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, 2024

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	**27-0334803**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

30 3rd Street

San Francisco , California 94103-3104

(Address, including zip code, of principal executive offices)

(415) 638-9950

(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 x No o

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 x No o

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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 x

As of October 30, 2024, there were 402,840,097 shares of the registrant's common stock outstanding.

UNITY SOFTWARE INC.

FORM 10-Q

For the Quarter Ended September 30, 2024

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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 "aim," "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.

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 and discussed in greater detail below, under "Part II, Item 1A. Risk Factors" and summarized below.

- *We have a history of losses and may not achieve or sustain profitability on a GAAP basis in the future.*
- *If we fail to successfully execute our plans to reset our portfolio to focus on our Strategic Portfolio and to right-size our investments, our business will be harmed.*
- *If we are not able to grow efficiently and manage our costs, we may not achieve profitability on a GAAP basis.*
- *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.*
- *If we are unable to retain our existing customers and expand their use of our platform, or attract new customers, our growth and operating results could be adversely affected, and we may be required to reconsider our growth strategy.*
- *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. We periodically review our pricing structure and business models. Decisions to change how we price our products or services have in the past and may in the future be viewed unfavorably and harm our business.*
- *Operating system platform providers or application stores may change terms of service, policies or technical requirements applicable to us or our customers, which could adversely impact our business.*
- *Negative macroeconomic factors, such as inflation, high interest rates, and limited credit availability have and could further cause economic uncertainty and volatility, which could harm our business.*
- *Competition in the advertising market and ongoing restrictions related to the gaming industry in China have impacted our growth rates and may continue to do so.*
- *Ongoing geopolitical instability, particularly in Israel, where a significant portion of our Grow Solutions operations is located, has impacted and may further adversely affect our business.*
- *Our ability to successfully manage executive transitions and to retain senior executives and key employees could impact our operations and our business.*

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.

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 per share data)
(Unaudited)

	As of	
	September 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 1,405,276	$ 1,590,325
Accounts receivable, net	576,436	611,723
Prepaid expenses and other	134,656	122,843
Total current assets	2,116,368	2,324,891
Property and equipment, net	108,085	140,887
Goodwill	3,166,304	3,166,304
Intangible assets, net	1,154,699	1,406,745
Other assets	180,399	204,614
Total assets	$ 6,725,855	$ 7,243,441
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 15,195	$ 14,517
Accrued expenses and other	289,340	307,704
Publisher payables	382,552	385,113
Deferred revenue	189,810	186,769
Total current liabilities	876,897	894,103
Convertible notes	2,238,083	2,711,750
Long-term deferred revenue	17,257	6,015
Other long-term liabilities	167,058	217,195
Total liabilities	3,299,295	3,829,063
Commitments and Contingencies (Note 7)		
Redeemable noncontrolling interests	236,914	225,797
Stockholders' equity:		
Common stock, $ 0.000005 par value:		
Authorized shares - 1,000,000 and 1,000,000		
Issued and outstanding shares - 402,578 and 384,872	2	2
Additional paid-in capital	6,799,899	6,259,479
Accumulated other comprehensive loss	(2,987)	(5,009)
Accumulated deficit	(3,613,217)	(3,071,830)
Total Unity Software Inc. stockholders' equity	3,183,697	3,182,642
Noncontrolling interest	5,949	5,939
Total stockholders' equity	3,189,646	3,188,581
Total liabilities and stockholders' equity	$ 6,725,855	$ 7,243,441

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,	
	2024	**2023**	**2024**	**2023**
Revenue	$ 446,517	$ 544,210	$ 1,356,156	$ 1,578,049
Cost of revenue	112,054	151,349	365,316	472,140
Gross profit	334,463	392,861	990,840	1,105,909
Operating expenses				
Research and development	215,197	240,003	706,860	788,438
Sales and marketing	176,423	194,000	576,902	619,258
General and administrative	69,989	86,256	338,573	272,047
Total operating expenses	461,609	520,259	1,622,335	1,679,743
Loss from operations	(127,146)	(127,398)	(631,495)	(573,834)
Interest expense	(5,839)	(6,154)	(17,703)	(18,425)
Interest income and other income (expense), net	15,350	16,013	102,450	38,689
Loss before income taxes	(117,635)	(117,539)	(546,748)	(553,570)
Provision for (benefit from) Income taxes	6,913	7,771	(4,984)	18,767
Net loss	(124,548)	(125,310)	(541,764)	(572,337)
Net income (loss) attributable to noncontrolling interest and redeemable noncontrolling interests	191	(1,239)	(377)	(3,075)
Net loss attributable to Unity Software Inc.	$ (124,739)	$ (124,071)	$ (541,387)	$ (569,262)
Basic and diluted net loss per share attributable to Unity Software Inc.	$ (0.31)	$ (0.32)	$ (1.38)	$ (1.49)
Weighted-average shares used in computation of basic and diluted net loss per share	398,810	383,674	392,855	382,939

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,	
	2024	2023	2024	2023
Net loss	$ (124,548)	$ (125,310)	$ (541,764)	$ (572,337)
Other comprehensive income (loss), net of taxes:				
Change in foreign currency translation adjustment	7,412	(1,405)	2,558	(10,403)
Change in unrealized gains on derivative instruments	—	—	—	289
Other comprehensive income (loss)	7,412	(1,405)	2,558	(10,114)
Comprehensive loss	(117,136)	(126,715)	(539,206)	(582,451)
Net income (loss) attributable to noncontrolling interest and redeemable noncontrolling interests	191	(1,239)	(377)	(3,075)
Foreign currency translation attributable to noncontrolling interest and redeemable noncontrolling interests	1,501	(302)	536	(2,159)
Comprehensive loss attributable to noncontrolling interest and redeemable noncontrolling interests	1,692	(1,541)	159	(5,234)
Comprehensive loss attributable to Unity Software Inc.	$ (118,828)	$ (125,174)	$ (539,365)	$ (577,217)

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, 2024

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Unity Software Inc. Stockholders' Equity	Noncontrolling Interest [1]	Total Equity
Balance at June 30, 2024	395,444,298	$ 2	$ 6,682,060	$ (8,898)	$ (3,488,478)	$ 3,184,686	$ 5,834	$ 3,190,520
Issuance of common stock from employee equity plans	2,592,849	—	20,000	—	—	20,000	—	20,000
Issuance of common stock for settlement of RSUs	4,540,993	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	107,120	—	—	107,120	—	107,120
Net loss	—	—	—	—	(124,739)	(124,739)	13	(124,726)
Adjustments to redeemable noncontrolling interest	—	—	(9,281)	—	—	(9,281)	—	(9,281)
Other comprehensive loss	—	—	—	5,911	—	5,911	102	6,013
Balance at September 30, 2024	402,578,140	$ 2	$ 6,799,899	$ (2,987)	$ (3,613,217)	$ 3,183,697	$ 5,949	$ 3,189,646

Three Months Ended September 30, 2023

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Unity Software Inc. Stockholders' Equity	Noncontrolling Interest [1]	Total Equity
Balance at June 30, 2023	383,290,627	$ 2	$ 6,149,631	$ (8,543)	$ (2,695,010)	$ 3,446,080	$ 6,046	$ 3,452,126
Issuance of common stock from employee equity plans	1,551,912	—	23,050	—	—	23,050	—	23,050
Issuance of common stock for settlement of RSUs	2,435,827	—	—	—	—	—	—	—
Purchase and retirement of common stock	(7,558,415)	—	(250,000)	—	—	(250,000)	—	(250,000)
Stock-based compensation expense	—	—	151,155	—	—	151,155	—	151,155
Net loss	—	—	—	—	(124,071)	(124,071)	(85)	(124,156)
Adjustments to redeemable noncontrolling interest	—	—	(2,627)	—	—	(2,627)	—	(2,627)
Other comprehensive loss	—	—	—	(1,103)	—	(1,103)	(20)	(1,123)
Balance at September 30, 2023	379,719,951	$ 2	$ 6,071,209	$ (9,646)	$ (2,819,081)	$ 3,242,484	$ 5,941	$ 3,248,425

[1] Excludes redeemable noncontrolling interests.

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, 2024							
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Unity Software Inc. Stockholders' Equity	Noncontrolling Interest [1]	Total Equity
	Shares	Amount						
Balance at December 31, 2023	384,871,561	$ 2	$ 6,259,479	$ (5,009)	$ (3,071,830)	$ 3,182,642	$ 5,939	$ 3,188,581
Issuance of common stock from employee equity plans	7,009,462	—	57,302	—	—	57,302	—	57,302
Issuance of common stock for settlement of RSUs	10,697,117	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	494,086	—	—	494,086	—	494,086
Net loss	—	—	—	—	(541,387)	(541,387)	(26)	(541,413)
Adjustments to redeemable noncontrolling interest	—	—	(10,968)	—	—	(10,968)	—	(10,968)
Other comprehensive income	—	—	—	2,022	—	2,022	36	2,058
Balance at September 30, 2024	402,578,140	$ 2	$ 6,799,899	$ (2,987)	$ (3,613,217)	$ 3,183,697	$ 5,949	$ 3,189,646

	Nine Months Ended September 30, 2023							
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Unity Software Inc. Stockholders' Equity	Noncontrolling Interest [1]	Total Equity
	Shares	Amount						
Balance at December 31, 2022	374,243,196	$ 2	$ 5,779,776	$ (1,691)	$ (2,249,819)	$ 3,528,268	$ 6,298	$ 3,534,566
Issuance of common stock from employee equity plans	5,121,763	—	64,994	—	—	64,994	—	64,994
Issuance of common stock for settlement of RSUs	7,913,407	—	—	—	—	—	—	—
Purchase and retirement of common stock	(7,558,415)	—	(250,000)	—	—	(250,000)	—	(250,000)
Stock-based compensation expense	—	—	478,698	—	—	478,698	—	478,698
Net loss	—	—	—	—	(569,262)	(569,262)	(210)	(569,472)
Adjustments to redeemable noncontrolling interest	—	—	(2,259)	—	—	(2,259)	—	(2,259)
Other comprehensive loss	—	—	—	(7,955)	—	(7,955)	(147)	(8,102)
Balance at September 30, 2023	379,719,951	$ 2	$ 6,071,209	$ (9,646)	$ (2,819,081)	$ 3,242,484	$ 5,941	$ 3,248,425

(1) Excludes redeemable noncontrolling interests.

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,	
	2024	2023
Operating activities		
Net loss	$ (541,764)	$ (572,337)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	305,819	331,662
Stock-based compensation expense	485,893	467,743
Gain on repayment of convertible note	(61,371)	—
Impairment of property and equipment	22,874	—
Other	14,735	11,557
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	35,463	28,346
Prepaid expenses and other	(11,949)	22,354
Other assets	4,367	33,533
Accounts payable	90	568
Accrued expenses and other	(15,367)	(24,021)
Publisher payables	(2,561)	(37,362)
Other long-term liabilities	(46,782)	(59,262)
Deferred revenue	13,914	(40,184)
Net cash provided by operating activities	203,361	162,597
Investing activities		
Purchases of short-term investments	—	(212)
Proceeds from principal repayments and maturities of short-term investments	—	102,673
Purchases of non-marketable investments	—	(2,500)
Purchases of intangible assets	(12,860)	—
Purchases of property and equipment	(23,107)	(44,560)
Net cash provided by (used in) investing activities	(35,967)	55,401
Financing activities		
Repayments of convertible note	(414,999)	—
Repurchase and retirement of common stock	—	(250,000)
Proceeds from issuance of common stock from employee equity plans	57,302	64,994
Net cash used in financing activities	(357,697)	(185,006)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	2,004	(17,656)
Increase (decrease) in cash, cash equivalents, and restricted cash	(188,299)	15,336
Cash, cash equivalents, and restricted cash, beginning of period	1,604,267	1,505,688
Cash, cash equivalents, and restricted cash, end of period	$ 1,415,968	$ 1,521,024
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 10,000	$ 10,389
Cash paid for income taxes, net of refunds	$ 19,341	$ 15,869
Cash paid for operating leases	$ 39,027	$ 31,645
Supplemental disclosures of non-cash investing and financing activities:		
Assets acquired under operating lease	$ 14,586	$ 37,479

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 United States ("U.S.") generally accepted accounting principles ("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 2023 Annual Report on Form 10-K.

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.

Employee Separation and Restructuring Costs

In January 2024, we committed to a plan to eliminate approximately 25 % of our workforce, and we mutually agreed to the departure of the founders of ironSource Ltd. Following these announcements, we incurred incremental employee separation costs of approximately $ 205 million in the nine months ended September 30, 2024, which included $ 127 million of incremental stock-based compensation. Of the incremental employee separation costs, $ 15 million are within cost of revenue, $ 46 million are within research and development, $ 52 million are within sales and marketing, and $ 92 million are within general and administrative. Additionally, in November 2023, we committed to a plan to reassess our real estate footprint. We incurred $ 45 million of restructuring costs, primarily related to office closures in the nine months ended September 30, 2024.

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,	
	2024	2023	2024	2023
Create Solutions	$ 147,369	$ 188,900	$ 461,816	$ 569,379
Grow Solutions	299,148	355,310	894,340	1,008,670
Total revenue	$ 446,517	$ 544,210	$ 1,356,156	$ 1,578,049

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,	
	2024	2023	2024	2023
United States	$ 128,114	$ 142,612	$ 398,076	$ 417,511
Greater China [(1)]	65,679	65,092	187,432	194,390
EMEA [(2)]	157,369	200,927	488,203	575,870
APAC [(3)]	81,691	122,001	246,846	348,636
Other Americas [(4)]	13,664	13,578	35,599	41,642
Total revenue	$ 446,517	$ 544,210	$ 1,356,156	$ 1,578,049

(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 statements of operations. As of September 30, 2024 and December 31, 2023, the allowance for uncollectible amounts was $ 17.3 million and $ 16.9 million, respectively. For the nine months ended September 30, 2024 and 2023, the provision for uncollectible amounts was $ 6.5 million and $ 10.3 million, 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, 2024, capitalized commissions, net of amortization, included in prepaid expenses and other and other assets were $ 6.4 million and $ 5.3 million, respectively. As of December 31, 2023, capitalized commissions, net of amortization, included in prepaid expenses and other and other assets were $ 6.8 million and $ 4.8 million, respectively. During the three and nine months ended September 30, 2024, we recorded amortization costs of $ 2.2 million and $ 6.9 million in sales and marketing expenses, as compared to $ 2.5 million and $ 7.5 million during the three and nine months ended September 30, 2023, respectively.

Contract Balances and Remaining Performance Obligations

Contract assets (unbilled receivables), primarily included in accounts receivable, net, are recorded when revenue is earned in advance of customer billing schedules. Unbilled receivables totaled $ 19.4 million and $ 31.3 million as of September 30, 2024 and December 31, 2023, respectively. Of this total as of September 30, 2024, $ 8.3 million was included in Other Long-Term Assets on our consolidated balance sheets.

Contract liabilities (deferred revenue) relate to payments received in advance of performance under the contract. Revenue recognized during the nine months ended September 30, 2024 that was included in the deferred revenue balances at January 1, 2024 was $ 157.7 million.

Additionally, we have performance obligations associated with commitments in customer contracts to perform in the future that had not yet been recognized in our consolidated financial statements. For contracts with original terms that exceed one year, those commitments not yet recognized as of September 30, 2024, were $ 327 million and relate primarily to Create Solutions subscriptions, Enterprise

Support, and Strategic Partnerships. These commitments generally extend over the next one to five years and we expect to recognize approximately $ 194 million or 59 % of this revenue during the next 12 months.

3. Financial Instruments

Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash 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 cash, cash equivalents, and restricted cash that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in thousands):

	September 30, 2024	December 31, 2023
	Fair Value [(1)]	
Cash	$ 1,107,850	$ 834,877
Level 1:		
Restricted cash and cash equivalents:		
Restricted cash	$ 10,692	$ 13,942
Money market funds	95,130	502,754
Time deposits	202,296	252,694
Total restricted cash and cash equivalents	$ 308,118	$ 769,390
Total cash, cash equivalents, and restricted cash	$ 1,415,968	$ 1,604,267

(1) Due to the highly liquid nature of our investments, amortized cost approximates fair value.

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 use the measurement alternative to account for adjustments to these investments for observable transactions for the same or similar investments of the same issuer in any given quarter. If we determine an impairment has occurred, the investment is written down to the estimated fair value. As of September 30, 2024 and December 31, 2023, such equity investments totaled $ 33.0 million and $ 33.6 million, respectively. No material adjustments to the carrying value of these equity investments were recorded for the three and nine months ended September 30, 2024 and 2023.

4. Investment in Unity China

The results of Unity China, of which third-party investors hold a 20.5 % ownership interest, are included in our condensed consolidated financial statements. Under certain conditions we may be required to repurchase the third-party interest in Unity China. The redeemable noncontrolling interests in Unity China are recorded as temporary equity on our condensed consolidated balance sheet.

The following table presents the changes in redeemable noncontrolling interests (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Balance at beginning of period	$ 226,056	$ 215,749	$ 225,797	$ 219,563
Net gain/(loss) attributable to redeemable noncontrolling interests	178	(1,153)	(351)	(2,865)
Accretion for redeemable noncontrolling interests	2,698	6,401	8,640	12,775
Foreign currency translation and foreign exchange adjustments for redeemable noncontrolling interests	7,982	(4,052)	2,828	(12,528)
Balance at end of period	$ 236,914	$ 216,945	$ 236,914	$ 216,945

5. Leases

We have operating leases for offices, which have remaining lease terms of up to nine years .

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Operating lease expense	$ 10,695	$ 10,524	$ 31,527	$ 30,292
Variable lease expense	1,395	1,408	4,613	3,850
Sublease income	(671)	(493)	(1,467)	(1,317)
Total lease expense	$ 11,419	$ 11,439	$ 34,673	$ 32,825

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

		As of	
	Classification	September 30, 2024	December 31, 2023
Operating lease assets	Other assets	$ 82,378	$ 113,256
Current operating lease liabilities	Accrued expenses and other	$ 34,452	$ 39,132
Long-term operating lease liabilities	Other long-term liabilities	84,973	111,669
Total operating lease liabilities		$ 119,425	$ 150,801

As of September 30, 2024 and December 31, 2023, our operating leases had a weighted-average remaining lease term of 4.6 years and 5.1 years, respectively, and a weighted-average discount rate of 5.4 % and 5.2 %, respectively.

In November 2023, we committed to a plan to reassess our real estate footprint, focusing on optimizing efficiency and reducing costs. In connection with this plan, during the nine months ended September 30, 2024, we recorded $ 12.2 million of impairment charges on operating lease assets. No impairment charges were recorded during the three months ended September 30, 2024.

As of September 30, 2024, our lease liabilities were as follows (in thousands):

	Operating Leases
Gross lease liabilities	$ 134,635
Less: imputed interest	15,210
Present value of lease liabilities	$ 119,425

As of September 30, 2024, we had entered into a lease that has not yet commenced with future minimum lease payments of $ 4.9 million which are not yet reflected on our consolidated balance sheet. This operating lease will commence in 2024 with a lease term of 5 years.

6. Borrowings

Convertible Notes

As of September 30, 2024, we had $ 2.2 billion of unsecured convertible notes outstanding including $ 1.0 billion issued in November 2022 (the "2027 Notes") and $ 1.2 billion issued in November 2021 (the "2026 Notes"). The table below summarizes the principal and unamortized debt issuance costs and other material features of the Notes (in thousands):

					Carrying Amount as of	
	Conversion Rate per $1,000 Principal	Conversion Price	Maturities	Stated Interest Rates	September 30, 2024	December 31, 2023
Convertible notes:						
Principal – 2026 Notes	3.2392	$ 308.72	2026	0.0 %	$ 1,245,232	$ 1,725,000
Principal – 2027 Notes	20.4526	$ 48.89	2027	2.0 %	1,000,000	1,000,000
Unamortized debt issuance costs, net					(7,149)	(13,250)
Net carrying amount					$ 2,238,083	$ 2,711,750

Interest on the Notes is payable semi-annually in arrears. The combined interest expense on the Notes related to regular interest and the amortization of debt issuance cost was $ 5.8 million and $ 17.7 million for the three and nine months ended September 30, 2024, respectively, and $ 6.3 million and $ 18.5 million for the three and nine months ended September 30, 2023, respectively.

As of September 30, 2024 and December 31, 2023, the estimated fair value of the 2027 Notes were approximately $ 1.0 billion and $ 1.3 billion, respectively, and the estimated fair value of the 2026 Notes were approximately $ 1.1 billion and $ 1.4 billion, respectively. The fair value of the 2027 Notes was based on a combination of a discounted cash flow and Black-Scholes option-pricing model. The fair value of the 2026 Notes was based on quoted prices as of that date.

The 2026 Notes are convertible at the option of the holder if a conversion condition of the 2026 Notes is triggered. During the three and nine months ended September 30, 2024, none of the conversion conditions of the 2026 Notes were triggered and the 2026 Notes were not convertible as of September 30, 2024. The holders of the 2027 Notes may elect to convert the notes prior to maturity. Any such conversion may be satisfied at our election with either cash, shares of our common stock, or a combination of cash and shares of our common stock. The conversion rates for the Notes is subject to customary adjustments for certain events as described in the indentures governing the Notes.

The Notes are subject to additional terms. In connection with certain corporate events, as described in the Indentures, we will increase the conversion rate for a holder of the Notes who elects to convert those notes in connection with the event. Additionally, upon the occurrence of certain corporate events and subject to certain exceptions, as described in the Indentures, holders of the Notes may require us to repurchase all or a portion of their notes at a price equal to 100 % of the principal amount to be repurchased, plus any accrued and unpaid interest to date. The 2026 Notes are also redeemable at our option if certain conditions are met, as described in the Indenture governing the 2026 Notes.

As of September 30, 2024, no holders of the 2027 and 2026 Notes have exercised the conversion rights, and the if-converted value of the 2027 and 2026 Notes did not exceed the principal amount.

Convertible Note Repurchase

During the first quarter of 2024, the Company repurchased in privately negotiated transactions and extinguished a portion of the 2026 Notes, with a total principal balance of $ 480 million. The aggregate repurchase price for these notes was $ 415 million, resulting in pre-tax gains of $ 61.4 million, net of the write-off of unamortized issuance costs. The gain was included in Interest income and other income (expense), net, in the condensed consolidated statement of operations.

Capped Call Transactions

To reduce the potential dilutive effect of the 2026 Notes, in connection with their pricing, we entered into the Capped Call Transactions at a net cost of $ 48.1 million, with call options totaling approximately 5.6 million of our common shares, and with expiration dates ranging from September 18, 2026 to November 12, 2026. The strike price is $ 308.72 , and the cap price is initially $ 343.02 per share, subject to adjustments in certain circumstances. The Capped Call Transactions are freestanding and are considered separately exercisable from the 2026 Notes. As of September 30, 2024, the Capped Call Transactions met the conditions for equity classification and were not in the money.

7. Commitments and Contingencies

The following table summarizes our non-cancelable contractual commitments as of September 30, 2024 (in thousands):

	Total	Remainder of 2024	2025-2026	2027-2028	Thereafter
Operating leases [1]	$ 139,533	$ 10,746	$ 66,537	$ 41,240	$ 21,010
Purchase commitments [2]	583,957	118,049	436,476	29,432	—
Convertible note principal and interest [3]	2,315,232	10,000	1,285,232	1,020,000	—
Total	$ 3,038,722	$ 138,795	$ 1,788,245	$ 1,090,672	$ 21,010

(1) Operating leases consist of obligations for real estate, including leases that are not yet commenced.

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

(3) Convertible notes due 2026 and 2027. See Note 6, "Borrowings," above 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 that it is both probable that a liability has been incurred and 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 condensed 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.

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, 2024, 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 $ 10.7 million and $ 13.9 million of secured letters of credit outstanding as of September 30, 2024 and December 31, 2023, respectively. These primarily relate to our office space leases and are fully collateralized by certificates of deposit which we record in restricted cash as other assets on our condensed consolidated balance sheets.

8. Stock-Based Compensation

Stock-based compensation expense is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cost of revenue	$ 10,334	$ 19,591	$ 35,051	$ 58,241
Research and development	58,582	66,618	203,228	214,159
Sales and marketing	21,885	35,075	108,138	105,272
General and administrative	13,816	25,893	139,476	90,071
Total stock-based compensation expense	$ 104,617	$ 147,177	$ 485,893	$ 467,743

Included in the above expenses for the nine months ended September 30, 2024, is $ 94 million of incremental stock-based compensation expense from modifications, primarily within general and administrative. These amounts predominately relate to the modification of awards held by the founders of ironSource Ltd. that departed in the first quarter of 2024.

Stock Options

A summary of our stock option, including price-vested options ("PVO"), activity is as follows:

	Options Outstanding		
	Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)
Balance as of December 31, 2023	31,541,466	$ 19.35	4.79
Granted	2,614,966	$ 21.29	
Exercised	(5,847,858)	$ 5.99	
Forfeited, cancelled, or expired	(2,073,825)	$ 49.58	
Balance as of September 30, 2024	26,234,749	$ 20.12	4.40

Restricted Stock Units

A summary of our restricted stock unit ("RSU"), including price-vested unit ("PVU"), activity is as follows:

	Unvested RSUs	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2023	37,332,551	$ 38.31
Granted	18,743,697	$ 15.60
Vested	(10,722,702)	$ 40.09
Forfeited	(10,401,800)	$ 38.12
Unvested as of September 30, 2024	34,951,746	$ 25.65

Price-Vested Units and Price-Vested Options

The vesting for each of the PVOs and PVUs is subject to the fulfillment of both a service period that extends up to four years and the achievement of a stock price hurdle during the relevant performance period that extends up to six and seven years , respectively. The fair value of each PVO and PVU award is estimated using a Monte Carlo simulation that uses assumptions determined on the date of grant. During the three and nine months ended September 30, 2024, the stock price hurdles were not met.

Fair Value Assumptions

The calculated grant-date fair value of stock options, PVUs, and PVOs granted, were estimated using the Black-Scholes option-pricing model for stock options, and a Monte Carlo stimulation for the PVUs and PVOs, with the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Expected dividend yield	—	—	—	—
Risk-free interest rate	3.5 % - 4.2 %	4.4 %	3.5 % - 4.4 %	3.8 % - 4.4 %
Expected volatility	60.0 % - 67.3 %	58.0 %	60.0 % - 67.3 %	54.7 % - 58.0 %
Expected term (in years)	6.25 - 10.00	6.25	6.25 - 10.00	6.25
Fair value of underlying common stock	$ 15.60 - $ 16.75	$ 39.29	$ 15.60 - $ 26.89	$ 29.33 - $ 39.29

Employee Stock Purchase Plan

The fair value of shares offered under our Employee Stock Purchase Plan ("ESPP") was determined on the grant date using the Black-Scholes option pricing model. The following table summarizes the assumptions used and the resulting grant-date fair values of our ESPP:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Expected dividend yield	—	—	—	—
Risk-free interest rate	4.9 %	5.5 %	4.9 % - 5.3 %	5.2 % - 5.5 %
Expected volatility	49.3 %	65.9 %	49.3 % - 56.0 %	65.9 % - 94.5 %
Expected term (in years)	0.50	0.50	0.50	0.50
Grant-date fair value per share	$ 4.82	$ 12.65	$ 4.82 - $ 9.11	$ 12.44 - $ 12.65

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Shares issued under the ESPP	610,458	531,820	1,161,604	1,064,463
Weighted-average price per share issued	$ 13.91	$ 25.25	$ 19.13	$ 25.56

9. 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, 2024 differs from the U.S. federal statutory tax rate of 21% primarily due to the need to record a valuation allowance on U.S. losses and to a lesser extent tax expense on foreign earnings taxed at different rates. In addition, during the first quarter of 2024, we recorded a tax benefit on foreign losses in connection with employee separation costs and we continued to restructure our tax operations which resulted in a reduction to our U.S. valuation allowance. Our effective tax rate for the three and nine months ended September 30, 2023 differed from the U.S. federal statutory tax rate of 21% primarily due to the need to record a valuation allowance in the U.S. on losses and to a lesser extent, tax expense on foreign earnings taxed at different rates. In addition, the Company undertook certain tax restructuring efforts that enhanced our ability to offset deferred tax liabilities in the U.S. in future periods, thereby partially reducing the need for a valuation allowance.

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 U.S. states, Denmark, U.K., and other non-U.S. jurisdictions will not be realized and we have maintained a full valuation allowance against such deferred tax assets.

As of September 30, 2024, we had $ 190.5 million of gross unrecognized tax benefits, of which $ 34.3 million would impact the effective tax rate, if recognized. It is reasonably possible that the amount of unrecognized tax benefits as of September 30, 2024 could increase or decrease significantly as the timing of the resolution, settlement, and closure of audits is highly uncertain. 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.

10. 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 common stock excluded from the computation of diluted net loss per share (in thousands) because the impact of including them would have been antidilutive:

	As of September 30,	
	2024	2023
Convertible notes	24,488	26,042
Stock options and PVOs	26,235	31,258
Unvested RSUs and PVUs	34,952	29,636

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, 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 and Risk Factor Summary" in this report.

Overview

Unity offers a suite of tools to create, market and grow games and interactive experiences across all major platforms from mobile, PC, and console, to extended reality (XR).

Our platform consists of two complementary sets of solutions: Create Solutions and Grow Solutions, which together comprise our strategic portfolio surrounding the Unity Engine, Cloud, and Monetization.

Impact of Macroeconomic Trends and Geopolitical Events

Recent macroeconomic factors, such as inflation, interest rates, and credit availability have and could further cause economic uncertainty and volatility, which could harm our business. Further, competition in the advertising market and ongoing restrictions related to the gaming industry in China have impacted our growth rates and may continue to do so. Ongoing geopolitical instability, particularly in Israel, where a significant portion of our Grow Solutions operations is located, may adversely affect our business.

Recent Developments in Our Business

Starting in the fourth quarter of 2023, we began to reset our product and service offerings to focus on our core businesses, which we refer to as our "Strategic Portfolio": the Unity Engine, Cloud, and Monetization, while narrowing our investments in new businesses to those most attractive, mainly industries beyond gaming. We also exited businesses where we do not believe that we can provide unique value to customers or generate a sound return to investors. Specifically, we have limited our Professional Services business to a few selected strategic engagements, we are shifting our multiplayer business to support the demands of live multiplayer games beyond infrastructure, and we have stopped the independent development of professional artistry tools, which we will instead consider integrating into the Unity Editor. During the three and nine months ended September 30, 2024 we recognized approximately $17 million and $75 million, respectively, of revenue associated with these non-strategic portfolios and we expect that these amounts will decline throughout the remainder of 2024.

In the nine months ended September 30, 2024, we substantially completed reductions to our workforce and our office footprint that were announced in the first quarter of 2024. This resulted in approximately $205 million in employee separation costs, primarily related to the acceleration and modifications of equity awards, and $45 million of non-employee charges associated with these reductions.

In the third quarter of 2023, we announced changes to our pricing model for our Create Solutions. We experienced a high volume of negative customer feedback including a boycott and a slow down of signing new contracts and renewals as a result of these changes. In the third quarter of 2024, before the pricing changes took effect, we announced the cancellation of those pricing changes, the reversion to a subscription-based model, and price increases, for gaming customers. While the initial customer response to this announcement has been positive and we expect this change to benefit our business over the long term, the ultimate impact remains uncertain.

We have had significant executive transitions in 2024. In the fourth quarter of 2024, we announced the hiring of our permanent Senior Vice President and Chief Financial Officer, Jarrod Yahes, effective January 1, 2025. Mark Barrysmith, our Senior Vice President and Chief Accounting Officer and Interim Chief Financial Officer, will no longer serve as the Interim Chief Financial Officer as of January 1, 2025, but will continue in his role as Senior Vice President and Chief Accounting Officer and will continue as our Principal Accounting Officer. Our ability to successfully manage these executive transitions, and to retain senior executives is critical to our success and the timing and full impact on our future results of operations, cash flows, or financial condition are uncertain.

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. We have revised and restated these metrics to include inputs from our Strategic Portfolio only.

Customers Contributing More Than $100,000 of Revenue

We had 1,242 and 1,230 customers contributing more than $100,000 of revenue in the trailing 12 months as of September 30, 2024 and 2023, respectively. The year over year increase was largely a result of our core subscriptions growth. While these customers represented the substantial majority of revenue for the nine months ended September 30, 2024 and 2023, respectively, no one customer accounted for more than 10% of our revenue for either period.

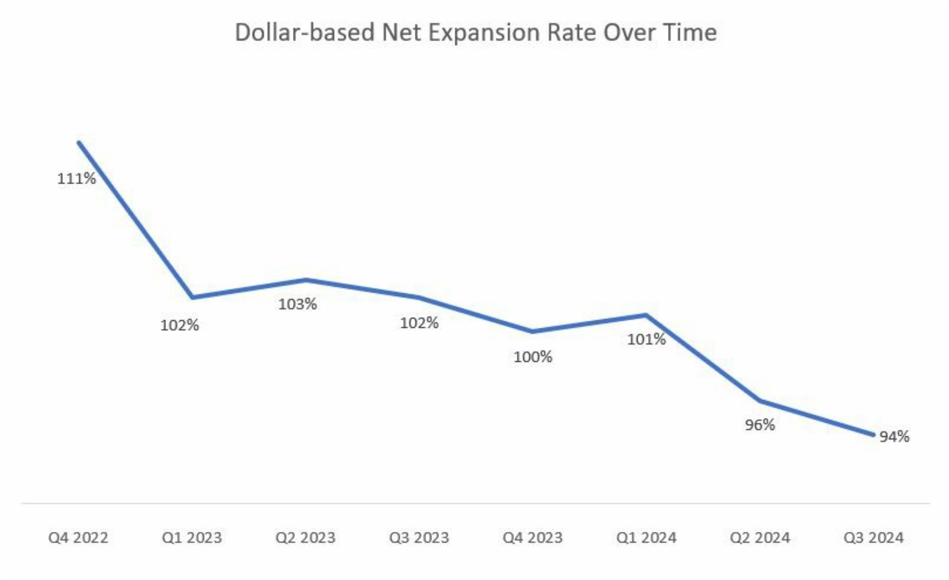
Dollar-Based Net Expansion Rate

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 Grow 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 Grow Solutions revenue, excluding Strategic Partnerships and Supersonic, from the same set of customers across comparable periods, calculated on a trailing 12-month basis.

	As of	
	September 30, 2024	September 30, 2023
Dollar-based net expansion rate	94 %	102 %

Our dollar-based net expansion rate as of September 30, 2024 was driven primarily by decreases in Grow Solutions revenue, due to competition in the advertising market, and to a lesser extent decreases in professional services revenue within Create Solutions, offset by growth in core subscriptions revenue. Our dollar-based net expansion rate as of September 30, 2023 was driven primarily by growth in professional services, and core subscriptions revenue, due to sales of additional subscriptions and services to our existing Create 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 declines in Grow Solutions, and professional services revenue, as noted above.

The chart below illustrates that our dollar-based net expansion rate has been declining over the last year.



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,	
	2024	2023	2024	2023
Revenue	$ 446,517	$ 544,210	$ 1,356,156	$ 1,578,049
Cost of revenue	112,054	151,349	365,316	472,140
Gross profit	334,463	392,861	990,840	1,105,909
Operating expenses				
Research and development	215,197	240,003	706,860	788,438
Sales and marketing	176,423	194,000	576,902	619,258
General and administrative	69,989	86,256	338,573	272,047
Total operating expenses	461,609	520,259	1,622,335	1,679,743
Loss from operations	(127,146)	(127,398)	(631,495)	(573,834)
Interest expense	(5,839)	(6,154)	(17,703)	(18,425)
Interest income and other income (expense), net	15,350	16,013	102,450	38,689
Loss before income taxes	(117,635)	(117,539)	(546,748)	(553,570)
Provision for (benefit from) Income taxes	6,913	7,771	(4,984)	18,767
Net loss	$ (124,548)	$ (125,310)	$ (541,764)	$ (572,337)

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,	
	2024	2023	2024	2023
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	25	28	27	30
Gross profit	75	72	73	70
Operating expenses				
Research and development	48	44	52	50
Sales and marketing	40	36	43	39
General and administrative	15	15	25	17
Total operating expenses	103	95	120	106
Loss from operations	(28)	(23)	(47)	(36)
Interest expense	(1)	(2)	(1)	(1)
Interest income and other income (expense), net	3	3	8	2
Loss before income taxes	(26)	(22)	(40)	(35)
Provision for (benefit from) Income taxes	2	1	—	1
Net loss	(28)%	(23)%	(40)%	(36)%

Revenue

Create Solutions

We generate Create Solutions revenue primarily through our suite of Create Solutions subscriptions inclusive of enterprise support, professional services, and cloud and hosting services. Our subscriptions provide customers access to technologies that allow them to edit, run, and iterate interactive, RT3D and 2D experiences that can be created once and deployed to a variety of platforms. Enhanced support services are provided to our enterprise customers and are sold separately from the Create Solutions subscriptions. Professional services are provided to our customers and include consulting, platform integration, training, and custom application and workflow development. Cloud and hosting services are provided to our customers to simplify and enhance the way our users access and harness our solutions.

Grow Solutions

We generate Grow Solutions revenue primarily through our monetization solutions and game publishing services. Our monetization solutions allow publishers, original equipment manufacturers, and mobile carriers to sell available advertising inventory on their mobile applications or hardware devices to advertisers for in-application or on-device placements. Our revenue represents the amount we retain from the transaction we are facilitating through our Unified Auction and mediation platform. Our game publishing services provide game developers with the infrastructure and expertise to launch their mobile games and manage their growth; this is achieved through marketability testing tools, live games management tools and game design support, and optimizing the implementation of the customer's commercial model. Through these publishing services, we generate revenue from in-app advertising in published games and in some cases, in app purchase revenue.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Create Solutions	$ 147,369	$ 188,900	$ 461,816	$ 569,379
Grow Solutions	299,148	355,310	894,340	1,008,670
Total revenue	$ 446,517	$ 544,210	$ 1,356,156	$ 1,578,049

Total revenue decreased in the three and nine months ended September 30, 2024, compared to the comparable prior year periods, primarily due to a decrease in Grow Solutions revenue, which was negatively impacted by competition. To be more competitive we are focused on enhancing our machine learning stack and data infrastructure capabilities, which we believe will take some time to manifest in sustainable increased performance. The decrease in total revenue was further driven by a decrease in Create Solutions revenue, primarily due to the termination of the subscription agreement with Wētā FX Limited, and a decrease in professional services revenue and cloud and hosting services revenue, both caused by the portfolio reset. The decrease in Create Solutions was partially offset by increases in subscription revenue.

Cost of Revenue, Gross Profit, and Gross Margin

Cost of revenue consists primarily of personnel costs (including salaries, benefits, and stock-based compensation) for employees and subcontractors associated with our product support and professional services organizations, the amortization of intangible assets, hosting expenses, and costs of related facilities.

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 decrease in the short term as we reset our product portfolio to focus on the Unity Engine, Cloud, and Monetization solutions. 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, 2024 decreased, compared to the comparable prior year periods, primarily due to a decrease in personnel costs, driven by our reductions in headcount, a decrease in amortization expenses related to intangible assets acquired through our business combinations, and a decrease in our hosting expenses in line with decreases in related revenue.

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. As part of our efforts to restructure and streamline our organizational structure, in January 2024, we committed to a plan to eliminate approximately 25% of our workforce, and we mutually agreed to the departure of the founders of ironSource Ltd. Following these announcements and substantially in the first quarter of 2024, we incurred incremental employee separation costs of approximately $205 million in the nine months ended September 30, 2024, largely driven by the acceleration and modification of equity awards, including $15 million within cost of revenue, $46 million within research and development expense, $52 million within sales and marketing expense, and $92 million within general and administrative expense. In addition, we incurred $45 million of non-employee charges associated with this restructuring.

Research and Development

Research and development expenses primarily consist of personnel-related costs for the design and development of our platform, IT hosting and SaaS expenses, and amortization expenses related to intangible assets. We expect our research and development expenses to increase in absolute dollars in the long term, as we expand our teams to develop new solutions, expand features and functionality with existing solutions, and enter new markets, but decrease in the short term as we reset our Strategic Portfolio. We expect research and development expenses to fluctuate as a percentage of revenue from period to period.

Research and development expense for the three and nine months ended September 30, 2024 decreased, compared to the comparable prior year periods, primarily due to a decrease in personnel costs driven by our reductions in headcount in the first quarter of 2024.

Sales and Marketing

Our sales and marketing expenses consist primarily of personnel-related costs, amortization expenses related to intangible assets, and advertising and marketing programs, including user acquisition costs and digital account-based marketing, user events such as developer-centric conferences and our annual Unite user conferences. We expect that our sales and marketing expense will increase in absolute dollars in the long term, 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, but decrease in the short term as we reset our Strategic Portfolio. We expect sales and marketing expenses to fluctuate as a percentage of revenue from period to period.

Sales and marketing expense for the three and nine months ended September 30, 2024 decreased, compared to the comparable prior year periods, primarily due to a decrease in personnel costs, driven by our reductions in headcount in the first quarter of 2024.

General and Administrative

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

General and administrative expense for the three months ended September 30, 2024 decreased, compared to the comparable prior year period, primarily due to a decrease in personnel-related costs, driven by our reductions in headcount in the first quarter of 2024. General and administrative expense for the nine months ended September 30, 2024 increased, compared to the comparable prior year period, primarily due to higher personnel-related costs, driven by employee separation costs in the first quarter of 2024, impairments of operating lease assets, and an increase in our professional fees.

Interest Expense

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

Interest expense for the three and nine months ended September 30, 2024 decreased, compared to the comparable prior year periods, in line with our outstanding debt obligations.

Interest Income and Other Income (Expense), Net

Interest income and other income (expense), net, consists primarily of gains on the repurchase of convertible debt, interest income earned on our cash, cash equivalents, and short-term investments, and foreign currency 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 income (expense), net, for the three months ended September 30, 2024 decreased, compared to the comparable prior year period, primarily due to a decrease in interest bearing accounts, driven by the use of cash to repurchase a portion of our convertible debt in the first quarter of 2024, offset by foreign currency gains and losses. Interest income and other income (expense), net, for the nine months ended September 30, 2024 increased, compared to the comparable prior year period, primarily due to gains on the repurchase of convertible debt of $61.4 million in the first quarter of 2024.

Provision for (benefit from) Income taxes

Provision for (benefit from) 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 9, "Income Taxes," of the Notes to Condensed Consolidated Financial Statements.

Provision for income taxes for the three months ended September 30, 2024 decreased, compared to the comparable prior year period, primarily due to decrease in earnings in foreign jurisdictions with lower effective tax rate. Benefit from income taxes for the nine months ended September 30, 2024 changed as compared to the provision for income taxes in the comparable prior year period, primarily due to a tax benefit from our foreign losses in connection with employee separation costs recorded in the first quarter of 2024 and our continued restructuring efforts in the first quarter of 2024 that enhanced our ability to offset deferred tax liabilities in the U.S. in future periods, thereby partially reducing the need for a valuation allowance.

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.

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.

Adjusted Gross Profit and Adjusted EBITDA

We define adjusted gross profit as GAAP gross profit excluding expenses associated with stock-based compensation, amortization of acquired intangible assets, depreciation, and restructurings and reorganizations. We define adjusted gross margin as adjusted gross profit as a percentage of revenue. We define adjusted EBITDA as net income or loss excluding benefits or expenses associated with stock-based compensation, amortization of acquired intangible assets, depreciation, restructurings and reorganizations, interest, income tax, and other non-operating activities, which primarily consist of foreign exchange rate gains or losses.

We use adjusted gross profit and adjusted EBITDA in conjunction with traditional GAAP measures to evaluate our financial performance. We believe that adjusted gross profit and adjusted EBITDA 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.

The following table presents a reconciliation of our adjusted 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,	
	2024	2023
GAAP gross profit	$ 334,463	$ 392,861
Add:		
Stock-based compensation expense	10,334	19,591
Amortization of intangible assets expense	27,293	35,191
Depreciation expense	2,265	2,892
Restructuring and reorganization costs	77	—
Adjusted gross profit	$ 374,432	$ 450,535
GAAP gross margin	75 %	72 %
Adjusted gross margin	84 %	83 %

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

	Three Months Ended September 30,	
	2024	2023
GAAP net loss	$ (124,548)	$ (125,310)
Stock-based compensation expense	105,271	147,177
Amortization of intangible assets expense	88,517	99,220
Depreciation expense	14,083	11,977
Restructuring and reorganization costs	10,997	—
Interest expense	5,839	6,154
Interest income and other income (expense), net	(15,350)	(16,013)
Provision for Income taxes	6,913	7,771
Adjusted EBITDA	$ 91,722	$ 130,976

Free Cash Flow

We define free cash flow as net cash provided by 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.

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

	Nine Months Ended September 30,	
	2024	2023
Net cash provided by operating activities	$ 203,361	$ 162,597
Less:		
Purchases of property and equipment	(23,107)	(44,560)
Free cash flow	$ 180,254	$ 118,037
Net cash provided by (used in) investing activities	$ (35,967)	$ 55,401
Net cash used in financing activities	$ (357,697)	$ (185,006)

Liquidity and Capital Resources

As of September 30, 2024, our principal sources of liquidity were cash and cash equivalents totaling $1.4 billion, which were primarily held for working capital purposes. Our cash equivalents are invested primarily in time deposits and government money market funds.

Our material cash requirements from known contractual and other obligations consist of our convertible notes, obligations under operating leases for office space, and contractual obligations for hosting services to support our business operations. See Part I, Item I, Note 7 — "Commitments and Contingencies" for additional discussion of our principal contractual commitments.

In connection with the ironSource Merger in November 2022, we issued $1.0 billion in aggregate principal amount of 2.0% convertible senior notes due 2027, the proceeds of which were used to fund repurchases under our share repurchase program. We previously issued $1.7 billion in aggregate principal amount of 0% convertible senior notes due 2026 in November 2021, of which $480 million in aggregate principal was repurchased in March 2024 for $415 million (together with the 2027 Notes, the "Notes"). See Part I, Item I, Note 6, "Borrowings" for additional discussion of the Notes.

In July 2022, our board of directors approved our share repurchase program, which authorized the repurchase of up to $2.5 billion of shares of our common stock in open market transactions through November 2024 (the "Share Repurchase Program"). As of September 30, 2024, $750 million remains available for future share repurchases under this program.

Since our inception, we have generated losses from our operations as reflected in our accumulated deficit of $3.6 billion as of September 30, 2024. 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 offerings, 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. In addition, depending on prevailing market conditions, our liquidity requirements, contractual restrictions, and other factors, we may also from time to time seek to retire or purchase our outstanding debt, including the Notes, through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. If additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all, including as a result of macroeconomic conditions such as high interest rates, volatility in the capital markets and liquidity concerns at, or failures of, banks and other financial institutions. 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,	
	2024	2023
Net cash provided by operating activities	$ 203,361	$ 162,597
Net cash provided by (used in) investing activities	(35,967)	55,401
Net cash used in financing activities	(357,697)	(185,006)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	2,004	(17,656)
Net change in cash, cash equivalents, and restricted cash	$ (188,299)	$ 15,336

Cash Provided by Operating Activities

During the nine months ended September 30, 2024, net cash provided by operating activities was primarily due to a decrease in our net loss, adjusted for certain non-cash items, which include depreciation and amortization, stock-based compensation, gain on convertible notes, impairments, and other, offset by a decrease in operating assets and liabilities. Our cash flows can fluctuate from period to period due to revenue seasonality, timing of billings, collections, and publisher payments, and historical cash flows are not necessarily indicative of our results in any future period.

Cash Used in Investing Activities

During the nine months ended September 30, 2024, net cash used in investing activities consisted primarily of purchases of property and equipment, and purchases of intangible assets.

Cash Used in Financing Activities

During the nine months ended September 30, 2024, net cash used in financing activities consisted of repayments of convertible notes, offset by the 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, 2023, filed with the SEC on February 29, 2024.

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, 2023, filed with the SEC on February 29, 2024.

Item 4. 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.

(a) Evaluation of Disclosure Controls and Procedures

Based on management's evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were designed to, and were 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

Based on management's 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 ended September 30, 2024 that has materially affected, or is reasonably likely to materially effect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

On July 6, 2022, a putative securities class action complaint was filed in U.S. District Court in the Northern District of California against the Company and certain of its executives (the "Securities Class Action"). The complaint was amended on March 24, 2023, and captioned In re Unity Software Inc. Securities Litigation, Case No. 5:22-cv-3962 (N.D. Cal.). On May 25, 2023, all defendants moved to dismiss the amended complaint. The plaintiffs filed an opposition to the motions to dismiss on July 26, 2023. The Company filed a response to the plaintiffs' opposition on September 1, 2023. On March 15, 2024, the court granted the Company's motion to dismiss the complaint, and on April 12, 2024, the plaintiffs' filed a second amended complaint. The Company has moved to dismiss the amended complaint. The plaintiffs have filed an opposition to the motion to dismiss, and the Company has filed a response to the plaintiff's opposition. A hearing on the motion to dismiss has been postponed and is currently scheduled for February 5, 2025. The operative complaint names as defendants Unity, its former Chief Executive Officer, Chief Financial Officer, and General Manager of Operate Solutions, as well as Unity shareholders, Sequoia Capital, Silver Lake Group, and David Helgason. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and 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 plaintiffs seek to represent a class of all persons and entities (other than the defendants) who acquired Unity securities between May 11, 2021 and May 10, 2022, and requests unspecified damages, pre- and post-judgment interest, and an award of attorneys' fees and costs. The Company intends to continue to vigorously defend the case.

On November 22, 2022, a derivative suit, captioned Movva v. Unity Software, Inc., et al., Case 5:22-cv-07416 (N.D. Cal.) (the "Movva Suit"), was filed by a purported stockholder against eleven of the Company's current and former officers and directors. The complaint, which asserts claims for breach of fiduciary duty, waste of corporate assets, unjust enrichment, and violations of Section 14(a) of the Exchange Act, borrows the allegations of the Securities Class Action, and recasts them as derivative claims. On December 16, 2022, a related derivative suit, captioned Duong vs. Unity Software Inc., et al., Case 5:22-c-08926 (N.D. Cal.), was filed by a purported stockholder against the same defendants as in the Movva Suit (the "Duong Suit," and together with the Movva Suit, the "Federal Derivative Actions"). The two Federal Derivative Actions were consolidated after the parties jointly moved to do so. The Federal Derivative Actions have been stayed pending the outcome of the motions to dismiss in the Securities Class Action. On May 8, 2023, a stockholder derivative suit, captioned Wen v. Botha, et al., Case No. 2023-0499 (the "Wen Suit"), was filed in the Court of Chancery of the State of Delaware. The case was filed by a purported Unity stockholder against twelve of the Company's current and former officers and directors, and asserts claims for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, unjust enrichment, and waste of corporate assets. On December 15, 2023, a stockholder derivative suit, captioned Flesner v. Riccitiello, et al., Case No. 2023-1240 (the "Flesner Suit" and together with the Wen Suit, the "Delaware Derivative Actions"), was filed in the Court of Chancery of the State of Delaware. The case was filed by a purported Unity stockholder against twelve of the Company's current and former officers and directors, and asserts claims for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, and waste of corporate assets, as well as insider trading claims against the individual defendants. The two Delaware Derivative Actions were consolidated after the parties jointly moved to do so. As with the Federal Derivative Actions, the Delaware Derivative Actions borrow the allegations of the Securities Class Action, and recast them as derivative claims. The Delaware Derivative Actions have been stayed pending the outcome of the motions to dismiss in the Securities Class Action.

From time to time, we may be subject to other 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 on a GAAP basis in the future.

We have experienced significant net losses on a GAAP basis in each period since inception. In addition, our revenue growth rate has varied and has in certain quarters declined and could vary and decline in the future. We are not certain whether we will achieve or maintain profitability in the future. Our costs and expenses may increase in the long term on a GAAP basis, which could negatively affect our future results of operations. In addition, we may continue to make investments in such areas as:

- research and development, including investments in our engineering teams and in further differentiating our platform, as well as the development of new solutions and features, such as the launch of Unity 6 which is the latest version of our Unity engine;
- 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;
- 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 legal, IT, and accounting expenses associated with ongoing public company compliance and reporting obligations, including maintaining proper and effective internal controls over financial reporting.

Our efforts to achieve profitability may be costlier than we expect and may not be effective. Even if such investments increase our revenue, any such increase may not be enough to offset increased operating expenses. Cost-cutting efforts, such as discontinuing certain product offerings, reducing our workforce or reducing our office footprint layoffs, may not be effective or may not be effective on the timelines we expect.

If we fail to successfully execute our plans to reset our portfolio to focus on our Strategic Portfolio and to right-size our investments, our business will be harmed.

We have reset our portfolio to focus on the Unity Engine, Cloud and Monetization solutions, exiting other businesses and right-sizing our investments. These efforts may not be effective or sufficient to offset our expenses, and may themselves have adverse impacts, such as loss of continuity or accumulated knowledge, inefficiency during transitional periods, distraction, and potential challenges operating our business with fewer resources. For example, in the first quarter of 2024 we reduced our employee workforce by approximately 25%, and certain members of our management team, including the ironSource founders, departed from their operational roles. The departure of these employees may create a loss of accumulated knowledge, inefficiency, and other challenges to operating our business. If we fail to efficiently execute on these plans to restructure, or if the benefits from these efforts are not achieved on the timeline we expect, we may fail to achieve or maintain profitability.

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.

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. Overall growth of our revenue is difficult to predict and depends in part on our ability to execute on our integration of ironSource, our portfolio reset, and other growth strategies. 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.

If we are not able to grow efficiently and manage our costs, we may not achieve profitability on a GAAP basis.

We are aiming to achieve and maintain profitability on a GAAP basis. To do so, we need to continuously improve our platform's 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, while continuing to manage headcount, capital and operating and reporting processes 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 could negatively impact our gross margins. Even if we are successful in our efforts to grow and expand, such efforts 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. Cost-cutting interventions and improvements to our internal infrastructure to offset expenses may not be effectively implemented on a timely basis, and such failures could harm 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. For example, in the third quarter of 2024, we announced the launch of Unity 6 and we began a comprehensive rebuild of our machine learning stack and data infrastructure. If Unity 6 fails to gain market acceptance, we fail to execute on the rebuild of our machine learning stack and data infrastructure, or our offerings fail to perform properly, our business could be harmed. Similarly, emerging technologies like artificial intelligence could impact the way that customers utilize our solutions as well as enhance the functionality of our solutions. 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 promptly and effectively.

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. In addition, if our investments in fundamental product enhancements do not increase performance in a sustainable manner, or fail to do so on the timelines we expect, then our revenue, particularly from our Grow Solutions, would be harmed.

Revenue growth from our offerings depends on our ability to continue to develop and offer effective features and functionality for our customers and to respond to frequently changing privacy and data security laws and 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 intended improvements to our platform are ineffective or otherwise not well received by customers, our revenue could be adversely affected.

If we fail to deliver timely releases of our solutions 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.

If we are unable to retain our existing customers and expand their use of our platform, or attract new customers, 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, expand their use of our platform and attract new customers. Our marketing efforts may not be successful despite the resources we devote to them.

We derive a significant portion of our revenue from our Grow Solutions, and such revenue is primarily generated under a revenue-share or profit-share model. Under such models, 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 Grow Solutions or if our Grow Solutions are less effective, consumption of these offerings could decline. For example, our revenue growth in the first half of 2022 was negatively impacted by challenges with certain of our Grow Solutions. We must continually add new features and functionality to our Grow Solutions to remain competitive and respond to our customers' needs, particularly in a competitive environment. For example, in the third quarter of 2024 we began a comprehensive rebuild of our machine learning stack and data infrastructure. If we fail to execute on the rebuild of our machine learning stack and data infrastructure, or our offerings fail to perform properly, our business could be harmed.

Our Grow Solutions customers rely on us to attract a broad range of advertisers to our platform to generate demand for their impressions through our offerings such as LevelPlay, Unity Ads, and Sonic. 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 highly competitive, they may shift their business to other advertising solutions or supply paths, which could adversely affect our revenue. In addition, macroeconomic factors like labor shortages, supply chain disruptions, and inflation continue to cause logistical challenges, increased input costs, and inventory constraints for advertisers. These factors have in the past decreased, and may in the future decrease or halt, advertiser spending. Our Grow Solutions are also dependent upon the continued proliferation of mobile connected devices, such as smartphones and tablets, as well as the increased consumption of content through those devices. Consumer usage of these mobile connected devices may be inhibited for a number of reasons beyond our control. If user adoption of mobile connected devices or user consumption of content on those devices do not continue to grow, our business could be harmed.

Create Solutions customers have no obligation to renew their subscriptions, which are primarily one to three years in length, after they expire, and have no obligation to continue using our Grow Solutions, which are primarily sold under revenue-share or profit-share-based models. We periodically review our pricing structures and business models and in the third quarter of 2023 we announced changes to our pricing model for our Create Solutions, which were to become effective for users of the next major release of the software expected to be available in 2024. We experienced a high volume of negative customer feedback including a boycott and a slowdown of signing new contracts and renewals as a result of these changes, which we believe negatively impacted our Grow Solutions revenue in the second half of 2023. In light of this customer feedback, we reviewed our pricing structure and announced a new pricing structure during the third quarter of 2024. Although this later announcement was favorably received, decisions to change how we price our products or services have been and may in the future be viewed unfavorably and harm our business.

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 Grow Solutions customers continue using and expanding their use of our solutions. 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 adopt our Create or Grow 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 Grow Solutions customers, as well as Grow Solutions to our Create Solutions customers. While we believe there are significant cross-selling opportunities between our Create and Grow Solutions, and that our Create and Grow Solutions work together synergistically, our efforts to cross-sell may not be successful.

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. Specifically, we have faced and may continue to face competition as a result of:

- the internal development of alternative solutions by a significant number of companies, including other gaming companies;
- lower prices or free solutions offered by our competitors, some of whom may offer more favorable payment terms to publishers;
- mergers, acquisitions and other strategic relationships amongst our competitors which may allow them to provide more comprehensive offerings or achieve greater economies of scale than us, and may introduce new competitors in our markets;
- intense competition within the gaming market which may impact our company and a significant number of our customers, who also operate in the gaming market;
- the introduction of alternative solutions by larger, more experienced companies that offer 2D and 3D design solutions in the industries in which we may expand into; and
- rapid technological change, such as the rise of AI and machine learning, increasing use of data and trained models, evolving industry standards, changing regulations, as well as changing customer needs, requirements and preferences.

Our competitors may have greater name recognition, longer operating histories, more established customer relationships, larger marketing budgets and greater financial and operational resources than we do. 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, financial condition, and results of operations.

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.

Our estimates of market opportunity and forecasts of market growth 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.

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 made and may make should not be taken as indicative of our future growth.

Operating system platform providers or application stores may change terms of service, policies or technical requirements applicable to us or our customers, 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, such as the Apple App Store or Google Play Store, which make applications and content available to end users. Each of these operating system platforms and stores has broad discretion to change and interpret its terms of service and policies. Each 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 user information 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 have in the past and may in the future 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 Create Solutions and Grow Solutions as well as our resource planning and feature development planning for our software. For example, Google is continuing to develop their implementation of Android Privacy Sandbox, a set of technologies that will, when their use is mandated, alter the manner in which advertising is performed on Android devices, and which may impact our business. The long-term impact of these and other future privacy, platform, and regulatory changes could increase application store fees to our customers, or have other impacts which could harm our business.

If we or our customers violate or are accused of violating these terms of service or policies, an operating system platform provider or application store could limit or discontinue our or our customers' access to its platform or store. They 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. The market for interactive RT3D and 2D content in industries beyond gaming is still developing, and it is uncertain whether this market will develop as we expect, how rapidly it will develop and how much it will grow. 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 and 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 our solutions' functionality 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. 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. We may have disagreements or disputes with these parties that could negatively impact or threaten our relationship with them. We may not 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, including as a result of acquisitions by competitors of our strategic partners or strategic partners themselves becoming competitors. 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.

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 Grow 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 offerings, like Vivox, are more reliant on certain customers. While our large and diverse customer portfolio has helped to reduce the fluctuations in our Grow 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, usage of, or pricing of our platform;
- 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 Grow Solutions, which tend to generate higher revenue during periods of increased time spent on entertainment, such as holidays;
- downturns or upturns in our sales which may not be immediately reflected in our financial position and results of operations;
- timing of customer budget cycles, purchases--including longer sales cycles for enterprise customers--and usage of our platform;
- 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;
- 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;
- 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, including uncertain macroeconomic conditions, as well as conditions specifically affecting industries in which our customers operate, which can impact customer spending and result in longer deal cycles;
- incorrect estimates or judgments relating to our critical accounting policies;
- impact of new accounting pronouncements or changes in accounting principles;
- costs that we incur in order to comply with changing regulatory, tax or legal requirements, especially with respect to privacy and security matters; 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.

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 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 solutions, 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.

We utilize a direct sales organization to increase adoption within larger enterprise customers and to expand into new industries, such as automotive, where potential customers are typically larger organizations. In particular, our success for our Grow Solutions depends in part on larger enterprise customers. 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. If we do not effectively expand our direct sales capabilities to address these industries effectively or 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.

We provide service-level agreement commitments related to certain of our Create and Grow Solutions customers. 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 Grow Solutions customers are entitled to 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 and/or 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.

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.

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 for losses suffered or incurred as a result of certain claims relating to or arising from our software, services, platform, our acts or omissions under such agreements or other contractual obligations. In some cases, the liability is not limited 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 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, 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.

Our business could be disrupted by catastrophic events, including health pandemics, militarization, or war.

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. In addition, certain of our operations could be impacted by militarization or war, discussed below. 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.

Conditions in Israel, including political unrest, militarization and war, have impacted and may further adversely affect our operations.

Because many of the operations of Grow Solutions are conducted in Israel, many of our employees, are located in Israel. Political unrest, militarization, or continued war in Israel or the surrounding region has not materially impacted our operations as a whole, but has impacted our employee productivity in Israel, and may further adversely affect our business. As a result of the evolving geopolitical situation, several hundred thousand Israeli military reservists were drafted into immediate military service. While most reservists were released from active service, if a substantial number of our employees, or employees of our service providers in Israel are conscripted into military service on a prolonged basis, our operations and result of operations, particularly of our Grow Solutions, may be harmed.

In the event that our facilities in Israel or facilities of providers of critical services to our operations in Israel are damaged, our ability to deliver or provide solutions and services in a timely manner to meet our contractual obligations with customers, partners and vendors and otherwise meet users' expectations, and our ability to develop our solutions in order to be competitive, could be adversely affected. In addition, we may incur significant costs in order to resume operations and we may be unable to develop or implement adequate plans to ensure continuity of business functions. Our commercial insurance may not cover losses that may occur as a result of events associated with war and terrorism. The Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, but we cannot assure you that such government coverage will be maintained or that it will sufficiently cover our potential damages. Any losses or damages incurred by us could harm our business.

In addition, some countries may impose restrictions on doing business with Israel or companies with operations in Israel. There have also been calls to boycott Israeli goods and services. Such efforts may impact the operations of Grow Solutions and harm our business.

The intensity and duration of the war in the region are difficult to predict, as are its impacts on our business and operations that are conducted in Israel.

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 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., for example, in China where we experienced softness throughout 2023 and 2024;
- the need to adapt and localize our platform for specific countries;
- maintaining our company culture, which emphasizes developing and launching new and innovative solutions and which we believe is essential to our business, across all of our offices globally and requires aligning our values across cultures and viewpoints;
- 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;
- stringent and evolving regulations relating to privacy and data security and the unauthorized use of, or access to, commercial and personal information, particularly in Europe and China and certain U.S. states;

- differing and potentially more onerous labor regulations and practices, especially in Europe;
- 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;
- 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 hedging transactions;
- higher levels of credit risk and payment fraud, particularly the risk that excessive fraudulent activity could harm our ability to meet credit card association merchant standards and our right to accept credit cards for payment;
- 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;
- 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 foreign government interference with our intellectual property that resides outside of the U.S.;
- political instability, societal unrest, hostilities, war, or terrorist activities, including in Israel or the surrounding region where a significant portion of our Grow Solutions team is located; and subsequent retaliatory measures and sanctions;
- 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 United Kingdom ("U.K.") 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.

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.

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. We rely on payments from advertisers in order to pay our Grow Solutions customers their revenue earned from our Monetization solutions. 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.

Adverse developments affecting the financial services industry, such as actual events or perceived concerns involving liquidity, defaults or non-performance by financial institutions could adversely affect our financial condition and results of operations.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or the financial services industry generally, or concerns or rumors about any such events, have in the past and may in the future lead to market-wide liquidity problems. Our access to funding sources in amounts adequate to finance or capitalize our current and projected future business operations could be significantly impaired by factors that affect us, or customers, the financial institutions with which we have arrangements directly, or the financial services industry or economy in general. Any further deterioration in the macroeconomic economy or financial services industry could lead to losses or defaults by parties with whom we conduct business, which in turn, could have an adverse effect on our current and/or projected business operations and results of operations and financial condition. For example, a party with whom we conduct business may fail to make payments when due, default under their agreements with us, become insolvent or declare bankruptcy. Any bankruptcy or insolvency, or the failure to make payments when due, of any counterparty of ours, or the loss of any significant relationships, could result in losses to us and may adversely impact our business.

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

We offer our solutions to customers globally and have operations globally. 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. As a result of the ironSource Merger, we have certain limited forward currency contracts in place to hedge foreign currency exposure, but we have not otherwise 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.

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 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. 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. In addition, we may need to take other measures that would impact our liquidity. For example, under certain conditions we may be required to repurchase the third-party interest in Unity China, which would impact our liquidity. 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 holders of our common stock. 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.

We may fail to realize the possible synergies between our Create and Grow Solutions, or those synergies may take longer to realize than expected.

We believe that there are significant benefits and synergies that may be realized through leveraging our Create and Grow Solutions. However, the efforts to realize these benefits and synergies is a complex process and may disrupt our existing operations if not implemented in a timely and efficient manner. The full benefits of these synergies 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 these synergies could adversely affect our results of operations or cash flows, cause dilution to our earnings per share, and negatively impact our stock price.

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 in industries beyond gaming such as architects, civil and mechanical engineers, and designers. Accordingly, it will be important to our future success that we continue to increase the accessibility of our platform and if we are not able to, 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, such as Unity 6, 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 may lead to our customers being confused about use of our offerings 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 offerings. 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 solutions 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 solutions may be detected in the future by us or our users. For example, in the first half of 2022, we experienced challenges with certain of our Grow Solutions (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 offerings 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.

We are increasingly building AI into certain of our offerings, and issues raised by the use of AI in our offerings may adversely affect our business, reputation, or financial results.

We are increasingly building AI into certain of our offerings, such as Unity Muse, an expansive platform for AI-driven assistance during creation, and Unity Sentis, which allows creators to embed an AI model in the Unity Runtime for their game or application, enhancing gameplay and other functionality. We continue to advance machine learning algorithms in our Grow Solutions, which are designed to enable us to provide customers with better performance. AI technologies are complex and rapidly evolving, and we face significant competition from other companies as well as an evolving regulatory landscape. The evolving regulatory landscape and our product development efforts may result in new or enhanced governmental or regulatory scrutiny, litigation, ethical concerns, or other complications that could adversely affect our business, reputation, or financial results. For example, the use of datasets to develop and be referenced by AI models, the content generated by AI systems, or the application of AI systems may be found to be insufficient, offensive, biased, or harmful, or violate current or future laws and regulations or third-party rights. In addition, AI and machine learning ("ML") models may create flawed, incomplete, or inaccurate outputs, some of which may appear correct. If our technology is used by an end user in a controversial manner due to their perceived or actual impact on society, we may experience brand or reputational harm, competitive harm or legal liability.

In addition, market acceptance of AI technologies is uncertain, and we may be unsuccessful in product development efforts. Our solutions that use AI could fail to achieve market acceptance, or our competitors may use AI technologies more efficiently than we do. We may incur significant costs and may not achieve any significant revenue from these offerings. Any of these factors could adversely affect our business, reputation, or financial results.

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 solutions 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.

Cyber-attacks, malicious internet-based activity, online and offline fraud, and other similar activities threaten the confidentiality, integrity, and availability of our sensitive information and information technology systems, and those of the third parties upon which we rely. Such threats are prevalent and continue to rise, are increasingly difficult to detect, and come from a variety of sources, including traditional computer "hackers," threat actors, "hacktivists" organized criminal threat actors, personnel (such as through theft, misuse, or accident), sophisticated nation states, and nation-state-supported actors. For example, the increased hostilities and militarization in and around Israel, where a significant part of our Grow Solutions operations is based, may lead to an increase in politically motivated cyber-attacks which could impact our operations and harm our business.

We and the third parties upon which we rely are subject to a variety of constantly evolving threats, including but not limited to, computer malware (including as a result of advanced persistent threat intrusions), software bugs and vulnerabilities, malicious code, viruses and worms, social engineering (including spear phishing and ransomware attacks), denial-of-service attacks (such as credential stuffing attacks), credential harvesting, personnel misconduct or error, supply chain attacks server malfunctions, software or hardware failures, loss of data or other information technology assets, adware, telecommunications failures, and other similar threats. Such incidents have become more prevalent in our industry in recent years and the emergence of new AI technologies presents risks of further vulnerabilities. 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 and resources 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 or past business transactions (such as acquisitions or integrations) could expose us to additional cybersecurity risks and vulnerabilities, as our systems could be negatively affected by vulnerabilities present in acquired or integrated entities' systems and technologies. Furthermore, we may discover security issues that were not found during due diligence of such acquired or integrated entities, and it may be difficult to integrate companies into our information technology environment and security program.

Additionally, our or our customers' sensitive, proprietary, or confidential information could be leaked, disclosed, or revealed as a result of or in connection with our employees', personnel's, or vendors' use of generative AI technologies. Any such information that we input into a third-party generative AI or ML platform could be revealed to others, including if information is used to train the third party's AI/ML models. Additionally, where an AI/ML model ingests personal information and makes connections using such data, those technologies may reveal other sensitive, proprietary, or confidential information generated by the model. Moreover, AI/ML models may create incomplete, inaccurate, or otherwise flawed outputs, some of which may appear correct. We may use AI/ML outputs to make certain decisions. Due to these potential flaws, the model could lead us to make decisions that could bias certain individuals or classes of individuals and adversely impact their rights. As a result, we could face adverse consequences, including exposure to reputational and competitive harm, customer loss, and legal liability.

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. As one example, like many companies, we use Log4j with respect to certain software or systems to log security and performance information. A vulnerability in Log4j was discovered in late 2021 and widely exploited by threat actors, and, upon learning of this vulnerability, we made updates to our offerings and infrastructure intended to reduce risks associated with the vulnerability. 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, sensitive, proprietary and/or confidential information on our behalf. 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 or effective 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, proprietary, 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.

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 Grow 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 Grow 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 solutions 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.

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. 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. In addition, we cannot assure you that our patent applications will result in issued patents, and 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 solutions 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 solutions or prevented from selling some of our solutions 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, including circumvention of licensing or usage restrictions 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 offerings, or injure our reputation.

We license and make available software to customers. Although those customers are restricted in the manner in which they can use and share our software, we cannot assure you that unauthorized use or copying of our software will not occur. We rely on periodic significant updates to our software to encourage our customers to access our software 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 circumventing licensing or usage restrictions or otherwise misusing or accessing our software on an unauthorized 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 have been 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 faced and may in the future, face intellectual property disputes. Such disputes and intellectual property litigation can be 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 against claims that may be brought against them. 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 as a remedy for infringement of third-party intellectual property rights and if we cannot license or develop alternative technology, we may 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 solutions 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 solutions 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, 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 grows. 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 solutions, 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 solutions, and we expect to continue to incorporate open source software in our solutions in the future. Few of the licenses applicable to open source software have been interpreted by courts, and 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 open source software in our software in a manner that is inconsistent with the terms of the applicable license. 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 solutions that contained the open source software and required to comply with onerous conditions or restrictions on these solutions, which could disrupt the distribution and sale of these solutions. 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, or require us to devote additional research and development resources to change our solutions, either of which could harm our business. In addition, although we employ open source software license screening measures, if we were to combine our proprietary software solutions 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 solutions. 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 solution. If we inappropriately use or incorporate open source software subject to certain types of open source licenses that challenge the proprietary nature of our solutions, we may be required to re-engineer such solutions, discontinue the sale of such solutions or take other remedial actions.

Risks Related to Our Management, Talent, and Brand

Attracting, managing, and retaining our talent is critical to our success.

Our success and future growth depend upon the continued services of our management team and other key employees. Changes in our management team could disrupt our business. For example, we've recently experienced significant management turnover, including our appointment of Matthew Bromberg as our President and Chief Executive Officer and the departure of Luis Visoso, our Executive Vice President and Chief Financial Officer, and the appointment of Mark Barrysmith as our Interim Chief Financial Officer until the appointment of Jarrod Yahes as our Senior Vice President and Chief Financial Officer takes effect on January 1, 2025. Any inability to successfully manage executive transitions, retain senior executives or key employees, or find adequate replacements, could disrupt our operations and harm our business. Any inability to successfully manage executive transitions, retain senior executives or key employees, or find adequate replacements, could disrupt our operations and harm our business.

In addition, we must attract and retain highly qualified personnel, such as software engineers because of the complexity of our solutions. We have had difficulty quickly filling certain open positions in the past, and despite reevaluating our headcount needs, slowing down our hiring efforts, and reducing our headcount in 2024, we expect to have future hiring needs. Competition is intense, particularly in the San Francisco Bay Area, Tel Aviv, and other areas in which we have offices, for engineers experienced in designing and developing cloud-based platform solutions, data scientists and machine learning engineers with experience in machine learning and artificial intelligence and experienced sales professionals. 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. And, as a global workforce, we must align our company values across employees from different cultures and value systems, and often with employees who are geographically remote from one another. Failure to successfully create a cohesive company culture could harm our ability to attract and retain talent.

In addition, prospective and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived or actual value of our equity awards declines, it may not be as effective an incentive for attracting, retaining, and motivating employees. 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 support the marketing and sale of our platform to new and existing 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. We have in the past and may in the future experience public scrutiny of our business decisions and announcements. For example, in the third quarter of 2023 we announced changes to our pricing model, which caused public scrutiny of our decision making, announcement and terms of service, all of which harmed our brand reputation and negatively impacted our business.

Our ability to manage potential social and ethical issues arising out of emerging technologies including artificial intelligence could impact our brand and customer adoption of our solutions. 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.

Risks Related to Laws, Regulations, and the Global Economy

We are subject to rapidly changing and increasingly stringent laws, regulations, 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 offerings, and particularly our Grow Solutions, rely on our ability to process sensitive, proprietary, confidential, and regulated information, including personal information, that belongs to us or that we handle on behalf of others such as our customers. These activities are regulated by an increasing number of various federal, state, local, and foreign privacy and data security laws and regulations. These have become increasingly stringent and continue to evolve, requiring significant resources for compliance. Any actual or perceived non-compliance could result in litigation, regulatory proceedings, fines and civil or criminal penalties, obligations to cease offerings or to substantially modify our Grow Solutions in ways that make them less effective in certain jurisdictions, negative publicity, and reduced overall demand for our platform or reduced returns on our Grow Solutions. As we embark on a comprehensive rebuild of our machine learning stack and data infrastructure, we may encounter challenges in complying with data privacy and similar laws aimed at regulating technology.

Most jurisdictions in which we or our customers operate have adopted privacy and data security laws. For example, European privacy and data security laws, including the European Union's General Data Protection Regulation ("EU GDPR"), the European Union's Digital Services Act, the United Kingdom'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. Regulators, courts, and platforms have increasingly interpreted the GDPR and other privacy and data security laws as requiring affirmative opt-in consent to use cookies and similar technologies for personalization, advertising, and analytics. Existing and proposed regulations could also impose onerous obligations related to AI, the use of cookies and other online tracking technologies on which our offerings rely, and online direct marketing. Any of these could increase our exposure to litigation or regulatory enforcement actions, increase our compliance costs, and adversely affect our business.

In addition, 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 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. The EU GDPR, UK GDPR, and other European privacy and data security laws generally prohibit the transfer of personal information to countries outside the European Economic Area ("EEA"), such as the U.S, that are not considered by some authorities as generally providing an adequate level of data protection. The various mechanisms that may be used for compliance with these data localization and other requirements are subject to legal challenges, and the future of cross-border data transfers remains uncertain in light of the evolving regulatory landscape, which could increase the cost and complexity of doing business. If we cannot maintain a valid mechanism for cross-border personal information transfers, we may face increased exposure to regulatory actions, litigation, penalties, data processing restrictions or bans, and reduced 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.

Similarly, China's Personal Information Protection Law and Data Security Law, Canada's Personal Information Protection and Electronic Documents Act, related provincial laws, and Canada's Anti-Spam Legislation, Israel's Privacy Protection Law 5741-1981, and new and emerging privacy and data security regimes in other jurisdictions in which we operate, such as China, Canada and Israel, broadly regulate processing of personal information and impose comprehensive compliance obligations and penalties.

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. For example, the Telephone Consumer Protection Act ("TCPA") imposes various consumer consent requirements and other restrictions on certain telemarketing activity and other communications with consumers by phone, fax or text message. TCPA violations can result in significant financial penalties, including penalties or criminal fines imposed by the Federal Communications Commission or fines of up to $1,500 per violation imposed through private litigation or by state authorities. Some states have enacted laws similar to the TCPA, with similar potential exposure. In addition, the California Consumer Privacy Act ("CCPA"), which applies to personal information of consumers, business representatives, employees, and other individuals with whom we interact, imposes a number of obligations on covered businesses, including 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, the California Privacy Rights Act expanded the CCPA's requirements, including by adding new rights 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, which increase compliance costs and resources. Our actual or perceived noncompliance with these and other emerging state laws could harm our business.

We also use AI, including generative AI, and ML technologies in our products and services. The development and use of AI/ML present various privacy and data security risks that may impact our business. AI/ML are subject to privacy and data security laws, as well as increasing regulation and scrutiny. Several jurisdictions worldwide, including Europe and certain U.S. states, have proposed or enacted laws governing AI/ML. For example, the European Union is deliberating over legislation that would impose obligations on various actors in the AI value chain, and we expect other jurisdictions will adopt similar laws. Additionally, certain privacy and data security laws extend rights to consumers and regulate automated decision making in ways that may be incompatible with our use of AI/ML. These obligations may make it harder for us to conduct our business using AI/ML, lead to litigation or regulatory fines or penalties, require us to change our business practices, retrain our AI/ML, delete our models, or prevent or limit our use of AI/ML. For example, the FTC has required other companies to delete algorithms and models derived from or trained on allegedly unlawfully collected data, where it has alleged the company has violated privacy or consumer protection laws. If we cannot use AI/ML or that use is restricted, our business may be less efficient, and we may be at a competitive disadvantage.

In addition, some of our solutions 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 the emerging regulations relating to biometric privacy laws. Actual or perceived noncompliance may expose us to litigation and regulatory risks. 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 solutions. The outcome of these cases could cause us to make changes to our solutions 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 may continue under the new generation of privacy and data security laws and regulations, such as the GDPR, CCPA, the UK's Information Commissioner's Office Age-Appropriate Design Code ("Children's Code"), and the California Age-Appropriate Design Code Act ("Design Code"), and similar laws enacted by other U.S. states. 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 Design Code, or other laws relating to children's privacy and data security.

In addition to increasing government regulation, we have obligations relating to privacy and data security under our published policies and documentation, contracts and applicable industry standards. For example, we may also be subject to the Payment Card Industry Data Security Standard ("PCI DSS"), which requires companies to adopt certain measures to ensure the security of cardholder information, including using and maintaining firewalls, adopting proper password protections for certain devices and software, and restricting data access. Noncompliance with PCI-DSS can result in penalties ranging from $5,000 to $100,000 per month by credit card companies, litigation, damage to our reputation, and revenue losses.

Our business is materially reliant on revenue from behavioral, interest-based, or tailored advertising (collectively, "targeted advertising"), but delivering targeted advertisements is becoming increasingly difficult due to changes to our ability to gather information about user behavior through third party platforms, new laws and regulations, and consumer resistance. Major technology platforms on which we rely to gather information about consumers have adopted or proposed measures to provide consumers with additional control over the collection, use, and sharing of their personal data for targeted advertising purposes. For example, Apple allows users to easily opt-out of activity tracking across devices, which has impacted and may continue to impact our business. Similarly, Google announced similar plans to adopt additional privacy controls on its Android devices to allow users to limit sharing of their data with third parties and reduce cross-device tracking for advertising purposes. Additionally, Google has announced that it intends to phase out third-party cookies in its Chrome browser, which could make it more difficult for us to target advertisements. Other browsers, such as Firefox and Safari, have already adopted similar measures.

In addition, legislative proposals and present laws and regulations regulate the use of cookies and other tracking technologies, electronic communications, and marketing. For example, in the EEA and the U.K., regulators are increasingly focusing on compliance with requirements related to the targeted advertising ecosystem. European regulators have issued significant fines in certain circumstances where the regulators alleged that appropriate consent was not obtained in connection with targeted advertising activities. It is anticipated that the ePrivacy Regulation and national implementing laws will replace the current national laws implementing the ePrivacy Directive, which may require us to make significant operational changes. In the U.S., state privacy laws, including the CCPA, grant residents the right to opt-out of most forms of targeted advertising (or to opt-in, in the case of residents under age 16). Some of the laws also require covered businesses to honor certain user-enabled browser signals, such as the Global Privacy Control. Partially as a result of these developments, individuals are becoming increasingly resistant to the collection, use, and sharing of personal data to deliver targeted advertising. Individuals are now more aware of options related to consent, "do not track" mechanisms (such as browser signals from the Global Privacy Control), and "ad-blocking" software to prevent the collection of their personal information for targeted advertising purposes. As a result, we may be required to change the way we market our offerings, and any of these developments or changes could materially impair our ability to reach new or existing customers or otherwise negatively affect our operations.

Although we endeavor to comply with these obligations, we may have actually or allegedly failed to do so or have otherwise processed data improperly. 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 solutions, and subject us to regulatory enforcement action, private litigation, and other liability. Such occurrences could adversely affect our business, financial condition, and results of operations.

Our customers have sought increasingly stringent contractual obligations regarding privacy and data security. These contractual obligations, and our efforts to comply with them, could be costly and harm our business.

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 Grow 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.

Companies and governmental agencies may restrict access to our platforms, 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. 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 harmed.

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. While our services were ultimately unblocked in that instance, 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 solutions 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. China also regulates the gaming industry, including on mobile and other games which has impacted our growth rates and any changes by the Chinese government with respect to the gaming industry could have a negative impact on our business. 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.

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, 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, game publishing, cloud-based services and other related businesses from time to time. Accordingly, our ability to offer game publishing and cloud-based services in China depends on our ability to implement and maintain structures that are acceptable under PRC laws. Our failure to do so could harm 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. 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.

Compliance with such laws is costly, 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.

In addition, noncompliance with these laws could subject us to whistleblower complaints, investigations, civil or criminal penalties, reputational harm, and adverse media coverage any of which could harm our business.

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.

Various countries in which we operate 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 solutions or could limit our customers' ability to implement our solutions in those countries. Our products and services are subject to export controls and economic sanctions laws and regulations of the United States and potentially other jurisdictions in which we have operations. Compliance with such laws and regulations can be time-consuming and may result in the delay or loss of sales opportunities.

We previously inadvertently provided products and services to some customers in apparent violation of U.S. export control and economic sanctions laws. After voluntarily disclosing such noncompliance to relevant U.S. authorities, we received a warning letter, with no imposition of monetary fines or penalties. In the future, if we, or our resellers, 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.

Any change in export or import regulations--including proposed additional regulation of encryption technology--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 solutions to, existing or potential customers with global operations which 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 offerings, particularly within our Create Solutions, to a variety of domestic and foreign governmental agency customers, as well as to customers in highly regulated industries. 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 demand and payment for solutions are affected by public sector budgetary cycles and funding authorizations, funding reductions, shutdowns by the federal government or other delays may adversely affect public sector demand that could develop for our solutions.

Further, these entities may demand or require contract terms and product features or certifications that differ from our standard arrangements and are less favorable or more difficult to maintain than our standard terms or product features. If we are unable to agree to contracting requirements of governmental entities, we may be limited in our ability to sell our solutions to these customers. 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. Similarly, many foreign jurisdictions have considered or adopted laws that impose taxes on companies despite not having a physical presence in the foreign jurisdiction, including digital service taxes. 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. This 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 harm our business and results of operations.

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, including Pillar One and Pillar Two related taxes as proposed by the Organization for Economic Co-operation and Development (the "OECD") and which began to be implemented by many jurisdictions in which we operate beginning in 2024. At this time, we do not expect Pillar Two legislation to have a material impact to our consolidated financial statement;
- 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.

Uncertainties in the interpretation and application of existing, new and proposed tax laws and regulations could materially affect our tax obligations and effective tax rate.

The tax regimes to which we are subject or under which we operate are unsettled and may be subject to significant change. The issuance of additional guidance related to existing or future tax laws, or changes to tax laws, tax treaties or regulations proposed or implemented by the current or a future U.S.

presidential administration, Congress, or taxing authorities in other jurisdictions, including jurisdictions outside of the United States, could materially affect our tax obligations and effective tax rate. To the extent that such changes have a negative impact on us, including as a result of related uncertainty, these changes may adversely impact our business, financial condition, results of operations, and cash flows.

The amount of taxes we pay in different jurisdictions depends on the application of the tax laws of various jurisdictions, including the United States, to our international business activities, the relative amounts of income before taxes in the various jurisdictions in which we operate, new or revised tax laws, or interpretations of tax laws and policies, the outcome of current and future tax audits, examinations or administrative appeals, our ability to realize our deferred tax assets, and our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements.

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, 2023, we had net operating loss carryforwards for U.S. federal, state, and foreign purposes of $642 million, $398 million, and $936 million, respectively, which may be available to offset taxable income in the future, and portions of which expire in various years beginning in 2025. 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.

The tax benefits that are available to us require us to continue to meet various conditions and may be terminated or reduced in the future, which could increase our costs and taxes.

We believe that our main Israeli subsidiaries acquired as part of the ironSource Merger are eligible for certain tax benefits provided to a "Preferred Technological Enterprise" under the Israeli Law for the Encouragement of Capital Investments, 5719-1959 (the "Investment Law"). In order to remain eligible for the tax benefits provided to a "Preferred Technological Enterprise" we must continue to meet certain conditions stipulated in the Investment Law and its regulations, as amended. If these tax benefits are reduced, canceled or discontinued, our Israeli taxable income from the Preferred Technological Enterprise would be subject to a higher corporate tax rate in Israel. The standard corporate tax rate for Israeli companies has been 23% since 2018.

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. For example, we are currently defending against a putative securities class action complaint, and related derivative complaints, alleging that we or our executives made false or misleading statements and/or failed to disclose issues with our product platform.

Any litigation or dispute, whether meritorious or not, and whether or not covered by insurance, 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.

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, AI, privacy and data security, 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, many of which are discussed in greater detail above. 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. Our employees, contractors, or agents may violate such laws and regulations or our policies and procedures, which could harm our business.

For example, as a result of our Grow 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 various 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 Federal Trade Commission ("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 Grow Solutions or otherwise harm our business performance. For example, one of our acquired products within our Grow Solutions, Tapjoy's Offerwall, is subject to certain obligations under a consent order which resulted from an FTC investigation. Noncompliance with this consent order, or other future orders, may result in the imposition of substantial fines, penalties and costs that would adversely impact our financial condition and operating results. 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 Grow 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, antitrust, and the use of artificial intelligence, and therefore our solutions or components 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 Grow

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 Convertible Notes

Our Notes and the issuance of shares of our common stock upon conversion of the 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 our ability to raise additional capital or to engage in a beneficial takeover.

In November 2022, we issued $1.0 billion in aggregate principal amount of 2.0% convertible senior notes due 2027 (the "2027 Notes"), and in November 2021 we issued $1.7 billion in aggregate principal amount of 0% convertible senior notes due 2026 (the "2026 Notes," together with the 2027 Notes, the "Notes"). In March 2024, we repurchased approximately $480 million aggregate principal amount of our 2026 Notes in privately negotiated transactions with holders of the 2026 Notes and as of September 30, 2024, we had approximately $1.2 billion aggregate principal amounts of 2026 Notes outstanding. We are subject to a variety of risks related to the Notes, such as:

- 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, and our ability to make scheduled payments of the principal and interest, or to refinance or repurchase our Notes depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control;
- our ability to refinance or repurchase our indebtedness will depend on the capital markets and our financial condition at such time, and 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 the obligations of our Notes;
- if shares of our common stock are issued to the holders of the 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 such downward pressure on the price of our common stock could also encourage short sales by third parties, creating additional downward pressure on our share price;
- certain provisions in the indentures governing the Notes may delay or prevent an otherwise beneficial takeover attempt of us;
- we may from time to time seek to retire or purchase our outstanding debt, including the Notes, through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions, and other factors. The amounts involved in any such transactions, individually or in the aggregate, may be material. Further, any such purchases or exchanges may result in us acquiring and retiring a substantial amount of such indebtedness, which could impact the trading liquidity of such indebtedness; and
- the conditional conversion feature of the 2026 Notes, if triggered, and the conversion feature of the 2027 Notes may adversely affect our liquidity if we are required to settle a portion or all of our conversion obligation through the payment of cash.

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

In addition, in connection with the issuance of the 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 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.

The conditional conversion feature of the 2026 Notes, if triggered, and the conversion feature of the 2027 Notes 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 the indenture governing the 2026 Notes to convert their 2026 Notes at any time during specified periods at their option. Holders of the 2027 Notes are entitled under the indenture governing the 2027 Notes to convert their 2027 Notes at any time prior to maturity. 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, 2024, the 2026 Notes were 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 classify or 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.

We are subject to counterparty risk with respect to the Capped Call Transactions.

In addition, 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.

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, including those discussed in the risk factors in this section, as well as variance in our financial performance from expectations of securities analysts, sales of shares of our common stock by us or our stockholders, sales of securities convertible into shares of our capital stock by us, the trading volume of our common stock, general economic and market conditions, and others not currently known to us or that we do not believe are material. 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, are, and may continue to 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.

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

The proceeds from the issuance and sale of the 2027 Notes (the "PIPE") have been and are expected to be continued 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, including dilution 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. As of September 30, 2024, $750 million remained available for future share repurchases under this program.

While we expect the 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 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, repurchases are subject to the 1% Share Repurchase Excise Tax enacted by the Inflation Reduction Act, 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.

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 and directors 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 have in the past issued, and in the future may issue, equity securities to pay for acquisitions or investments. 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.

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.

If we are unable to maintain proper and effective internal controls over financial reporting, investor confidence in our company may be adversely affected and, as a result, the value of our common stock may be impacted.

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 includes 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. Our compliance with Section 404 requires that we incur substantial expenses and expend significant management efforts. 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.

In addition, management’s assessment of internal controls over financial reporting may identify weaknesses and conditions that need to be addressed or other potential matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting or disclosure of management’s assessment of our internal controls over financial reporting may have an adverse impact on the price of our common stock.

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 of 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 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. 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, 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. 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 includes choice of forum provisions which 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 an 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.

Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Rule 10b5-1 Trading Plans

The adoption or termination of contracts, instructions or written plans for the purchase or sale of our securities by our directors and officers (as defined in Rule 16a-1(f) under the Exchange Act) during the three months ended September 30, 2024, each of which is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act, were as follows:

Name	Title	Action	Adoption/Termination Date	Expiration Date [1]	Aggregate # of Securities to be Purchased/Sold
Anirma Gupta	Senior Vice President, Chief Legal Officer	Termination	August 13, 2024	December 31, 2024	(2)
Anirma Gupta	Senior Vice President, Chief Legal Officer	Adoption	August 15, 2024	December 15, 2025	(3),(4)
Tomer Bar-Zeev	Director	Adoption	September 6, 2024	June 30, 2025	1,500,000
David Helgason	Director	Adoption	September 10, 2024	June 13, 2025	(5)
Mark Barrysmith	Senior Vice President, Chief Accounting Officer and Interim Chief Financial Officer	Adoption	September 12, 2024	December 15, 2025	(4),(6)

(1) Each of the plans expire on the respective dates shown, or upon the earlier completion of all authorized transactions under the plans.

(2) The plan, originally adopted on May 12, 2023, provided for the potential sale of up to $500,000 of our common stock held in account and issuable upon future vesting events.

(3) The plan provides for the sale of approximately $10,000 of our common stock per month based on the trading price of our common stock for 12 months. The actual number of shares that will be subject to the plan is dependent on the trading price of our common stock at future dates and is not yet determinable.

(4) Each of Ms. Gupta and Mr. Barrysmith's plans provides for the potential sale of our common stock currently held in account and issuable upon future vesting events.

(5) The potential number of shares that could be sold is between 0 and 8,000,000 . The actual number of shares that will be subject to the plan is dependent on the trading price of our common stock at future dates and is not yet determinable.

(6) The plan provides for the sale of approximately $30,000 worth of shares or our common stock per month based on the trading price of our common stock for 12 months. The actual number of shares that will be subject to the plan is dependent on the trading price of our common stock at future dates and is not yet determinable.

Item 6. Exhibits

EXHIBIT INDEX

		Incorporated by Reference			
Exhibit Number	Description of Exhibit	Form	File Number	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated as of July 13, 2022, by and among Unity, Merger Sub and ironSource.	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	8-K	001-39497	3.2	September 8, 2023
10.1	Mutual Separation Agreement, by and between Luis Visoso and Unity Technologies SF, dated August 7, 2024.	8-K	001-39497	10.1	August 8, 2024
10.2	Form of Grant Notice and Award Agreement for PVUs	8-K/A	001-39497	10.1	August 21, 2024
10.3	Unity Software Inc. Key Employee Severance Plan	8-K/A	001-39497	10.2	August 21, 2024
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.

\# 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.

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.

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.

UNITY SOFTWARE INC.

Date: November 7, 2024

By: /s/ Mark Barrysmith

Mark Barrysmith

Senior Vice President, Interim Chief Financial Officer, and Chief Accounting Officer

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

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Matthew Bromberg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Unity Software Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	November 7, 2024	By:	/s/ Matthew Bromberg
			Matthew Bromberg
			President and Chief Executive Officer
			(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark Barrysmith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Unity Software Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	November 7, 2024	By:	/s/ Mark Barrysmith
			Mark Barrysmith
			Senior Vice President, Interim Chief Financial Officer, and Chief Accounting Officer
			(Principal Financial Officer, Principal Accounting Officer, and Duly Authorized Signatory)

Exhibit 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Matthew Bromberg, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Unity Software Inc. for the quarter ended September 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Unity Software Inc.

Date:	November 7, 2024	By:	/s/ Matthew Bromberg
			Matthew Bromberg
			President and Chief Executive Officer
			(Principal Executive Officer)

I, Mark Barrysmith, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Unity Software Inc. for the quarter ended September 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Unity Software Inc.

Date:	November 7, 2024	By:	/s/ Mark Barrysmith
			Mark Barrysmith
			Senior Vice President, Interim Chief Financial Officer, and Chief Accounting Officer
			(Principal Financial Officer, Principal Accounting Officer, and Duly Authorized Signatory)

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Unity Software Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.