipation of new solutions or enhancements by us or our competitors;
- changes in customers' budgets and in the timing of their budget cycles and purchasing decisions;

- our ability to price our offerings effectively;
- amount and timing of payment for operating expenses, particularly research and development and sales and marketing expenses, including commissions, many of which occur in advance of the anticipated benefits resulting from such expenses;
- amount and timing of non-cash expenses, including stock-based compensation, amortization of acquired intangibles and acquisition-related expenses;
- amount and timing of costs associated with recruiting, training and integrating new employees and retaining and motivating existing employees;
- timing of acquisitions and costs associated with integrating acquired companies;
- general economic, social and public health conditions, both domestically and globally, as well as conditions specifically affecting industries in which our customers operate;
- impact of new accounting pronouncements or changes in accounting principles;
- costs that we incur in order to comply with changing regulatory or legal requirements, especially with respect to privacy and security matters;
- changes in tax laws or regulations that are adverse to us or our customers;
- changes in the competitive dynamics of our market, including consolidation among competitors or customers; and
- significant security breaches of, technical difficulties with or interruptions to the delivery and use of our platform.

Any of these and other factors, or the cumulative effect of some of these factors, may cause our results of operations to vary significantly. If our quarterly results of operations fall below the expectations of investors and securities analysts who follow our stock, the price of our common stock could decline substantially, and we could face costly lawsuits, including securities class action suits.

Seasonality may cause fluctuations in our sales and results of operations.

Our quarterly results of operations may vary significantly as a result of seasonal fluctuations during periods such as holidays, during which end users spend increased time on entertainment, including games, and mobile applications, which generally increases our customers' consumption of our Operate Solutions, and may impact our revenue derived from Operate Solutions. We may also experience fluctuations due to factors that may be outside of our control that drive consumption up or down. While we believe that this seasonality has affected and will continue to affect our quarterly results, our rapid growth has largely masked seasonal trends to date.

Downturns or upturns in our sales may not be immediately reflected in our financial position and results of operations.

Our enterprise customers typically purchase one- to three-year subscriptions to our Create Solutions, while independent creators and smaller studios typically purchase subscriptions with one-year terms. Because we generally recognize revenue from our Create Solutions ratably over the term of the subscription, any decreases in new subscriptions or renewals from these customers in any one period will not be immediately reflected as a decrease in revenue for that period but would negatively affect our revenue in future quarters. This also makes it difficult for us to rapidly increase our revenue in any particular period through the sale of additional subscriptions to our Create Solutions. If our quarterly results of operations fall below the expectations of investors and securities analysts who follow our stock, the price of our common stock would decline substantially, and we could face costly lawsuits, including securities class actions.

Third parties with whom we do business may be unable to honor their obligations to us or their actions may put us at risk.

We rely on third parties, including our strategic partners, for various aspects of our business, including deep technology collaborations, co-marketing, advertising partners, development services agreements and revenue share arrangements. Their actions may put our business, reputation and brand at risk. In many cases, third parties may be given access to sensitive and proprietary information or personal information in order to provide services and support to our teams or customers, and they may misappropriate and engage in unauthorized use of our information, technology or customers' data. In addition, the failure of these third parties to provide adequate services and technologies, or the failure of the third parties to adequately maintain or update their services and technologies, could result in a disruption to our business operations. Further, disruptions in the mobile application industry, financial markets, economic downturns, poor business decisions, or reputational harm may adversely affect our partners and may increase their propensity to engage in fraud or otherwise illegal activity which could harm our business reputation, and they may not be able to continue honoring their obligations to us, or we may cease our arrangements with them. Alternative arrangements and services may not be available to us on commercially reasonable terms or at all and we may experience business interruptions upon a transition to an alternative partner or vendor. If we lose one or more business relationships, or experience a degradation of services, our business could be harmed and our financial results could be adversely affected.

We use resellers and other third parties to sell, market, and deploy our solutions to a variety of customers, and our failure to effectively develop, manage, and maintain our indirect sales channels would harm our business.

We use and plan to use resellers and other third parties to sell, market, and deploy our Create Solutions to a variety of customers, particularly in industries beyond gaming. For example, we currently leverage an indirect value-added reseller network to cost effectively service our mid-sized, small and independent Create Solutions customers and we engage in cooperative marketing efforts with strategic partners. Loss of or reduction in sales through these third parties could reduce our revenue. Identifying and retaining resellers and strategic partners, training them in our technology and product offerings, and negotiating and documenting relationships with them, requires significant time and resources. We cannot assure you that we will be able to maintain our relationships with our resellers or strategic partners on favorable terms or at all.

Our resellers may cease marketing or reselling our platform with limited or no notice and without penalty. Further, a substantial number of our agreements with resellers are non-exclusive such that those resellers may offer customers the solutions of several different companies, including solutions that compete with ours. Our resellers may favor our competitors' solutions or services over ours, including due to incentives that our competitors provide to resellers. One or more of our resellers could be acquired by one of our competitors, which could adversely affect our ability to sell through that reseller. If our resellers do not effectively sell, market or deploy our solutions, choose to promote our competitors' solutions, or otherwise fail to meet the needs of our customers, our ability to sell our solutions could be adversely affected.

Our direct sales force targets larger customers, and sales to these customers involve risks that may not be present or that are present to a lesser extent with respect to sales to smaller customers.

One of the factors affecting our growth and financial performance is the adoption of our platform and solutions by enterprise customers over legacy and proprietary technologies. To increase adoption within larger enterprise customers and to expand into new industries, such as automotive, where potential customers are typically larger organizations, we utilize a direct sales organization. We have relatively limited experience selling our platform and solutions in industries outside gaming. To increase sales of our platform and solutions outside gaming, we are expanding our sales organization with personnel who have experience in enterprise software sales in the specific industries outside gaming on which we are focusing. If we do not effectively expand our direct sales capabilities to address these industries effectively and develop effective sales and marketing strategies for those industries, or if we focus our efforts on non-gaming industries that end up being slow adopters of our platform and solutions, our ability to increase sales of our platform and solutions to industries and for use cases outside gaming will be adversely affected.

Sales to larger customers involve risks that may not be present or that are present to a lesser extent with sales to smaller customers, such as longer sales cycles, more complex customer requirements, substantial upfront sales costs, and less predictability in completing some of our sales. For example, larger customers may require considerable time to evaluate and test our platform and those of our competitors prior to making a purchase decision or may have specific compliance and product requirements we may not meet. A number of factors influence the length and variability of our sales cycle, including the need to educate potential customers about the uses and benefits of our platform, the discretionary nature of purchasing and budget cycles, and the competitive nature of evaluation and purchasing approval processes. As a result, the length of our sales cycle, from identification of the opportunity to deal closure, may vary significantly from customer to customer, with sales to larger customers typically taking longer to complete. Moreover, larger customers often begin to deploy our platform on a limited basis, but nevertheless demand configuration, integration services and pricing negotiations, which increase our upfront investment in the sales effort with no guarantee that these customers will deploy our platform widely enough across their organization to justify our substantial upfront investment. If we fail to increase adoption of our platform and solutions by larger enterprise customers, our growth could be impaired.

Our business is subject to risks generally associated with the gaming industry.

The substantial majority of our revenue is currently derived from customers in the gaming industry, and we rely to a significant extent on the health of the gaming industry and the success of our customers' games to maintain and increase our revenue. Accordingly, we are especially susceptible to market conditions and risks associated with the gaming industry, including the popularity, price and timing of release of games, changes in consumer demographics, the availability and popularity of other forms of entertainment, public tastes and preferences, and the increased focus of regulators, all of which are difficult to predict and are beyond our control.

In addition, end users may view games as a discretionary purchase. Although in periods of economic downturn time spent on gaming typically increases, if we experience a prolonged economic downturn, end users may reduce their discretionary spending on games and our customers, in turn, may not renew their subscriptions or may otherwise reduce their usage of our platform, which would adversely impact our revenue and financial condition. Economic conditions that negatively impact discretionary consumer spending, including inflation, slower growth, unemployment levels, tax rates, interest rates, energy prices, declining consumer confidence, recession and other macroeconomic conditions, including those resulting from the COVID-19 pandemic and from geopolitical issues and uncertainty, could have a material adverse impact on our business and results of operations.

We provide service-level agreement commitments related to certain of our Create and Operate Solutions. If we fail to meet these contractual commitments, we could be obligated to provide refunds of prepaid amounts or other credits, which would lower our revenue and harm our business, financial condition and results of operations.

Certain of our Create and Operate Solutions include service-level agreements commitments. If we are unable to meet the stated service-level commitments, including failure to meet the uptime and response time requirements under our customer agreements, we could face terminations with refunds of prepaid amounts or other credits, which could significantly affect both our current and future revenue. Any service-level failures could also damage our reputation, which could also adversely affect our business, financial condition and results of operations.

Indemnity provisions in various agreements to which we are a party potentially expose us to substantial liability for infringement, misappropriation or other violation of intellectual property rights, data protection and other losses.

Our agreements with our customers and other third parties may include indemnification provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of infringement, misappropriation or other violation of intellectual property rights, data protection or other data rights, damages caused by us to property or persons, or other liabilities relating to or arising from our software, services, platform, our acts or omissions under such agreements or other contractual obligations. Some of our historical indemnity agreements, and renewals of such agreements, provide for uncapped liability and some indemnity provisions survive termination or expiration of the applicable agreement. Large indemnity payments would harm our business, financial condition and results of operations. Although we attempt to contractually limit our liability with respect to such indemnity obligations in our more recent customer agreements, in some cases, the liability is not limited given other strategic facets of the relationship and we may still incur substantial liability related to such agreements, and we may be required to cease providing certain functions or features on our platform as a result of any such claims. Even if we succeed in contractually limiting our liability, such limitations may not always be enforceable. Any dispute with a customer or other third party with respect to such obligations could have adverse effects on our relationship with such customer or other third party and other existing or prospective customers, reduce demand for our platform and adversely affect our business, financial conditions and results of operations. In addition, although we carry general liability insurance, our insurance may not be adequate to indemnify us for all liability that may be imposed on us or otherwise protect us from liabilities or damages with respect to claims, including claims on such matters as alleged compromises of customer data, which may be substantial. Any such coverage may not continue to be available to us on acceptable terms or at all.

If we fail to offer high-quality support, our ability to retain and attract customers could suffer.

Our customers rely on our sales, customer success and customer support personnel and tools to resolve issues and realize the full benefits that our platform provides. High-quality support is important for the retention of our existing customers and expanding their use of our platform. The importance of these functions will increase as we expand our business, pursue new customers and seek to expand the use of our platform and solutions by enterprise customers in new industries outside of gaming. If we do not help our customers quickly resolve issues and provide effective ongoing support, our ability to maintain and expand our solution to existing and new customers could suffer, and our reputation with existing or potential customers could suffer.

Acquisitions, strategic investments, partnerships, and alliances could be difficult to identify, pose integration challenges, divert the attention of management, disrupt our business, dilute stockholder value, and adversely affect our business, financial condition and results of operations.

We have in the past sought and may in the future seek to acquire or invest in businesses, joint ventures, platform, or technologies that we believe could complement or expand our platform, enhance our technical capabilities, or otherwise offer growth opportunities. Although the significant majority of our revenue growth has been organic, we have completed more than 15 acquisitions since the beginning of 2019, including Parsec, Weta Digital, and ironSource, to further our goal of providing a complete set of solutions for all creator needs. Any such acquisition or investment may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable opportunities, whether or not the transactions are completed, and may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, data, platform, personnel or operations of any acquired companies, particularly if the key personnel of an acquired company choose not to work for us or face cultural challenges integrating with our company, or if their software or technology is not easily adapted to work with our platform, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management, or otherwise. In addition, we have invested and may in the future invest in private companies and may not realize a return on our investments.

We could also face risks related to liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities, and litigation or other claims in connection with the acquired company, including claims from terminated employees, users, former stockholders or other third parties, and our efforts to limit such liabilities could be unsuccessful. These transactions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for development of our existing business. Any such transactions that we are able to complete may not result in any synergies or other benefits we had expected to achieve, which could result in impairment charges that could be substantial. In addition, we may not be able to find and identify desirable acquisition targets or business opportunities or be successful in entering into an agreement with any particular strategic partner. These transactions have historically and in the future could result in dilutive issuances of equity securities or the incurrence of debt, contingent liabilities, amortization expenses, incremental operating expenses, or the impairment of goodwill, any of which could adversely affect our results of operations. In addition, if the resulting business from such a transaction fails to meet our expectations, our business, financial condition and results of operations may be adversely affected or we may be exposed to unknown risks or liabilities.

The acquisition of certain of Weta Digital's assets or the merger with ironSource Ltd. may cause a disruption in our business.

The acquisition of certain of Weta Digital's assets (the "Weta Digital Acquisition") and the merger with ironSource (the "ironSource Merger") could cause disruptions to our business or business relationships, which could have an adverse impact on results of operations. The integration of certain of Weta Digital's assets and of ironSource may place a significant burden on our management and internal resources. The diversion of management's attention, particularly in our Create Solutions with respect to the Weta Digital Acquisition, and Operate Solutions, with respect to the ironSource merger, away from day-to-day business concerns and any difficulties encountered in the transition and integration process could adversely affect our financial results.

We have incurred significant costs, expenses and fees for professional services and other transaction costs in connection with the Weta Digital Acquisition and the ironSource Merger. We may also incur unanticipated costs in the integration of certain of Weta Digital's assets and of ironSource with our business. The substantial majority of these costs will be non-recurring expenses relating to the Weta Digital Acquisition and the ironSource Merger. We have been subject to litigation related to the ironSource Merger and could become subject to further litigation related to it or any other acquisition, which could result in significant costs and expenses.

We may fail to realize all of the anticipated benefits of the ironSource Merger or those benefits may take longer to realize than expected.

We believe that there are significant benefits and synergies that may be realized through leveraging the products, scale and combined enterprise customer bases of Unity and ironSource. However, the efforts to realize these benefits and synergies will be a complex process and may disrupt both companies' existing operations if not implemented in a timely and efficient manner. The full benefits of the ironSource Merger, including the anticipated sales or growth opportunities, may not be realized as expected or may not be achieved within the anticipated time frame, or at all. In addition, we may incur additional or unexpected costs in order to realize these revenue synergies. Failure to achieve the anticipated benefits of the ironSource Merger could adversely affect our results of operations or cash flows, cause dilution to our earnings per share, decrease or delay any accretive effect of the ironSource Merger and negatively impact our stock price.

Our success will depend, in part, on our ability to manage our expansion, which poses numerous risks and uncertainties, including the need to integrate the operations and business of ironSource into our existing business in an efficient and timely manner, to combine systems and management controls and to integrate relationships with industry contacts and business partners.

In addition, we will be required to devote significant attention and resources to the integration and operation of the combined company, and we will be required to devote significant attention and resources to successfully align the business practices and operations of Unity and ironSource. This process may disrupt the businesses and, if ineffective, would limit the anticipated benefits of the ironSource Merger.

The 2027 Notes issued pursuant to the PIPE and the issuance of shares of our common stock upon conversion of the 2027 Notes, if any, may impact our financial results, result in dilution to our stockholders, create downward pressure on the price of our common stock, and restrict the combined company's ability to raise additional capital.

In connection with the ironSource Merger, we entered into the Investment Agreement relating to the issuance and sale to the investors of \$1.0 billion in aggregate principal amount of our 2.0% Convertible Senior Notes due 2027, which closed on November 8, 2022. The 2027 Notes bear interest at a rate of 2.0% per annum and interest on the 2027 Notes is payable semi-annually in arrears. The 2027 Notes mature five years from the date of issuance, subject to earlier conversion or repurchase. Until the trading day prior to the maturity date of the 2027 Notes, a holder of the 2027 Notes has the right, at such holder's option, to convert its 2027 Notes into cash, shares of our common stock or a combination thereof, based on an initial conversion rate of 20.4526 shares of our common stock per \$1,000 principal amount of the 2027 Notes (which is equal to an initial conversion price of approximately \$48.89 per share), subject to customary anti-dilution and other adjustments, including in connection with any make-whole adjustment as a result of certain extraordinary transactions.

The proceeds from the PIPE are expected to be used to partially fund our previously announced stock repurchase program. Our indebtedness will substantially increase due to the issuance of the 2027 Notes. Further, we expect the share repurchases to be accretive to our earnings per share, the issuance of shares of Unity common stock upon conversion of the 2027 Notes, if any, could adversely affect the combined company's earnings per share. If shares of our common stock are issued to the holders of the 2027 Notes upon conversion, there will be dilution to our stockholders' equity and the market price of our common stock may decrease due to the additional selling pressure in the market. Any downward pressure on the price of our common stock caused by the sale, or potential sale, of shares issuable upon conversion of the 2027 Notes could also encourage short sales by third parties, creating additional downward pressure on our share price.

Our share repurchase program, while intended to help offset dilution from the ironSource Merger, may not achieve such goal and the amount of such repurchases may be impacted by new legislation.

The proceeds from the PIPE are expected to be used to partially fund the repurchase of up to \$2.5 billion of shares of our common stock pursuant to our previously announced stock repurchase

program, with the objective to offset potential dilution to our stockholders as a result of the issuance of the ironSource Merger consideration. However, we are not obligated to repurchase any shares of our common stock and there is no assurance that we will do so on the timeline intended.

While we expect the potential share repurchases to be accretive to our earnings per share, there may be factors that will reduce the expected anti-dilutive effects of the potential repurchases. Although the 2027 Notes were priced at a premium to the market price of our common stock at the time of signing, and we intend to repurchase the shares at prices lower than the conversion price of the 2027 Notes, we can't provide any assurance that our stock price will not fluctuate significantly prior to any share repurchases, including as a result of downward pressure on the price of our common stock caused by the conversion of the 2027 Notes, as discussed above. As a result, if we are unable to repurchase shares of our common stock at a price that is lower than the conversion price of the 2027 Notes, any anti-dilutive effect of such repurchases may be less than expected and dilution resulting from the issuance of merger consideration may be more than expected.

In addition, to the extent any repurchases are made on or after January 1, 2023, such repurchases will be subject to the 1% Share Repurchase Excise Tax enacted by the IRA, which may be offset by shares newly issued during that fiscal year (the "Share Repurchase Excise Tax"). We have and will continue to take the Share Repurchase Excise Tax into account with respect to our decisions to repurchase shares, but there can be no assurance that such tax will not reduce the number of shares we are able to or ultimately decide to repurchase.

Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at a similar rate, if at all.

The estimates of market opportunity and forecasts of market growth we have made and may make in the future may prove to be inaccurate. Market opportunity estimates and growth forecasts, including those we have generated ourselves, are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The variables that affect the calculation of our market opportunity are also subject to change over time. Estimating market opportunity and forecasting market growth is especially challenging in light of recent macroeconomic negative macroeconomic factors, such as inflation and corresponding higher interest rates, the strengthening of the U.S. dollar and the softening of the advertising market. The impact of these macroeconomic trends remains uncertain, and we cannot reasonably estimate its impact on our market opportunity.

Estimates of market opportunity in industries beyond gaming are particularly uncertain, given the earlier stage of adoption of solutions for RT3D content creation in those markets. Our estimates of the market opportunity that we can address outside gaming depend on a variety of factors, including the number of software developers, architects and engineers that are potential users of our products. We cannot be sure that the industries in which these developers, architects or engineers are employed will adopt RT3D generally, or our solutions specifically, to any particular extent or at any particular rate.

Our expectations regarding potential future market opportunities that we may be able to address are subject to even greater uncertainty. For example, our expectations regarding future market opportunities in gaming depend, among other things, on the extent to which we are able to develop new products and features that expand the applicability of our platform. In addition, our expectations regarding future market opportunities represented by augmented reality and virtual reality applications are subject to uncertainties relating from the fact that such applications are at relatively early stages of development and may not grow at the rates we expect. The extent to which engineers, technicians or other potential users of our products in industries outside gaming are representative of other future market opportunities will depend on those industries having use cases that can be served by RT3D content. Our ability to address those opportunities will depend on our developing products that are responsive to those use cases. In addition, there is significant uncertainty with respect to our estimate of the amount by which the acquisition of Weta Digital increased our total market opportunity, which is based on internal models and assumes that there is a significant market opportunity among consumers as well as professional artists for digital visual effects solutions.

We cannot assure you that any particular number or percentage of addressable users or companies covered by our market opportunity estimates will purchase our solutions at all or generate any particular level of revenue for us. In addition, any expansion in our market depends on a number of factors, including the cost, performance and perceived value associated with our platform and those of our competitors. Even if the market in which we compete meets the size estimates and growth we forecast, our business could fail to achieve a substantial share of this market or grow at a similar rate, if at all. Our growth is subject to many risks and uncertainties. Accordingly, the estimates of market opportunity or forecasts of market growth we have and may make should not be taken as indicative of our future growth.

Our business could be disrupted by catastrophic events.

Occurrence of any catastrophic event, including earthquake, fire, flood, tsunami or other weather event, power loss, telecommunications failure, software or hardware malfunction, cyber-attack, war or terrorist attack, explosion, or pandemic could impact our business. In particular, our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity, and are thus vulnerable to damage in an earthquake. Our insurance coverage may not compensate us for losses that may occur in the event of an earthquake or other significant natural disaster. If any disaster were to occur, our ability to operate our business at our facilities could be impaired and we could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations. If we are unable to develop adequate plans to ensure that our business functions continue to operate during and after a disaster and to execute successfully on those plans in the event of a disaster or emergency, our business would be harmed.

Health epidemics, including the current COVID-19 pandemic, have had, and could in the future have, an adverse impact on our business, operations, and the markets and communities in which we, our partners and customers operate.

Our business and operations have been and could continue to be adversely affected by health epidemics, including the current COVID-19 pandemic, impacting the markets and communities in which we, our partners and customers operate. The COVID-19 pandemic has caused and continues to cause significant business and financial markets disruption worldwide and there is significant uncertainty around the duration of this disruption on both a nationwide and global level, as well as the ongoing effects on our business.

The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition will depend on future developments that are highly uncertain and cannot be accurately predicted, and we may be unable to accurately forecast our revenue or financial results. As certain of our customers or partners experience downturns or uncertainty in their own business operations or revenue resulting from the COVID-19 pandemic, they may decrease or delay their spending, request pricing concessions or seek renegotiations of their contracts, and decrease advertising spend, any of which may result in decreased revenue for us. In addition, we may experience customer or strategic partner losses, including due to bankruptcy or our customers or strategic partners ceasing operations, which may result in an inability to collect receivables from these parties. A decline in revenue or the collectability of our receivables could harm our business.

The global impact of the COVID-19 pandemic continues to evolve, and we will continue to monitor the situation and the effects on our business and operations closely. We do not yet know the full extent of potential impacts on our business, operations or the global economy as a whole. The return of more in-person activities has resulted and may continue to result in an increase in our expenses and could result in a range of impacts to our customers, which could negatively impact our business. Given the uncertainty, we cannot reasonably estimate the impact on our future results of operations, cash flows or financial condition. While the COVID-19 pandemic may eventually be contained or mitigated, there is no guarantee that a future outbreak of this or any other widespread epidemics will not occur, or that the global economy will recover, either of which could harm our business.

Our current operations are and will continue to be global in scope, creating a variety of operational challenges.

We currently have operations and customers across all major global markets. We also have a sales presence in multiple countries. We are continuing to adapt to and develop strategies to address global markets, but we cannot assure you that such efforts will be successful. For example, we anticipate that we will need to establish relationships with new partners in order to grow in certain countries, and if we fail to identify, establish, and maintain such relationships, we may be unable to execute on our expansion plans. As of September 30, 2022, approximately 30% of our full-time employees were located within the U.S. We expect that our global activities will continue to grow for the foreseeable future as we continue to pursue growth opportunities, which will require significant dedication of management attention and financial resources.

Our current and future global business and operations involve a variety of risks, including:

- slower than anticipated availability and adoption of our platform by creators outside the U.S.;
- changes or instability in a specific country's or region's political, social or economic conditions, including in the U.K. as a result of its exit from the European Union;
- the need to adapt and localize our platform for specific countries;
- maintaining our company culture across all of our offices globally;
- greater difficulty collecting accounts receivable and potential for longer payment cycles;
- increased reliance on resellers and other third parties for our global expansion;
- burdens of complying with a variety of foreign laws, including costs associated with legal structures, accounting, statutory filings and tax liabilities;
- more stringent regulations relating to privacy and data security and the unauthorized use of, or access to, commercial and personal information, particularly in Europe;
- differing and potentially more onerous labor regulations and practices, especially in Europe, where labor laws are generally more advantageous to employees as compared to the U.S., including deemed hourly wage and overtime regulations in these locations, or the existence of workers' councils and labor unions;
- challenges inherent in efficiently managing, and the increased costs associated with, an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits, statutory equity requirements and compliance programs that are specific to each jurisdiction;
- potential changes in laws, regulations and costs affecting our U.K. operations and local employees due to Brexit;
- unexpected changes in trade relations, regulations, laws or enforcement, including changes to export control restrictions, economic sanctions, and trade embargoes;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems, and regulatory systems;
- increased travel, real estate, infrastructure and legal compliance costs associated with multiple global locations and subsidiaries;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future;
- higher levels of credit risk and payment fraud;
- restrictions on the transfer of funds, such as limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;

- enhanced difficulties of integrating any foreign acquisitions;
- laws and business practices favoring local competitors or general market preferences for local vendors;
- reduced or uncertain intellectual property protection or difficulties obtaining, maintaining, protecting or enforcing our intellectual property rights, including our trademarks and patents;
- foreign government interference with our intellectual property that resides outside of the U.S., such as the risk of changes in foreign laws that could restrict our ability to use our intellectual property outside of the foreign jurisdiction in which we developed it;
- political instability, hostilities, war, or terrorist activities, including the military conflict involving Russia and Ukraine;
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act ("FCPA"), U.S. bribery laws, the UK Bribery Act, and similar laws and regulations in other jurisdictions; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

In addition, due to the Russia and Ukraine conflict, the U.S., European Union, and other nations announced various sanctions against Russia and Belarus. The military conflict and the retaliatory measures that have been taken, and could be taken in future, by the U.S., European Union, and other jurisdictions against Russia and Belarus have created global security concerns that could result in a regional conflict and otherwise have a lasting impact on regional and global economies, any or all of which could adversely affect our business.

If we invest substantial time and resources to grow our business in markets outside the U.S. and are unable to do so successfully and in a timely manner, our business and results of operations will suffer.

If we experience excessive fraudulent activity or cannot meet evolving credit card association merchant standards, we could incur substantial costs and lose the right to accept credit cards for payment, which could cause our customer base to decline significantly.

A large portion of our customers authorize us to bill their credit card accounts directly for their use of our platform. If we experience fraud associated with stolen credit cards, we could incur substantial third-party vendor costs for which we may not be reimbursed. Further, our customers provide us with credit card billing information online or over the phone, and we do not review the physical credit cards used in these transactions, which increases our risk of exposure to fraudulent activity. We also incur charges, which we refer to as chargebacks, from the credit card companies for claims that the customer did not authorize the credit card transaction for the purchase of our platform, something that we have experienced in the past. If the number of claims of unauthorized credit card transactions becomes excessive, we could be assessed substantial fines for excess chargebacks, and we could lose the right to accept credit cards for payment. In addition, credit card issuers may change merchant standards, including data protection and documentation standards, required to utilize their services from time to time. If we fail to maintain compliance with current merchant standards or fail to meet new standards, the credit card associations could fine us or terminate their agreements with us, and we would be unable to accept credit cards as payment for our platform. Our platform may also be subject to fraudulent usage and schemes which could result in unauthorized access to customer accounts and data, unauthorized use or circumvention of our platform or technologies, and charges and expenses to customers for fraudulent usage as well as lost revenue. We may be required to pay for these charges and expenses with no reimbursement from the customer, and our reputation may be harmed if our platform is subject to fraudulent usage. Although we implement multiple fraud prevention and detection controls, we cannot assure you that these controls will be adequate to protect against fraud. Substantial losses due to fraud or our inability to accept credit card payments would cause our customer base to significantly decrease and would harm our business.

We are exposed to collection and credit risks, which could impact our operating results.

Our accounts receivable are subject to collection and credit risks, which could impact our operating results. Our Create Solutions typically include upfront purchase commitments for a one- to three-year subscription, which may be invoiced over multiple reporting periods, increasing these risks. With respect to our Operate Solutions, we rely on payments from advertisers in order to pay our customers their revenue earned from our Unified Auction. We are generally obligated to pay our customers for revenue earned within a negotiated period of time, regardless of whether or not our advertisers have paid us on time, or at all. While we attempt to negotiate a longer payment period with our customers and shorter periods for our advertisers, we are not always successful. As a result we can face a timing issue with our accounts payable on shorter cycles than our accounts receivable, requiring us to remit payments from our own funds, and accept the risk of bad debt. Businesses that are good credit risks at the time of sale may become bad credit risks over time. In times of economic recession, the number of our customers who default on payments owed to us tends to increase. Our operating results may be impacted by significant bankruptcies among customers, which could negatively impact our revenue and cash flows. We cannot assure you that our processes to monitor and mitigate these risks will be effective. If we fail to adequately assess and monitor our credit risks, we could experience longer payment cycles, increased collection costs and higher bad debt expense, and our business, operating results and financial condition could be harmed.

Fluctuations in currency exchange rates could harm our operating results and financial condition.

We offer our solutions to customers globally and have operations in Australia, Denmark, Belgium, Canada, China, Colombia, Finland, France, Germany, Ireland, Israel, Japan, Lithuania, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, the United Arab Emirates, and the U.K. Although the majority of our cash generated from revenue is denominated in U.S. dollars, revenue generated and expenses incurred by our subsidiaries outside of the U.S. are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements have been and will continue to be subject to fluctuations due to changes in exchange rates as the financial results of our non-U.S. subsidiaries are translated from local currencies into U.S. dollars. In particular, the strengthening of the U.S. dollar, could continue to negatively impact our business. Our financial results are also subject to changes in exchange rates that impact the settlement of transactions in non-local currencies. Because we conduct business in currencies other than U.S. dollars but report our results of operations in U.S. dollars, we also face remeasurement exposure to fluctuations in currency exchange rates, which could hinder our ability to predict our future results and earnings and could materially impact our results of operations. To date, we have not engaged in currency hedging activities to limit the risk of exchange fluctuations and, as a result, our financial condition and operating results have been and could continue to be adversely affected by such fluctuations.

Our global operations may subject us to potential adverse tax consequences.

We are expanding our global operations to better support our growth in global markets. Our corporate structure and associated transfer pricing policies contemplate future growth in global markets, and consider the functions, risks and assets of the various entities involved in intercompany transactions. The amount of taxes we pay in different jurisdictions depends on, among other factors, the application of the tax laws of the various jurisdictions, including the U.S., to our global business activities, changes in tax rates, new or revised interpretations of existing tax laws and policies and our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. New or revised tax laws may also impact the amount of taxes we pay in different jurisdictions, such as Pillar One and Pillar Two being considered by the Organisation of Economic Co-Operation and Development, which would fundamentally change long-standing transfer pricing principles of taxation. The U.S. also recently enacted, on August 16, 2022, the IRA, which includes a corporate minimum tax and a 1% excise tax on stock repurchases. The U.S. also continues to consider other tax reform measures that could impact the amount of taxes that we pay. In addition, the taxing authorities of the jurisdictions in which we operate may challenge our methodologies for pricing intercompany transactions pursuant to our intercompany arrangements or disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a challenge or disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. Our financial statements could fail to reflect adequate reserves to cover such a contingency.

Changes in our effective tax rate or tax liability may have an adverse effect on our results of operations.

Our effective tax rate could increase due to several factors, including:

- changes in the relative amounts of income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- changes in tax laws, tax treaties, and regulations or the interpretation of them;
- changes to our assessment of our ability to realize our deferred tax assets that are based on estimates of our future results, the feasibility of possible tax planning strategies, and the economic and political environments in which we do business;
- the outcome of current and future tax audits, examinations or administrative appeals; and
- limitations or adverse findings regarding our ability to do business in some jurisdictions.

Any of these developments could adversely affect our results of operations.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes appearing elsewhere in this Quarterly Report on Form 10-Q. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant estimates and judgments involve revenue recognition, the valuation of our stock-based compensation awards, including the determination of fair value of our common stock, accounting for business combinations and income taxes, among others. Actual results may differ from these estimates under different assumptions or conditions and any such differences may be material. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

We may require additional capital to support the growth of our business, and this capital might not be available on acceptable terms, if at all.

We have funded our operations since inception primarily with sales of our convertible preferred stock, common stock and convertible notes and with cash generated from sales of our Create Solutions and Operate Solutions and from our strategic partnerships. We cannot be certain when or if our operations will generate sufficient cash to fully fund our ongoing operations or the growth of our business. We intend to continue to make investments to support our business and may require additional funds to respond to business challenges, including the need to develop new solutions, products, services or enhance our existing solutions, products or services, enhance our operating infrastructure, expand globally and acquire complementary businesses and technologies. Additional financing may not be available on terms favorable to us, if at all. In particular, the current COVID-19 pandemic and other macroeconomic trends like inflation and supply chain issues have caused and may continue to cause disruption in the global financial markets, which may reduce our ability to access capital and negatively affect our liquidity in the future. If adequate funds are not available on acceptable terms, we may be unable to invest in future growth opportunities, which could harm our business, operating results, and financial condition. If we incur additional debt, the debt holders would have rights senior to holders of common stock to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. Furthermore, if we issue additional equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in the future will depend on numerous considerations, including factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any future issuances of debt, equity, or other securities. As a result, our stockholders bear the risk of future issuances of debt, equity, or other securities reducing the value of our common stock and diluting their interests. Our inability to obtain adequate financing on terms satisfactory to us, when we require it, could significantly limit our ability to continue to support our business growth, respond to business challenges, expand our operations or otherwise capitalize on our business opportunities due to lack of sufficient capital. Even if we are able to raise such capital, we cannot assure you that it will enable us to achieve better operating results or grow our business.

Risks Related to our Platform and Technology

If we do not make our platform, including new versions or technology advancements, easier to use or properly train customers on how to use our platform, our ability to broaden the appeal of our platform and solutions and to increase our revenue could suffer.

Our platform can be complex to use, and our ability to expand the appeal of our platform depends in part on ensuring that it can be used by a variety of creators. While certain features of our solutions are designed to address the needs of professional developers, we believe that our ability to expand adoption of our platform will depend in part on our ability to address the needs of creators with varied needs and levels of expertise, including artists, animators and sound technicians, as well as new categories of creators and end users, such as architects, civil and mechanical engineers, and designers, in industries beyond gaming. Accordingly, it will be important to our future success that we continue to increase the accessibility of our platform. If we do not succeed in maintaining and broadening the accessibility of our platform, or if competitors develop and introduce products that are easier to use than ours, our ability to increase adoption of our platform will suffer.

In order to get full use of our platform, users generally need training. We provide a variety of training resources to our customers, and we believe we will need to continue to maintain and enhance the breadth and effectiveness of our training resources as the scope and complexity of our platform increase. If we do not provide effective training resources for our customers on how to efficiently and effectively use our platform, our ability to grow our business will suffer, and our business and results of operations may be adversely affected. Additionally, when we announce or release new versions of our platform or advancements in our technology, we could fail to sufficiently explain or train our customers on how to use such new versions or advancements or we may announce or release such versions prematurely. These failures on our part may lead to our customers being confused about use of our products or expected technology releases, and our ability to grow our business, results of operations, brand and reputation may be adversely affected. For example, such failures have in the past led to customers expressing frustration with our platform on social media and other internet sites.

Interruptions, performance problems, or defects associated with our platform may adversely affect our business, financial condition, and results of operations.

Our reputation and ability to attract and retain customers and grow our business depends in part on our ability to operate our platform at high levels of reliability, scalability and performance, including the ability of our existing and potential customers to access our platform at any time and within an acceptable amount of time. Interruptions in the performance of our platform and solutions, whether due to system failures, computer viruses or physical or electronic break-ins, could affect the availability of our platform. We have experienced, and may in the future experience, disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints due to an overwhelming number of customers accessing our platform simultaneously, denial of service attacks or other security-related incidents.

It may become increasingly difficult to maintain and improve our performance, especially during peak usage times and as our customer base grows and our platform becomes more complex. If our platform is unavailable or if our customers are unable to access our platform within a reasonable amount of time or at all, we may experience a loss of customers, lost or delayed market acceptance of our platform, delays in payment to us by customers, injury to our reputation and brand, legal claims against us, significant cost of remedying these problems and the diversion of our resources. In addition, to the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business, financial condition and results of operations, as well as our reputation, may be adversely affected. For example, due to heightened concerns about the regulatory environment with respect to privacy and security matters, our customers are increasingly requesting audit certifications, such as SOC 2, Type II, that we have not yet achieved with respect to some of our products. Failure to achieve these certifications may adversely impact our ability to grow our business at the pace that may be expected by our investors. Additionally, material interruptions to our service due to security-related incidents may expose us to regulatory fines in certain jurisdictions where we operate even in the absence of data loss.

Further, the software technology underlying our platform is inherently complex and may contain material defects or errors, particularly when new products are first introduced or when new features or capabilities are released. We have from time to time found defects or errors in our platform, and new defects or errors in our existing platform or new products may be detected in the future by us or our users. For example, our revenue growth in the first half of 2022 was negatively impacted by challenges with our Operate products (including a fault in our platform that resulted in reduced accuracy of one of our monetization tools, as well as the consequences of ingesting bad data from a large customer) that reduced the efficacy of such products.

We cannot assure you that our existing platform and new products will not contain defects. Any real or perceived errors, failures, vulnerabilities, or bugs in our platform could result in negative publicity or lead to data security, access, retention or other performance issues, all of which could harm our business. The costs incurred in correcting such defects or errors may be substantial and could harm our business. Moreover, the harm to our reputation and legal liability related to such defects or errors may be substantial and could similarly harm our business.

If we or our third-party service providers experience a security breach or unauthorized parties otherwise obtain access to our customers' data, our data, or our platform, our platform may be perceived as not secure, our reputation may be harmed, our business operations may be disrupted, demand for our products may be reduced, and we may incur significant liabilities.

Operating our business and platform involves the collection, storage and transmission of sensitive, proprietary and confidential information, including personal information of our personnel, customers and their end users, our proprietary and confidential information and the confidential information we collect from our partners, customers and creators.

The security measures we take to protect this information may be breached as a result of cyber-attacks, computer malware, software bugs and vulnerabilities, malicious code, viruses, social engineering (including spear phishing and ransomware attacks), denial-of-service attacks (such as credential stuffing attacks), supply chain attacks and vulnerabilities through our third party vendors, hacking and other efforts by individuals or groups of hackers and sophisticated organizations, including state-sponsored organizations or nation-states. Such incidents have become more prevalent in our industry in recent years. For example, attempts by malicious actors to fraudulently induce our personnel into disclosing usernames, passwords or other information that can be used to access our systems have increased and could be successful. Ransomware attacks are becoming increasingly prevalent and severe and can lead to significant interruptions, delays, or outages in our operations, loss of data, loss of income, significant extra expenses to restore data or systems, reputational harm, and the diversion of funds. Extortion payments may alleviate the negative impact of a ransomware attack, but we may be unwilling or unable to make such payments due to, for example, applicable laws or regulations prohibiting payments. Our security measures could also be compromised by personnel, theft or errors, or be insufficient to prevent harm resulting from security vulnerabilities in software or systems on which we rely. Additionally, our remote workforce poses increased risks to our IT assets and data. Future acquisitions could also expose us to additional cybersecurity risks and vulnerabilities from any newly acquired IT infrastructure.

Such incidents have occurred in the past, and may occur in the future, resulting in unauthorized, unlawful or inappropriate access to, inability to access, disclosure of or loss of the sensitive, proprietary and confidential information that we handle. Investigations into potential incidents occur on a regular basis as part of our security program. Security incidents could also damage our IT systems, our ability to provide our products and services, and our ability to make the financial reports and other public disclosures required of public companies.

We rely on third parties to provide critical services that help us deliver our solutions and operate our business. In the course of providing their services, these third parties may support or operate critical business systems for us or store or process personal information and any of the same sensitive, proprietary and confidential information that we handle. These third-party providers may not have adequate security measures and have experienced and could experience in the future security incidents that compromise the confidentiality, integrity or availability of the systems they operate for us or the information they process on our behalf. Such occurrences could adversely affect our business to the same degree as if we had experienced these occurrences directly and we may not have recourse to the responsible third parties for the resulting liability we incur.

Because there are many different cybercrime and hacking techniques and such techniques continue to evolve, we may be unable to anticipate attempted security breaches, react in a timely manner or implement adequate preventative measures. While we have developed systems and processes designed to protect the integrity, confidentiality and security of our and our customers' confidential and personal information under our control, we cannot assure you that any security measures that we or our third-party service providers have implemented will be effective against current or future security threats. A security breach or other security incident, or the perception that one has occurred, could result in a loss of customer confidence in the security of our platform and damage to our reputation and brand, reduce demand for our solutions, disrupt normal business operations, require us to incur material costs to investigate and remedy the incident and prevent recurrence, expose us to litigation, regulatory enforcement action, fines, penalties and damages and adversely affect our business, financial condition and results of operations. These risks are likely to increase as we continue to grow and process, store and transmit an increasingly large volume of data.

We have contractual and legal obligations to notify relevant stakeholders of security breaches. Most jurisdictions have enacted laws requiring companies to notify individuals, regulatory authorities and others of security breaches involving certain types of data. In addition, our agreements with certain customers and partners may require us to notify them in the event of a security breach. Such mandatory disclosures are costly, could lead to negative publicity and may cause our customers to lose confidence in the effectiveness of our security measures.

A security breach could lead to claims by our customers, their end users or other relevant parties that we have failed to comply with contractual obligations to implement specified security measures. As a result, we could be subject to legal action or our customers could end their relationships with us. We cannot assure you that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from liabilities or damages. Security breaches could similarly result in enforcement actions by government authorities alleging that we have violated laws requiring us to maintain reasonable security measures.

Additionally, we cannot be certain that our insurance coverage will be adequate for data security liabilities actually incurred, will cover any indemnification claims against us relating to any incident, will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect our reputation, business, financial condition and results of operations.

In addition, we continue to expend significant costs to seek to protect our platform and solutions and to introduce additional security features for our customers, and we expect to continue to have to expend significant costs in the future. Any increase in these costs will adversely affect our business, financial condition and results of operations.

If we fail to timely release updates and new features to our platform and adapt and respond effectively to rapidly changing technology, evolving industry standards, changing regulations, or changing customer needs, requirements, or preferences, our platform may become less competitive.

The market in which we compete is subject to rapid technological change, evolving industry standards, and changing regulations, as well as changing customer needs, requirements and preferences. The success of our business will depend, in part, on our ability to adapt and respond effectively to these changes on a timely basis. Accordingly, our ability to increase our revenue depends in large part on our ability to maintain, improve and differentiate our existing platform and introduce new functionality.

We must continue to improve existing features and add new features and functionality to our platform in order to retain our existing customers and attract new ones. For example, if the technology underlying our high-definition rendering pipeline or our graphics, animation and audio tools become obsolete or do not address the needs of our customers, our business would suffer.

Revenue growth from our products depends on our ability to continue to develop and offer effective features and functionality for our customers and to respond to frequently changing data protection regulations, policies, and end-user demands and expectations, which will require us to incur additional costs to implement. If we do not continue to improve our platform with additional features and functionality in a timely fashion, or if improvements to our platform are not well received by customers, our revenue could be adversely affected.

If we fail to deliver timely releases of our products that are ready for commercial use, release a new version, service, tool or update with material errors, or are unable to enhance our platform to keep pace with rapid technological and regulatory changes or respond to new offerings by our competitors, or if new technologies emerge that are able to deliver competitive solutions at lower prices, more efficiently, more conveniently or more securely than our solutions, or if new operating systems, gaming platforms or devices are developed and we are unable to support our customers' deployment of games and other applications onto those systems, platforms or devices, our business, financial condition and results of operations could be adversely affected.

Our business depends on the interoperability of our solutions across third-party platforms, operating systems, and applications, and on our ability to ensure our platform and solutions operate effectively on those platforms. If we are not able to integrate our solutions with third-party platforms in a timely manner, our business may be harmed.

One of the most important features of our platform and solutions is broad interoperability with a range of diverse devices, operating systems and third-party applications. Our customers rely on our solutions to create and simultaneously deploy content to a variety of third-party platforms. Similarly, we and our customers also rely on our solutions' interoperability with third-party platforms in order to deliver services. Currently, we support and have strategic partnerships with over 20 such platforms. Third-party platforms are constantly evolving, and we may not be able to modify our solutions to assure compatibility with that of other third parties following development changes within a timely manner. For example, third-party platforms frequently deploy updates to their hardware or software and modify their system requirements. The success of our business depends on our ability to incorporate these updates to third-party licensed software into our technology, effectively respond to changes to device and operating system platform requirements, and maintain our relationships with third-party platforms. Our success also depends on our ability to simultaneously manage solutions on multiple platforms and our ability to effectively deploy our solutions to an increasing number of new platforms. Given the number of platforms we support, it can be difficult to keep pace with the number of third-party updates that are required in order to provide the interoperability our customers demand. If we fail to effectively respond to changes or updates to third-party platforms that we support, our business, financial condition, and results of operations could be harmed.

We rely upon third-party data centers and providers of cloud-based infrastructure to host our platform. Any disruption in the operations of these third-party providers, limitations on capacity or interference with our use could adversely affect our business, financial condition, and results of operations.

We currently serve our users from co-located data centers in the U.S. We also use various third-party cloud hosting providers such as Google Cloud, AWS and Tencent to provide cloud infrastructure for our platform. Our Create Solutions and Operate Solutions rely on the operations of this infrastructure. Customers need to be able to access our platform at any time, without interruption or degradation of performance, and we provide some customers with service-level commitments with respect to uptime. In addition, our Operate Solutions and enterprise game server hosting depend on the ability of these data centers and cloud infrastructure to allow for our customers' configuration, architecture, features and interconnection specifications and to secure the information stored in these data centers. Any limitation on the capacity of our data centers or cloud infrastructure could impede our ability to onboard new customers or expand the usage of our existing customers, host our products or serve our customers, which could adversely affect our business, financial condition and results of operations. In addition, any incident affecting our data centers or cloud infrastructure that may be caused by cyber-attacks, natural disasters, fire, flood, severe storm, earthquake, power loss, outbreaks of contagious diseases, telecommunications failures, terrorist or other attacks and other similar events beyond our control could negatively affect the cloud-based portion of our platform. A prolonged service disruption affecting our data centers or cloud-based services for any of the foregoing reasons would negatively impact our ability to serve our customers and could damage our reputation with current and potential customers, expose us to liability, cause us to lose customers or otherwise harm our business. We may also incur significant costs for using alternative providers or taking other actions in preparation for, or in response to, events that damage the third-party hosting services we use.

In the event that our service agreements relating to our data centers or cloud infrastructure are terminated, or there is a lapse of service, elimination of services or features that we utilize, interruption of internet service provider connectivity or damage to such facilities, we could experience interruptions in access to our platform, loss of revenue from revenue-share and consumption-based solutions, as well as significant delays and additional expense in arranging or creating new facilities and services or re-architecting our platform for deployment on a different data center provider or cloud infrastructure service provider, which could adversely affect our business, financial condition and results of operations.

If the market for our platform does not continue to grow or develops more slowly or differently than we expect or we are unable to gain market acceptance for our new products, our business may be harmed.

Our future success depends on increasing demand for solutions to create and operate interactive, RT3D content and our ability to continue to develop new products, services, features, and functionality that our customers and end users demand. It is difficult to predict customer adoption rates and demand for our solutions or the future growth rate and size of our market. The expansion of our market depends on a number of factors, including the cost, performance, and perceived value associated with interactive, RT3D content creation platforms as an alternative to traditional methods of content creation; the ability to monetize quality interactive content and experiences effectively and efficiently in gaming and across other industries; customer awareness of our platform; the timely completion, introduction and market acceptance of enhancements to our platform or new products that we may introduce, such as our investments into consumer markets or live sports and entertainment; our ability to attract, retain, and effectively train sales personnel; the effectiveness of our marketing programs; and the success of our competitors. The market for solutions like our platform that create and operate interactive, RT3D content might not continue to develop or might develop more slowly than we expect for a variety of reasons, including the failure to create new solutions and functionality that meet market demands, technological challenges, weakening economic conditions, data security or privacy concerns, governmental regulation, and competing technologies and solutions.

If the market for our solutions does not continue to grow or develops more slowly or differently than we expect, our business, financial condition, and results of operations may be adversely affected.

Any failure to obtain, maintain, protect or enforce our intellectual property and proprietary rights could impair our ability to protect our proprietary technology and our brand.

Our success depends to a significant degree on our ability to obtain, maintain, protect and enforce our intellectual property rights, including our proprietary technology, know-how and our brand. We rely on a combination of trademarks, trade secret laws, patents, copyrights, service marks, contractual restrictions and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to obtain, maintain, protect and enforce our intellectual property rights may be inadequate. We will not be able to protect our intellectual property rights if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property rights. If we fail to protect our intellectual property rights adequately, or fail to continuously innovate and advance our technology, our competitors could gain access to our proprietary technology and develop and commercialize substantially identical products, services or technologies. In addition, defending our intellectual property rights might entail significant expense. Any patents, trademarks or other intellectual property rights that we have or may obtain may be challenged or circumvented by others or invalidated or held unenforceable through administrative processes, including re-examination, *inter partes* review, interference and derivation proceedings and equivalent proceedings in foreign jurisdictions, such as opposition proceedings, or litigation. In addition, despite our pending patent applications, we cannot assure you that our patent applications will result in issued patents. Even if we continue to seek patent protection in the future, we may be unable to obtain or maintain patent protection for our technology. In addition, any patents issued from pending or future patent applications or licensed to us in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our solutions and use information that we regard as proprietary to create products that compete with ours. Patent, trademark, copyright and trade secret protection may not be available to us in every country in which our products are available. The value of our intellectual property could diminish if others assert rights in or ownership of our trademarks and other intellectual property rights, or trademarks that are similar to our trademarks. We may be unable to successfully resolve these types of conflicts to our satisfaction. In some cases, litigation or other actions may be necessary to protect or enforce our trademarks and other intellectual property rights. Furthermore, third parties may assert intellectual property claims against us, and we may be subject to liability, required to enter into costly license agreements, required to rebrand our products or prevented from selling some of our products if third parties successfully oppose or challenge our trademarks or successfully claim that we infringe, misappropriate or otherwise violate their trademarks or other intellectual property rights. In addition, the laws of some foreign countries may not be as protective of intellectual property rights as those in the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. As we expand our global activities, our exposure to unauthorized copying and use of our platform and proprietary information will likely increase. Moreover, policing unauthorized use of our technologies, trade secrets and intellectual property may be difficult, expensive and time-consuming, particularly in foreign countries where the laws may not be as protective of intellectual property rights as those in the U.S. and where mechanisms for enforcement of intellectual property rights may be weak. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon, misappropriating or otherwise violating our intellectual property rights.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with other third parties, including suppliers and other partners. However, we cannot guarantee that we have entered into such agreements with each party that has or may have had access to our proprietary information, know-how and trade secrets or that has or may have developed intellectual property in connection with their engagement with us. Moreover, we cannot assure you that these agreements will be effective in controlling access to, distribution, use, misuse, misappropriation, reverse engineering or disclosure of our proprietary information, know-how and trade secrets. Further, these agreements may not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our platform. These agreements may be breached, and we may not have adequate remedies for any such breach.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect our intellectual property rights. Litigation may be necessary in the future to enforce our intellectual property rights, such as rights under our software licenses, and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Further, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights, and if such defenses, counterclaims or countersuits are successful, we could lose valuable intellectual property rights. Our inability to enforce our unique licensing structure, including financial eligibility tiers, and our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our solutions, impair the functionality of our platform, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our products, or injure our reputation.

We license and make available source code to customers. Although those customers are restricted in the manner in which they can use and share our source code, we cannot assure you that unauthorized use or copying of our source code will not occur. We rely on periodic significant updates to our source code to encourage our customers to access our source code through us on a paying or, for qualified users, non-paying, basis. However, we cannot assure you that this strategy will be effective in ensuring that users are not misusing or accessing our source code on an authorized basis.

Our ability to acquire and maintain licenses to intellectual property may affect our revenue and profitability. These licenses may become more expensive and increase our costs.

While most of the intellectual property we use is created by us, we have also acquired rights to proprietary intellectual property that provide key features and functionality in our solutions. We have also obtained rights to use intellectual property through licenses and service agreements with third parties.

Proprietary licenses typically limit our use of intellectual property to specific uses and for specific time periods. If we are unable to maintain these licenses or obtain additional licenses on reasonable economic terms or with significant commercial value, our revenue and profitability may be adversely impacted. These licenses may become more expensive and increase the advances, guarantees and royalties that we may pay to the licensor, which could significantly increase our costs and adversely affect our profitability.

We are and may in the future become subject to intellectual property disputes, which are costly and may subject us to significant liability and increased costs of doing business.

We have previously been named as a potential indemnitor in a claim alleging infringing use of our software. Defending this and future claims can be expensive and impose a significant burden on management and employees, and we may receive unfavorable preliminary, interim, or final rulings in the course of litigation, which could seriously harm our business.

We are currently, and may continue to be in the future, subject to intellectual property disputes, and may become subject to liability as a result of these disputes. Our success depends, in part, on our ability to develop and commercialize our solutions without infringing, misappropriating or otherwise violating the intellectual property rights of third parties. However, there is no assurance that our technologies, products, services or platform will not be found to infringe, misappropriate or otherwise violate the intellectual property rights of third parties. Lawsuits are time-consuming and expensive to resolve and they divert management's time and attention. Companies in the internet, technology and gaming industries own large numbers of patents, copyrights, trademarks, domain names and trade secrets and frequently enter into litigation based on allegations of infringement, misappropriation or other violations of intellectual property or other rights. As we face increasing competition and gain a higher profile, the possibility of intellectual property rights and other claims against us grows. Our technologies may not be able to withstand any third-party claims against their use. In addition, many companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. We have a number of issued patents. We have filed a number of additional U.S. and foreign patent applications but they may not issue. Any litigation may also involve patent holding companies or other adverse patent owners that have no relevant product revenue, and therefore, our patents and patent applications may provide little or no deterrence as we would not be able to assert them against such entities or individuals. If a third party is able to obtain an injunction preventing us from accessing such third-party intellectual property rights, or if we cannot license or develop alternative technology for any infringing aspect of our business, we would be forced to limit or stop sales of our solutions or cease business activities related to such intellectual property. In addition, we may need to settle litigation and disputes on terms that are unfavorable to us. Although we carry general liability insurance and patent infringement insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. We cannot predict the outcome of lawsuits and cannot ensure that the results of any such actions will not have an adverse effect on our business, financial condition or results of operations. Any intellectual property claim asserted against us, or for which we are required to provide indemnification, may require us to do one or more of the following:

- cease selling or using products that incorporate the intellectual property rights that we allegedly infringe, misappropriate or violate;
- make substantial payments for legal fees, settlement payments or other costs or damages;
- obtain a license, which may not be available on reasonable terms or at all, to sell or use the relevant technology; or
- redesign or rebrand the allegedly infringing products to avoid infringement, misappropriation or violation, which could be costly, time-consuming or impossible.

Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results. Moreover, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. We expect that the occurrence of infringement claims is likely to grow as the market for our solutions grow. Accordingly, our exposure to damages resulting from infringement claims could increase, and this could further exhaust our financial and management resources.

We use open source software in our products, which could negatively affect our ability to sell our services or subject us to litigation or other actions.

We use open source software in our products, and we expect to continue to incorporate open source software in our services in the future. Few of the licenses applicable to open source software have been interpreted by courts, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. Moreover, we cannot ensure that we have not incorporated additional open source software in our software in a manner that is inconsistent with the terms of the applicable license or our current policies and procedures. Depending on the terms of certain of these licenses, we may be subject to certain requirements, including that we make source code available for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of applicable open source licenses. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our products that contained the open source software and required to comply with onerous conditions or restrictions on these products, which could disrupt the distribution and sale of these products. From time to time, there have been claims challenging the ownership rights in open source software against companies that incorporate it into their products, and the licensors of such open source software provide no warranties or indemnities with respect to such claims. As a result, we and our customers could be subject to lawsuits by parties claiming ownership of what we believe to be open source software. Litigation could be costly for us to defend, have a negative effect on our business, financial condition and results of operations, or require us to devote additional research and development resources to change our products. In addition, although we employ open source software license screening measures, if we were to combine our proprietary software products with certain open source software in a particular manner we could, under certain open source licenses, be required to release the source code of our proprietary software products. Some open source projects have known vulnerabilities and architectural instabilities and are provided on an “as-is” basis which, if not properly addressed, could negatively affect the performance of our product. If we inappropriately use or incorporate open source software subject to certain types of open source licenses that challenge the proprietary nature of our products, we may be required to re-engineer such products, discontinue the sale of such products or take other remedial actions.

Risks Related to our Management, Brand, and Culture

We rely on the performance of highly skilled personnel, including our management and other key employees, and the loss of one or more of such personnel, or of a significant number of our employees, or the inability to attract and retain executives and employees we need to support our operations and growth, could harm our business.

Our success and future growth depend upon the continued services of our management team and other key employees. In particular, our President and Chief Executive Officer, John Riccitiello, is critical to our overall management, as well as the continued development of our platform, our culture and our strategic direction. From time to time, there may be changes in our management team resulting from the hiring or departure of executives and key employees, which could disrupt our business. We also are dependent on the continued service of our existing software engineers because of the complexity of our solutions. Our senior management and key employees are employed on an at-will basis. We may terminate any employee’s employment at any time, with or without cause, and any employee may resign at any time, with or without cause. The loss of one or more members of our senior management, especially Mr. Riccitiello, or key employees could harm our business, and we may not be able to find adequate replacements. We cannot ensure that we will be able to retain the services of any members of our senior management or key employees.

In addition, to execute our growth plan, we must attract and retain highly qualified personnel. We have had difficulty quickly filling certain open positions in the past, and we expect to have significant future hiring needs. Competition is intense, particularly in the San Francisco Bay Area and other areas in which we have offices, for engineers experienced in designing and developing cloud-based platform products, data scientists with experience in machine learning and artificial intelligence and experienced sales professionals. In order to continue to access top talent, we will likely continue to grow our footprint of office locations, which may add to the complexity and costs of our business operations. From time to time, we have experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached their legal obligations, resulting in a diversion of our time and resources. In addition, prospective and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, experiences significant volatility or increases such that prospective employees believe there is limited upside to the value of our equity awards, it may adversely affect our ability to recruit and retain key employees. In addition, we may experience employee turnover as a result of the ongoing "great resignation" occurring throughout the U.S. economy. New hires require training and take time before they achieve full productivity. New employees may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects would be harmed.

If we fail to maintain and enhance our brand, our ability to expand our customer base will be impaired and our business, financial condition, and results of operations may suffer.

We believe that maintaining and enhancing our brand reputation is important to expand sales of our platform to existing customers, support the marketing and sale of our platform to new customers, convert free creators to customers and grow our strategic partnerships. We also believe that the importance of brand recognition will increase as competition in our market increases. Successfully maintaining and enhancing our brand will depend largely on the effectiveness of our marketing efforts, our ability to offer a reliable platform that continues to meet the needs and preferences of our customers at competitive prices, our ability to maintain our customers' trust, our ability to continue to develop new functionality to address a wide variety of use cases and our ability to successfully differentiate our platform from competitors. Our brand promotion activities may not generate customer awareness or yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, our business, financial condition and results of operations may suffer.

Our culture emphasizes innovation, and if we cannot maintain this culture as we grow, our business could be harmed.

We have a culture that encourages employees to develop and launch new and innovative solutions, which we believe is essential to attracting customers and partners and serving the best, long-term interests of our company. As our business grows and becomes more complex, it may become more difficult to maintain this cultural emphasis. Any failure to preserve our culture could negatively affect our ability to retain and recruit personnel, which is critical to our growth, and to effectively focus on and pursue our strategies. If we fail to maintain our company culture, our business and competitive position may be harmed.

Risks Related to Laws, Regulations, and the Global Economy

We are subject to rapidly changing and increasingly stringent laws, contractual obligations, and industry standards relating to privacy, data security, and the protection of children. The restrictions and costs imposed by these requirements, or our actual or perceived failure to comply with them, could harm our business.

Our products, and particularly our Operate Solutions, rely on our ability to process sensitive, proprietary, confidential, and regulated information, including personal information, trade secrets, intellectual property, and business information, that belongs to us or that we handle on behalf of others such as our customers. These activities are regulated by a variety of federal, state, local, and foreign privacy and data security laws and regulations, which have become increasingly stringent in recent years and continue to evolve. Any actual or perceived non-compliance could result in litigation and proceedings against us by governmental entities, customers, individuals or others; fines and civil or criminal penalties for us or company officials; obligations to cease offerings or to substantially modify our Operate Solutions in ways that make them less effective in certain jurisdictions; negative publicity and harm to our brand and reputation; and reduced overall demand for our platform or reduced returns on our Operate Solutions.

Internationally, most jurisdictions in which we or our customers operate have adopted privacy and data security laws. For example, the European Union's General Data Protection Regulation 2016/679 ("GDPR") applies to the European Economic Area ("EEA") and, in substantially equivalent form, to U.K. establishments and UK-focused processing operations ("UK GDPR"). European data protection laws, including the European Union's GDPR, UK GDPR, and others, impose significant and complex burdens on processing personal information and provide for robust regulatory enforcement and significant penalties for noncompliance. For example, companies that violate the GDPR can face private litigation, bans on data processing and fines of up to the greater of 20 million Euros or 4% of their worldwide annual revenue. Furthermore, in Europe, there is a proposed regulation related to artificial intelligence ("AI") that, if adopted, could impose onerous obligations related to the use of AI-related systems which could impact our business.

Regulators, courts, and platforms have increasingly interpreted the GDPR and other data protection laws as requiring affirmative opt-in consent to use cookies and similar technologies for personalization, advertising, or analytics. A new regulation that has been proposed in the European Union, known as the ePrivacy Regulation, may further restrict the use of cookies and other online tracking technologies on which our products rely, as well as increase restrictions on online direct marketing. Such restrictions could increase our exposure to regulatory enforcement action, increase our compliance costs, and adversely affect our Operate Solutions business.

Globally, certain jurisdictions have enacted laws that may require data localization and have imposed requirements for cross-border transfers of personal information. For example, the cross-border transfer landscape in Europe remains unstable despite an agreement-in-principle between the U.S. and Europe, and other countries outside of Europe have enacted or are considering enacting cross-border data transfer restrictions and laws requiring data residency. For example, the GDPR and other European data protection laws also generally prohibit the transfer of personal information to countries outside the EEA, such as the U.S., which are not considered by the European Commission to provide an adequate level of data protection. In addition, Swiss and U.K. law contain similar data transfer restrictions as the GDPR. The European Commission recently released guidance on Standard Contractual Clauses, a mechanism to transfer data outside of the EEA, which imposes additional obligations to carry out cross-border data transfers. Although there are currently valid mechanisms available to transfer data from these jurisdictions, there remains some uncertainty regarding the future of these cross-border data transfers. Countries outside of Europe have enacted or are considering similar cross-border data transfer restrictions and laws requiring local data residency and restricting cross-border data transfer, which could increase the cost and complexity of doing business. If we cannot implement a valid mechanism for cross-border personal information transfers, we may face increased exposure to regulatory actions, penalties, and data processing restrictions or bans, and reduce demand for our services. Loss of our ability to import personal information from Europe and elsewhere may also require us to increase our data processing capabilities outside the U.S. at significant expense.

Additionally, in 2021, China's Personal Information Protection Law ("PIPL") and data Security Law were adopted and came into effect. The PIPL introduces a legal framework similar to the GDPR and is viewed as the beginning of a comprehensive system for the protection of personal information in China. The Data Security Law implements a regulatory framework governing a broader range of data, beyond personal information. Numerous aspects of both laws remain uncertain and the impact they will have on businesses remains uncertain. Similarly, in Canada, the Personal Information Protection and Electronic Documents Act ("PIPEDA") and various related provincial laws, as well as Canada's Anti-Spam Legislation ("CASL"), may apply to our operations. We also have operations in Japan, Singapore, and South Korea, and may be subject to new and emerging data privacy regimes in Asia, including Japan's Act on the Protection of Personal Information, Singapore's Personal Data Protection Act, and South Korea's Personal Information Protection Act.

In the U.S., federal, state, and local governments have enacted numerous privacy and data security laws, including data breach notification laws, personal information privacy laws, health information privacy laws, and consumer protection laws.

States have begun to introduce more comprehensive privacy legislation. For example, California enacted the California Consumer Privacy Act ("CCPA") which took effect on January 1, 2020 and imposes several obligations on covered businesses, including requiring specific disclosures related to a business's collection, use, and sharing of personal information, new operational practices, and requirements to respond to requests from California residents related to their personal information. The CCPA contains significant potential penalties for noncompliance (up to \$7,500 per violation). Additionally, it is anticipated that privacy requirements under California law will become more restrictive under the newly adopted California Privacy Rights Act ("CPRA"), which is set to become effective in January 2023, including applying to personal information of business representatives and employees and establishing a new regulatory agency to implement and enforce the law. Other states are considering or have also enacted privacy and data security laws. For example, Virginia, Utah, Colorado, and Connecticut have similarly enacted comprehensive privacy and data security laws, all of which differ from the CCPA and CPRA and become effective in 2023.

There is also increasing focus at the state and federal level on use of sensitive categories of data that we may be deemed to collect from time to time. For example, several states and localities have enacted statutes banning or restricting the collection of biometric information and have enacted measures related to the use of artificial intelligence and machine learning in products and services. Some of our products employ technology to help creators build augmented and virtual reality applications, and their use to recognize and collect information about individuals could be perceived as subject to these biometric privacy laws. Although we have endeavored to comply with these laws, the collection of biometric information has increasingly been subject to litigation.

There are emerging cases applying existing privacy and data security laws in the U.S., such as the federal and state wiretapping laws in novel and potentially impactful ways that may affect our ability to offer certain products. The outcome of these cases could cause us to make changes to our products to avoid costly litigation, government enforcement actions, damages, and penalties under these laws, which could adversely affect our business, results of operations, and our financial condition.

Another area of increasing focus by regulators is children's privacy. Enforcement of longstanding privacy laws, such as the Children's Online Privacy Protection Act ("COPPA"), has increased and that trend is expected to continue under the new generation of privacy and data security laws, such as the GDPR, CCPA, and CPRA. For example, the U.K.'s Information Commissioner's Office enacted the Age Appropriate Design Code ("Children's Code"), which imposes various obligations relating to the processing of children's data. Additionally, in September 2022, the California Governor signed into law the California Age-Appropriate Design Code Act, which takes effect July 1, 2024, which is intended to protect the wellbeing, data, and privacy of children using online platforms. European regulators are expected to introduce guidance for age appropriate design across all countries implementing the GDPR as well. We have previously been subject to claims related to the privacy of minors predicated on COPPA and other privacy and data security laws, and we may in the future face claims under COPPA, the GDPR, the Children's Code, the CCPA, the CPRA, or other laws relating to children's privacy.

Apart from the requirements of privacy and data security laws, we have obligations relating to privacy and data security under our published policies and documentation, contracts and applicable industry standards. Although we endeavor to comply with these obligations, we may have failed to do so in the past and may be subject to allegations that we have failed to do so or have otherwise processed data improperly. For example, in 2019, we became aware of a research paper alleging that our software, including an older version of the Unity Editor, was inappropriately configured to collect hardware-based persistent identifiers, or MAC addresses. Although we did not use this information to measure behavior or track individuals as alleged by the researchers and we have disabled the configuration described in the paper, we could be subject to enforcement action or litigation alleging that this instance or our other data processing practices violate our contractual obligations, policies, federal or state laws prohibiting unfair or deceptive business practices, or other privacy laws.

In response to the increasing restrictions of global privacy and data security laws, our customers have sought and may continue to seek increasingly stringent contractual assurances regarding our handling of personal information, and may adopt internal policies that limit their use of our Operate Solutions. In addition, privacy advocates and industry groups have regularly proposed, and may propose in the future, self-regulatory standards by which we are legally or contractually bound. If we fail to comply with these contractual obligations or standards, we may face substantial contractual liability or fines.

As also described in "Risk Factors—Operating system platform providers or application stores may change terms of service, policies or technical requirements to require us or our customers to change data collection and privacy and data security practices, business models, operations, practices, advertising activities or application content, which could adversely impact our business," the requirements imposed by rapidly changing privacy and data security laws, platform providers, and application stores require us to dedicate significant resources to compliance, and could also limit our ability to operate, harm our reputation, reduce demand for our products, and subject us to regulatory enforcement action (including but not limited to fines, investigations, audits, or bans on processing personal information), private litigation, and other liability. Such occurrences could adversely affect our business, financial condition, and results of operations.

Companies and governmental agencies may restrict access to platforms, our website, mobile applications, application stores or the Internet generally, which could lead to the loss or slower growth of our customers' end users and negatively impact our operations.

Governmental agencies in any of the countries in which we, our customers or end users are located, such as China, could block access to or require a license for our platform, our website, mobile applications, operating system platforms, application stores or the Internet generally for a number of reasons, including security, confidentiality or regulatory concerns. End users generally need to access the Internet, including in geographically diverse areas, and also platforms such as the Apple App Store and the Google Play Store, to play games created or operated using our platform. In addition, companies may adopt policies that prohibit employees from accessing our platform or the platforms that end users need in order to play games created or operated using our platform. If companies or governmental entities block, limit or otherwise restrict customers from accessing our platform, or end users from playing games developed or operated on our platform, our business could be negatively impacted, our customers' end users could decline or grow more slowly, and our results of operations could be adversely affected.

Further, some countries may block data transfers as a result of businesses collecting data within a country's borders as part of broader privacy-related concerns, which could affect our business. For example, the Indian government blocked the distribution of several applications of Chinese origin in the interest of sovereignty and integrity of India, defense of India, and security of the Indian state. In undertaking this action, the Indian government partially blocked some of Unity's services. We contacted the government requesting more information and to explain our business operations, including the accurate location of data processing, and they have unblocked our services. If other countries block our data transfers or services or take similar action against us, our customers, our services, and our business could be harmed.

Adverse changes in the geopolitical relationship between the U.S. and China or changes in China's economic and regulatory landscape could have an adverse effect on business conditions.

Because our continued business operations in China, including our joint venture in China, constitute a significant part of our current and future revenue growth plans, adverse changes in economic and political policies relating to China could have an adverse effect on our business. An escalation of recent trade tensions between the U.S. and China has resulted in trade restrictions that harm our ability to participate in Chinese markets. For example, U.S. export control regulations relating to China have created restrictions with respect to the sale of our products to various Chinese customers and further changes to regulations could result in additional restrictions. Additionally, proposed restrictions in the U.S. on outbound investment may impair our ability to support our subsidiaries in China, including our majority owned joint venture. Sustained uncertainty about, or worsening of, current global economic conditions and further escalation of trade tensions between the U.S. and its trading partners, especially China, could result in a global economic slowdown and long-term changes to global trade, including retaliatory trade restrictions that further restrict our ability to operate in China.

The Chinese economic, legal and political landscape also differs from many developed countries in many respects, including the level of government involvement and regulation, control of foreign exchange and allocation of resources, uncertainty regarding the enforceability and scope of protection for intellectual property rights, a relatively uncertain legal system, and instability related to economic, political and social reform. The laws, regulations and legal requirements in China are also subject to frequent changes. Any actions and policies adopted by the government of the People's Republic of China ("PRC"), particularly with regard to intellectual property rights and existing cloud-based and Internet restrictions for non-Chinese businesses, or any prolonged slowdown in China's economy, due to the COVID-19 pandemic or otherwise, could have an adverse effect on our business, results of operations and financial condition.

In particular, PRC laws and regulations impose restrictions on foreign ownership of companies that engage in internet, market survey, cloud-based services and other related businesses from time to time. Specifically, foreign ownership of an internet content provider may not exceed 50% and the primary foreign investor of such provider must have a record of good performance and operating experience in managing internet content service. Accordingly, our ability to offer cloud-based services in China depends on our ability to implement and maintain structures that are acceptable under PRC laws. If any structure that we have implemented or may in the future implement is determined to be illegal or invalid, the relevant governmental authorities would have broad discretion in dealing with such violation, including revoking our business and operating licenses, requiring us to discontinue or restrict operations, restricting our rights to collect revenue, confiscating our income, requiring us to restructure our ownership structure or operations, imposing additional conditions or requirements with which we may not be able to comply or levying fines. Additionally, the structure that we have implemented or may in the future implement may not be as effective as direct ownership, and we may not be able to enforce our rights to exercise control over our business operation in China. Any of the foregoing could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition, and operating results.

We are subject to anti-corruption, anti-bribery, anti-money laundering, and similar laws, and non-compliance with such laws can subject us to criminal or civil liability and harm our business, financial condition and results of operations.

We are subject to the FCPA, U.S. domestic bribery laws, the U.K. Bribery Act and other anti-corruption and anti-money laundering laws in the countries in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly to generally prohibit companies, their employees and their third-party intermediaries from authorizing, offering or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. As we increase our global sales and business to the public sector and further develop our reseller channel, we may engage with business partners and third-party intermediaries to market our solutions and obtain necessary permits, licenses and other regulatory approvals. In addition, we or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners and agents, even if we do not authorize such activities.

While we have policies and procedures to address compliance with such laws, we cannot assure you that none of our employees and agents will take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. As we increase our global sales and business, our risks under these laws may increase.

Detecting, investigating, and resolving actual or alleged violations of anti-corruption laws can require a significant diversion of time, resources and attention from senior management. In addition, noncompliance with anti-corruption, anti-bribery or anti-money laundering laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, enforcement actions, fines, damages, other civil or criminal penalties or injunctions, suspension or debarment from contracting with certain persons, reputational harm, adverse media coverage and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal proceeding, our business, financial condition and results of operations could be harmed. In addition, responding to any action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

We are subject to governmental export and import controls and economic sanctions laws that could impair our ability to compete in global markets or subject us to liability if we violate the controls.

Our platform is subject to U.S. export controls. Our products and the underlying technology may be exported outside of the U.S. only with the required export authorizations, including by license, a license exception, or other appropriate government authorizations, including the filing of an encryption classification request or self-classification report, as applicable.

Furthermore, our activities are subject to U.S. economic sanctions laws and regulations administered by the Office of Foreign Assets Control ("OFAC") that prohibit the shipment of most solutions to embargoed jurisdictions or sanctioned parties without the required export authorizations. Obtaining the necessary export license or other authorization for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities.

Although we have taken precautions to prevent our platform from being provided, deployed or used in violation of export control and sanctions laws, and have enhanced our policies and procedures relating to export control and sanctions compliance, in the past, we have inadvertently provided products and services to some customers in apparent violation of U.S. export control and economic sanctions laws. In August 2020, we submitted to OFAC and to the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") initial notifications of voluntary self-disclosure concerning these apparent violations. In February 2021, we submitted to OFAC and BIS final notifications of voluntary self-disclosure concerning the same. In April 2021, OFAC closed out the voluntary self-disclosure and issued a cautionary letter, with no imposition of monetary fines or penalties. In June 2021, after submission of a supplemental disclosure to BIS regarding additional apparent export control violations that were uncovered, BIS also closed out the voluntary self-disclosure and issued a warning letter, with no imposition of monetary fines or penalties. We cannot be sure that our policies and procedures relating to export control and sanctions compliance will prevent violations in the future. If we are found to be in violation of U.S. sanctions or export control regulations, significant fines or penalties and possible incarceration for responsible employees and managers, as well as reputational harm and loss of business, could result.

If we or our resellers fail to obtain appropriate import, export, or re-export licenses or permits, we may be adversely affected through reputational harm, as well as other negative consequences, including government investigations and penalties.

Also, various countries, in addition to the U.S., regulate the import and export of certain encryption and other technology, including import and export licensing requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries. Changes in our products or future changes in export and import regulations may create delays in the introduction of our platform in global markets, prevent our customers with global operations from deploying our platform globally or, in some cases, prevent the export or import of our products to certain countries, governments or persons altogether. From time to time, various governmental agencies have proposed additional regulation of encryption technology.

Our customers outside of the U.S. generate a significant portion of our revenue and our growth strategy includes further expanding our operations and customer base across all major global markets. However, any change in export or import regulations, economic sanctions or related legislation, increased export and import controls, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our platform by, or in our decreased ability to export or sell our products to, existing or potential customers with global operations. Any decreased use of our platform or limitation on our ability to export or sell our products in major global markets would adversely affect our business, results of operations, and growth prospects.

Sales to government entities and highly regulated organizations are subject to a number of challenges and risks.

We sell our Create Solutions and Operate Solutions to U.S. federal, state, and local, as well as foreign, governmental agency customers, as well as to customers in highly regulated industries. Sales to such entities are subject to a number of challenges and risks. Selling to such entities can be highly competitive, expensive and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government contracting requirements may change and in doing so restrict our ability to sell into the government sector until we have attained the revised certification. Government demand and payment for solutions are affected by public sector budgetary cycles and funding authorizations and funding reductions or delays may adversely affect public sector demand that could develop for our solutions.

Further, governmental and highly regulated entities may demand or require contract terms and product and solution features or certifications that differ from our standard arrangements and are less favorable or more difficult to maintain than terms that we negotiate with private sector customers or otherwise make available. Such entities may have statutory, contractual or other legal rights to terminate contracts with us or our partners for convenience or for other reasons. Any such termination may adversely affect our ability to provide our platform to other government customers and could adversely impact our reputation, business, financial condition and results of operations.

We could be required to collect additional sales, value added or similar taxes or be subject to other tax liabilities that may increase the costs our clients would have to pay for our solutions and adversely affect our results of operations.

We collect sales, value added or similar indirect taxes in a number of jurisdictions. An increasing number of states have considered or adopted laws that attempt to impose sales tax collection obligations on out-of-state companies. Additionally, the Supreme Court of the United States ruled in *South Dakota v. Wayfair, Inc. et al* ("Wayfair") that online sellers can be required to collect sales and use tax despite not having a physical presence in the buyer's state. In response to Wayfair, or otherwise, states or local governments may adopt, or begin to enforce, laws requiring us to calculate, collect, and remit taxes on sales in their jurisdictions. Similarly, many foreign jurisdictions have considered or adopted laws that impose value added, digital service, or similar taxes, on companies despite not having a physical presence in the foreign jurisdiction. A successful assertion by one or more states, or foreign jurisdictions, requiring us to collect taxes where we presently do not do so, or to collect more taxes in a jurisdiction in which we currently do collect some taxes, could result in substantial tax liabilities, including taxes on past sales, as well as penalties and interest. The requirement to collect sales, value added or similar indirect taxes by foreign, state or local governments for sellers that do not have a physical presence in the jurisdiction could also create additional administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on our competitors, and decrease our future sales, which could have a material adverse effect on our business and results of operations. We continually monitor the evolving tax requirements in the jurisdictions in which we operate and those jurisdictions where our customers reside.

Our ability to use our net operating losses, credits, and certain other tax attributes to offset future taxable income or taxes may be subject to certain limitations.

As of December 31, 2021, we had NOL carryforwards for U.S. federal, state, and foreign purposes of \$1.0 billion, \$392.2 million and \$449.8 million, respectively, which may be available to offset taxable income in the future, and portions of which expire in various years beginning in 2024. A lack of future taxable income would adversely affect our ability to utilize a portion of these NOLs before they expire. Under the current law, federal NOLs incurred in tax years beginning after December 31, 2017, may be carried forward indefinitely, but the deductibility of such federal NOLs, is limited to 80% of taxable income. In addition, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"), a corporation that undergoes an "ownership change" (as defined under Section 382 of the Code and applicable Treasury Regulations) is subject to limitations on its ability to utilize its pre-change NOL carryforwards and certain other tax attributes to offset post-change taxable income or taxes. We may experience future ownership changes that could affect our ability to utilize our NOL carryforwards to offset our income. Furthermore, our ability to utilize NOL carryforwards of companies that we have acquired or may acquire in the future may be subject to limitations. In addition, at the state level, there may be periods during which the use of NOL carryforwards is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed. For these reasons, we may not be able to utilize all of the NOLs, even if we attain profitability, which could potentially result in increased future tax liability to us and could adversely affect our operating results and financial condition.

Any legal proceedings, claims against us, or other disputes could be costly and time-consuming to defend and could harm our reputation regardless of the outcome.

We are and may in the future become subject to legal proceedings and claims that arise from time to time, such as claims brought by our customers in connection with commercial disputes, employment claims made by our current or former employees, or securities class action litigation suits. We were previously involved in two related putative class-action lawsuits brought by end users of games that include our software and include allegations related to violations of privacy laws, which we ultimately settled. We were also previously involved in a lease dispute with a San Francisco landlord, which we ultimately settled. In addition, in June 2019, a former senior-level employee brought a lawsuit against us in the San Francisco County Superior Court alleging claims arising under California law for retaliation, termination in violation of the California Fair Employment and Housing Act, failure to prevent discrimination and retaliation, wrongful termination, defamation, and slander. This lawsuit included allegations related to alleged actions by our CEO, John Riccitiello. These allegations were reported in the media. We filed an answer denying every allegation of unlawful conduct made in the complaint and a motion to compel arbitration. The court granted our motion to compel arbitration.

Any litigation or dispute, whether meritorious or not, could harm our reputation, will increase our costs and may divert management's attention, time and resources, which may in turn harm our business, financial condition and results of operations. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims, and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, potentially harming our business, financial position and results of operations.

We are subject to laws and regulations worldwide, many of which are unsettled and still developing and which could increase our costs or adversely affect our business.

We are subject to a variety of laws in the U.S. and abroad that affect our business, including state and federal laws regarding consumer protection, advertising, electronic marketing, protection of minors, data protection and privacy, data localization requirements, online services, anti-competition, labor, real estate, taxation, intellectual property ownership and infringement, export and national security, tariffs, anti-corruption and telecommunications, all of which are continuously evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting, particularly laws outside the U.S., and compliance with laws, regulations and similar requirements may be burdensome and expensive. Laws and regulations may be inconsistent from jurisdiction to jurisdiction, which may increase the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could make our platform less attractive to our customers or cause us to change or limit our ability to sell our platform. We have policies and procedures designed to ensure compliance with applicable laws and regulations, but we cannot assure you that our employees, contractors or agents will not violate such laws and regulations or our policies and procedures.

In particular, as a result of our Operate Solutions, we are potentially subject to a number of foreign and domestic laws and regulations that affect the offering of certain types of content, such as that which depicts violence, many of which are ambiguous, still evolving and could be interpreted in ways that could harm our business or expose us to liability. In addition, there are ongoing academic, political and regulatory discussions in the U.S., Europe, Australia and other jurisdictions regarding whether certain game mechanisms, such as loot boxes, and game genres, such as social casino, rewarded gaming and gambling, should be subject to a higher level or different type of regulation than other game genres or mechanics to protect consumers, in particular minors and persons susceptible to addiction, and, if so, what such regulation should include. New regulation by the U.S. federal government and its agencies, such as the FTC, U.S. states and state agencies or foreign jurisdictions, which may vary significantly across jurisdictions, could require that certain game content be modified or removed from games, increase the costs of operating our customer's games, impact player engagement and thus the functionality and effectiveness of our Operate Solutions or otherwise harm our business performance. It is difficult to predict how existing or new laws may be applied. If we become liable, directly or indirectly, under these laws or regulations, we could be harmed, and we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to modify our Operate Solutions, which would harm our business, financial condition and results of operations. In addition, the increased attention focused upon liability issues as a result of lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this potential liability could harm our business, financial condition or results of operations.

It is possible that a number of laws and regulations may be adopted or construed to apply to us or our customers in the U.S. and elsewhere that could restrict the online and mobile industries, including player privacy, advertising, taxation, content suitability, copyright, distribution and antitrust, and our solutions or components thereof may be deemed or perceived illegal or unfair practices. Furthermore, the growth and development of electronic commerce and virtual items may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as us and our customers conducting business through the Internet and mobile devices. We anticipate that scrutiny and regulation of our industry will increase and we will be required to devote legal and other resources to addressing such regulation. For example, existing laws or new laws regarding the marketing or the use of in-app purchases or such enabling technology, labeling of free-to-play games or regulation of currency, banking institutions, unclaimed property or money transmission may be interpreted to cover games made with our solutions and the revenue that we receive from our Operate Solutions. If that were to occur, we may be required to seek licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements and we may be subject to additional regulation and oversight, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the U.S. or elsewhere regarding these activities may lessen the growth of mobile gaming and impair our business, financial condition or results of operations.

Risks Related to our 2026 Convertible Notes

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the \$1.7 billion aggregate principal amount of 0% Convertible Senior Notes due 2026 (the "2026 Notes") that we issued in November 2021, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. If the assumptions underlying our cash flow guidance are incorrect, for example, due to the unknown impacts of the COVID-19 pandemic, our business may not continue to generate cash flow from operations in the future sufficient to service our debt, including the 2026 Notes, and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or issuing additional equity, equity-linked or debt instruments on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. If we are unable to engage in any of these activities or engage in these activities on desirable terms, we may be unable to meet our debt obligations, including the 2026 Notes, which would materially and adversely impact our business, financial condition and operating results.

Conversion of the 2026 Notes may dilute the ownership interest of our stockholders or may otherwise depress the price of our common stock.

The conversion of some or all of the 2026 Notes may dilute the ownership interests of our stockholders. Upon conversion of the 2026 Notes, we have the option to pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock. If we elect to settle our conversion obligation in shares of our common stock or a combination of cash and shares of our common stock, any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the 2026 Notes may encourage short selling by market participants because the conversion of the 2026 Notes could be used to satisfy short positions, or anticipated conversion of the 2026 Notes into shares of our common stock could depress the price of our common stock.

The conditional conversion feature of the 2026 Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the 2026 Notes is triggered, holders of the 2026 Notes will be entitled under indenture governing the 2026 Notes to convert their notes at any time during specified periods at their option. If one or more holders elect to convert their 2026 Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. As of September 30, 2022, the 2026 Notes are not convertible at the option of the holder. In addition, even if holders do not elect to convert their 2026 Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the 2026 Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the 2026 Notes, could have a material effect on our reported financial results.

Under ASC Subtopic 470-20, *Debt with Conversion and Other Options* ("ASC 470-20"), an entity must separately account for the liability and equity components of convertible debt instruments (such as the 2026 Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the 2026 Notes is that the equity component would be required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at issuance, and the value of the equity component would be treated as a discount for purposes of accounting for the debt component of the 2026 Notes.

In addition, under certain circumstances, convertible debt instruments (such as the 2026 Notes) that may be settled entirely or partly in cash may be accounted for utilizing the treasury stock method for earnings per share purposes, the effect of which is that the shares issuable upon conversion of the 2026 Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount.

However, in August 2020, the FASB published an accounting standards update ("ASU") 2020-06 ("ASU 2020-06"), which amends these accounting standards by reducing the number of accounting models for convertible instruments and limiting instances of separate accounting for the debt and equity or a derivative component of the convertible debt instruments. ASU 2020-06 also will no longer allow the use of the treasury stock method for convertible instruments and instead require application of the "if-converted" method. Under that method, diluted earnings per share will generally be calculated assuming that all the 2026 Notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti-dilutive, which could adversely affect our diluted earnings per share. However, if the principal amount of the convertible debt instrument being converted is required to be paid in cash and only the excess is permitted to be settled in shares, the if-converted method will produce a similar result as the treasury stock method prior to the adoption of ASU 2020-06 for such convertible debt instrument. These amendments will be effective for public companies for fiscal years beginning after December 15, 2021, with early adoption permitted, but no earlier than fiscal years beginning after December 15, 2020.

The capped call transactions may affect the value of the 2026 Notes and our common stock.

In connection with the pricing of the 2026 Notes and the exercise by the initial purchasers of their option to purchase additional 2026 Notes, we entered into capped call transactions (the "Capped Call Transactions") with certain of the initial purchasers of the 2026 Notes or affiliates thereof and other financial institutions (the "option counterparties"). The Capped Call Transactions cover, subject to customary adjustments, the number of shares of our common stock initially underlying the 2026 Notes. The Capped Call Transactions are expected generally to reduce the potential dilution to our common stock upon any conversion of 2026 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2026 Notes, as the case may be, with such reduction and/or offset subject to a cap. In connection with establishing their initial hedges of the Capped Call Transactions, the counterparties or their respective affiliates likely entered into various derivative transactions with respect to our common stock and/or purchased shares of our common stock concurrently with or shortly after the pricing of the 2026 Notes, including with certain investors in the 2026 Notes. The counterparties and/or or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the 2026 Notes (and are likely to do so on each exercise date of the Capped Call Transactions or, to the extent we exercise the relevant election under the Capped Call Transactions, following any repurchase, redemption or conversion of the 2026 Notes). We cannot make any prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the prices of the 2026 Notes or the shares of our common stock. Any of these activities could adversely affect the value of the 2026 Notes and our common stock.

We are subject to counterparty risk with respect to the capped call transactions.

The option counterparties are financial institutions, and we will be subject to the risk that any or all of them might default under the Capped Call Transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the Capped Call Transaction with such option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our common stock. In addition, upon a default by an option counterparty, we may suffer more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties.

Certain provisions in the indenture governing the 2026 Notes may delay or prevent an otherwise beneficial takeover attempt of us.

Certain provisions in the indenture governing the 2026 Notes may make it more difficult or expensive for a third party to acquire us. For example, the indenture governing the 2026 Notes will require us, except as described in the indenture, to repurchase the notes for cash upon the occurrence of a "fundamental change" (as defined in the indenture) and, in certain circumstances, to increase the conversion rate for a holder that converts its 2026 Notes in connection with a "make-whole fundamental change" (as defined in the indenture). A takeover of us may trigger the requirement that we repurchase the 2026 Notes and/or increase the conversion rate, which could make it costlier for a potential acquirer to engage in such takeover. Such additional costs may have the effect of delaying or preventing a takeover of us that would otherwise be beneficial to investors.

Risks Related to Ownership of Our Common Stock

Our stock price has been and may continue to be volatile, and the value of our common stock may decline.

The market price of our common stock has been and may continue to be highly volatile and may fluctuate or decline substantially as a result of a variety of factors, some of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition or results of operations;
- variance in our financial performance from expectations of securities analysts;
- changes in the pricing of the solutions on our platform;
- changes in our projected operating and financial results;
- changes in laws or regulations applicable to our platform;
- announcements by us or our competitors of significant business developments, acquisitions or new offerings;
- sales of shares of our common stock by us or our stockholders;
- sales of securities convertible into shares of our capital stock by us;
- significant data breaches, disruptions to or other incidents involving our platform;
- our involvement in litigation;
- conditions or developments affecting the gaming industry;
- changes in senior management or key personnel;
- the trading volume of our common stock;
- changes in the anticipated future size and growth rate of our market;
- general economic and market conditions; and
- other events or factors, including those resulting from war, incidents of terrorism, global pandemics, or responses to these events.

Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may also negatively impact the market price of our common stock. In addition, technology stocks have historically experienced high levels of volatility. In the past, companies who have experienced volatility in the market price of their securities have been subject to securities class action litigation. We have been and may be the target of this type of litigation in the future, which could result in substantial expenses and divert our management's attention.

Future sales of our common stock in the public market could cause the market price of our common stock to decline.

Sales of a substantial number of shares of our common stock in the public market or the perception that these sales might occur could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the timing of or the effect that future sales may have on the prevailing market price of our common stock.

If securities or industry analysts do not publish research or publish unfavorable or inaccurate research about our business, the market price and trading volume of our common stock could decline.

The market price and trading volume of our common stock may be heavily influenced by the way analysts interpret our financial information and other disclosures. We do not have control over these analysts. If few securities analysts commence coverage of us, or if industry analysts cease coverage of us, our stock price would be negatively affected. If securities or industry analysts do not publish research or reports about our business, downgrade our common stock, or publish negative reports about our business, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our stock price to decline and could decrease the trading volume of our common stock.

Concentration of ownership of our common stock among our existing executive officers, directors, and principal stockholders may prevent new investors from influencing significant corporate decisions.

Our executive officers, directors, and current beneficial owners of 5% or more of our common stock beneficially own a significant percentage of our outstanding common stock. These persons, acting together, will be able to significantly influence all matters requiring stockholder approval, including the election and removal of directors and any merger or other significant corporate transactions. The interests of this group of stockholders may not coincide with the interests of other stockholders.

Our issuance of additional capital stock in connection with financings, acquisitions, investments, our equity incentive plans or otherwise will dilute all other stockholders.

We expect to issue additional capital stock in the future that will result in dilution to all other stockholders. We grant and expect to continue granting equity awards to employees, directors and consultants under our equity incentive plans. We may also raise capital through the sale and issuance of equity securities or convertible securities in the future. As part of our business strategy, we may acquire or make investments in companies, products or technologies and issue equity securities to pay for any such acquisition or investment. Any such issuances of additional capital stock may cause stockholders to experience significant dilution of their ownership interests and the per share value of our common stock to decline. For example, the consideration for the ironSource Merger was shares of our common stock. The number of shares of common stock issued in the ironSource Merger is based on the conversion of each outstanding ironSource ordinary share into the right to receive 0.1089 of a share of our common stock, subject to applicable withholding tax and rounded to the nearest whole share for any fractional shares of our common stock resulting from the calculation. At closing of the merger, on a fully diluted basis, current Unity stockholders owned approximately 73.5% of the outstanding shares of Unity common stock and former ironSource shareholders owned approximately 26.5% of the outstanding shares of Unity common stock.

We do not intend to pay dividends for the foreseeable future and, as a result, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our capital stock, and we do not intend to pay any cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, you may need to rely on sales of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on your investment.

We incur increased costs as a result of operating as a public company, and our management is required to devote substantial time to compliance with our public company responsibilities and corporate governance practices.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, and which we expect to further increase now that we are no longer an "emerging growth company." The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the NYSE, and other applicable securities rules and regulations impose various requirements on public companies. Our management and other personnel devote a substantial amount of time to compliance with these requirements. Moreover, these rules and regulations may change from time to time. Monitoring such changes, and updating our procedures to comply with any such changes, may increase our legal and financial compliance costs and will make some activities more time-consuming and costly. We cannot predict or estimate the totality of any such additional costs we incur as a public company or the specific timing of such costs.

As a result of being a public company, we are obligated to develop and maintain proper and effective internal controls over financial reporting, and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. In addition, our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting. Based on the market value of our common stock held by non-affiliates as of June 30, 2021, we are no longer an emerging growth company as of December 31, 2021. As such, our independent registered public accounting firm is required to issue an attestation report on management's assessment of our internal control over financial reporting and we must adopt certain additional accounting standards. Our compliance with Section 404 requires that we incur substantial expenses and expend significant management efforts. We have hired additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and have compiled the system and process documentation necessary to perform the evaluation needed to comply with Section 404. However, our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business, including in connection with the ironSource Merger. In addition, changes in accounting principles or interpretations could also challenge our internal controls and require that we establish new business processes, systems and controls to accommodate such changes. Additionally, if these new systems, controls or standards and the associated process changes do not give rise to the benefits that we expect or do not operate as intended, it could adversely affect our financial reporting systems and processes, our ability to produce timely and accurate financial reports or the effectiveness of internal control over financial reporting. Moreover, our business may be harmed if we experience problems with any new systems and controls that result in delays in their implementation or increased costs to correct any post-implementation issues that may arise.

During the evaluation and testing process of our internal controls, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to certify that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition or results of operations. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm determines we have a material weakness or significant deficiency in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

The growth and expansion of our business places a continuous, significant strain on our operational and financial resources, including as a result of the ironSource Merger. Further growth of our operations to support our customer base, our IT systems and our internal controls and procedures may not be adequate to support our operations. For example, we are still in the process of implementing IT and accounting systems to help manage critical functions such as billing and financial forecasts. As we continue to grow, we may not be able to successfully implement requisite improvements to these systems, controls and processes, such as system access and change management controls, in a timely or efficient manner. Our failure to improve our systems and processes, or their failure to operate in the intended manner, whether as a result of the growth of our business or otherwise, may result in our inability to accurately forecast our revenue and expenses, or to prevent certain losses. Moreover, the failure of our systems and processes could undermine our ability to provide accurate, timely and reliable reports on our financial and operating results and could impact the effectiveness of our internal control over financial reporting. In addition, our systems and processes may not prevent or detect all errors, omissions, or fraud.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock with terms, rights, and preferences determined by our board of directors that may be senior to our common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairperson of our board of directors, our chief executive officer, or our president (in the absence of a chief executive officer);
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed for cause only upon the vote of at least 66 2/3% of our outstanding shares of voting stock;

- provide that vacancies on our board of directors may be filled only by the affirmative vote of a majority of directors then in office, even though less than a quorum, or by a sole remaining director; and
- require the approval of our board of directors or the holders of at least 66 2/3% of our outstanding shares of voting stock to amend our bylaws and certain provisions of our certificate of incorporation.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally, subject to certain exceptions, prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our common stock, and they could deter potential acquirers of our company, thereby reducing the likelihood that you would receive a premium for your shares of our common stock in an acquisition.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware and the federal district courts of the United States of America as the exclusive forums for certain disputes between us and our stockholders, which restricts our stockholders’ ability to choose the judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery of the State of Delaware lacks subject matter jurisdiction, any state court located within the State of Delaware or, if and only if all such state courts lack subject matter jurisdiction, the federal district court for the District of Delaware) is the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on our behalf; (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any of our current or former directors, officers, or other employees to us or our stockholders; (iii) any action or proceeding asserting a claim against us or any of our current or former directors, officers or other employees arising out of or pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; (iv) any action or proceeding to interpret, apply, enforce or determine the validity of our amended and restated certificate of incorporation or our amended and restated bylaws (including any right, obligation, or remedy thereunder); (v) any action or proceeding as to which the Delaware General Corporation Law confers jurisdiction to the Court of Chancery of the State of Delaware; and (vi) any action or proceeding asserting a claim against us or any of our current or former directors, officers, or other employees that is governed by the internal affairs doctrine, in all cases to the fullest extent permitted by law and subject to the court’s having personal jurisdiction over the indispensable parties named as defendants. This provision would not apply to suits brought to enforce a duty or liability created by the Securities Exchange Act of 1934, as amended, or any other claim for which the federal courts have exclusive jurisdiction (“the Securities Act”). In addition, to prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. However, as Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder, there is uncertainty as to whether a court would enforce such provision. Our amended and restated certificate of incorporation further provides that any person or entity holding, owning or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to these provisions.

These choice of forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring such a claim arising under the Securities Act against us, our directors, officers, or other employees in a venue other than in the federal district courts of the United States of America. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and we cannot assure you that the provisions will be enforced by a court in those other jurisdictions. If a court were to find either exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could harm our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Unregistered Sales of Equity Securities***

None.

Use of Proceeds

None.

Purchases of Equity Securities by the Issuer

None.

Item 6. Exhibits**EXHIBIT INDEX**

Exhibit Number	Description of Exhibit	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated as of July 13, 2022, by and among the Registrant, Ursa Aroma Merger Subsidiary LTD and ironSource Ltd.	8-K	001-39497	2.1	July 15, 2022
3.1	Amended and Restated Certificate of Incorporation of the Registrant	8-K	001-39497	3.1	September 22, 2020
3.2	Amended and Restated Bylaws of the Registrant	S-1/A	333-248255	3.4	September 9, 2020
10.1	Form of Voting Agreement, dated as of July 13, 2022, by and among Unity and certain shareholders of ironSource party thereto (included in Exhibit 2.1 hereto)	8-K	001-39497	10.1	July 15, 2022
10.2	Investment Agreement, dated as of July 13, 2022, between Unity, the Silver Lake Alpine II, L.P., and Silver Lake Partners VI, L.P. and Sequoia Capital Fund, L.P.	8-K	001-39497	10.3	July 15, 2022
10.3*	Unity Software Inc. 2020 Equity Incentive Plan and related form agreements				
31.1*	Section 302 Certification of Principal Executive Officer				
31.2*	Section 302 Certification of Principal Financial Officer				
32.1*#	Section 906 Certification of Principal Executive Officer and Principal Financial Officer				
101.INS	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				
*	Filed herewith.				
#	<p>The certifications attached as Exhibit 32.1 accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any of the Registrant’s filings under the Securities Act of 1933, as amended, irrespective of any general incorporation language contained in any such filing.</p> <p>The agreements and other documents filed as exhibits to this Quarterly Report on Form 10-Q are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.</p>				

SIGNATURES

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

Date: November 9, 2022

UNITY SOFTWARE INC.

By: /s/ Luis Visoso

Luis Visoso

Senior Vice President and Chief Financial Officer

*(Principal Financial Officer, Principal Accounting Officer and
Duly Authorized Signatory)*