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

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of June, 2021

Commission File Number 001-39349

DoubleDown Interactive Co., Ltd.
(Exact name of registrant as specified in its charter)

Joseph A. Sigrist, Chief Financial Officer
c/o DoubleDown Interactive, LLC
605 5th Avenue, Suite 300
Seattle, WA 98104
+1-206-408-4545
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Financial Statements

The Registrant's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2021 and 2020, attached hereto as Exhibit 99.1, were issued in Seoul, Korea, and are being furnished pursuant to General Instruction B to the Form 6-K.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	<u>Condensed consolidated financial statements (unaudited) for the three months ended March 31, 2021 and 2020</u>

SIGNATURES

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

Date: June 7, 2021

DoubleDown Interactive, Co., Ltd.

By: /s/ Joseph A. Sigrist

Name: Joseph A. Sigrist

Title: Chief Financial Officer

DoubleDown Interactive Co., Ltd.
Condensed consolidated financial statements (unaudited)
March 31, 2021 and March 31, 2020

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DoubleDown Interactive Co., Ltd.
Condensed consolidated statement of income and comprehensive income
(In thousands of U.S. dollars, except share and per share amounts) (unaudited)

	Three Months Ended March 31,	
	2021	2020
Revenue	\$ 96,667	\$ 76,061
Operating expenses:		
Cost of revenue ⁽¹⁾	33,848	26,876
Sales and marketing ⁽¹⁾	19,728	14,506
Research and development ⁽¹⁾	5,691	4,350
General and administrative ⁽¹⁾	4,304	5,028
Depreciation and amortization	7,476	7,980
Total operating expenses	71,047	58,740
Operating income	25,620	17,321
Other income (expense):		
Interest expense	(509)	(6,051)
Interest income	51	31
Gain on foreign currency transactions	243	877
Gain (loss) on foreign currency remeasurement of intercompany items	45	4,234
Other, net	657	76
Total other expense, net	487	(833)
Income before income tax	26,107	16,488
Income tax expense	(6,691)	(3,628)
Net income	\$ 19,416	\$ 12,860
Other comprehensive income (expense):		
Pension adjustments, net of tax	\$ (55)	\$ (26)
Gain on foreign currency translation	1,329	9,565
Comprehensive income	\$ 20,690	\$ 22,399
Earnings per share:		
Basic	\$ 8.77	\$ 10.78
Diluted	\$ 8.77	\$ 7.20
Weighted average shares outstanding:		
Basic	2,214,522	1,192,725
Diluted	2,214,522	2,036,851

(1) Excluding depreciation and amortization

DoubleDown Interactive Co., Ltd.
Condensed consolidated balance sheets
(In thousands of U.S. dollars, except share and per share amounts) (unaudited)

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 84,436	\$ 63,188
Accounts receivable, net	34,893	23,299
Prepaid expenses, and other assets	2,315	4,020
Total current assets	<u>121,644</u>	<u>90,507</u>
Property and equipment, net	356	377
Operating lease right-of-use assets, net	9,155	9,987
Intangible assets, net	63,934	71,364
Goodwill	633,965	633,965
Deferred tax asset	537	560
Other non-current assets	71	71
Total assets	<u>\$ 829,662</u>	<u>\$ 806,831</u>
Liabilities and Shareholders' Equity		
Accounts payable and accrued expenses	\$ 15,593	\$ 16,646
Short-term operating lease liabilities	3,014	3,033
Income taxes payable	6,617	2,838
Contract liabilities	1,969	2,415
Other current liabilities	957	717
Total current liabilities	<u>28,150</u>	<u>25,649</u>
Long-term borrowings with related party	44,111	45,956
Long-term operating lease liabilities	6,960	7,831
Deferred tax liabilities, net	22,079	20,154
Other non-current liabilities	8,161	7,730
Total liabilities	<u>109,461</u>	<u>107,320</u>
Shareholders' equity		
Common stock	18,924	18,924
Additional paid-in-capital	588,064	588,064
Accumulated other comprehensive income	24,089	22,815
Retained earnings	89,124	69,708
Total shareholders' equity	<u>720,201</u>	<u>699,511</u>
Total liabilities and shareholders' equity	<u>\$ 829,662</u>	<u>\$ 806,831</u>

See accompanying notes to condensed consolidated financial statements.

DoubleDown Interactive Co., Ltd.
Condensed consolidated statement of changes in shareholders' equity
(In thousands of U.S. dollars, except share and per share amounts) (unaudited)

	Common shares	Common stock	Additional paid-in- capital	Accumulated other comprehensive income/(loss)	Retained earnings (deficit)	Total shareholders' equity
Three months ended						
As of January 1, 2020	1,192,725	\$10,603	\$344,547	\$ 9,433	\$16,085	\$ 380,668
Pension adjustments, net of tax	—	—	—	(26)	—	(26)
Gain on foreign currency translation	—	—	—	9,565	—	9,565
Net income	—	—	—	—	12,860	12,860
Capital investment from parent	—	—	369	—	—	369
As of March 31, 2020	<u>1,192,725</u>	<u>\$10,603</u>	<u>\$344,916</u>	<u>\$ 18,972</u>	<u>\$28,945</u>	<u>\$ 403,436</u>
Three months ended						
As of January 1, 2021	2,214,522	\$18,924	\$588,064	\$ 22,815	\$69,708	\$ 699,511
Pension adjustments, net of tax	—	—	—	(55)	—	(55)
Gain on foreign currency translation	—	—	—	1,329	—	1,329
Net income	—	—	—	—	19,416	19,416
As of March 31, 2021	<u>2,214,522</u>	<u>\$18,924</u>	<u>\$588,064</u>	<u>\$ 24,089</u>	<u>\$89,124</u>	<u>\$ 720,201</u>

See accompanying notes to condensed consolidated financial statements.

DoubleDown Interactive Co., Ltd.
Condensed consolidated statement of cash flows
(In thousands of U.S. dollars, except share and per share amounts) (unaudited)

	<u>Three months ended March 31,</u>	
	2021	2020
Cash flow from operating activities:		
Net Income	\$ 19,416	\$ 12,860
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	7,476	7,980
Gain on foreign currency remeasurement of intercompany item	(45)	(4,234)
Deferred taxes	1,925	1,483
Non-cash interest expense	—	3,390
Working capital adjustments:		
Accounts receivable	(11,583)	(6,415)
Prepaid expenses, other current and non-current assets	1,694	(1,395)
Accounts payable, accrued expenses and other payables	(962)	(2,552)
Contract liabilities	(446)	(164)
Income tax payable	3,777	1,980
Other current and non-current liabilities	780	1,157
Net cash flows provided by operating activities	22,032	14,090
Cash flow from (used in) investing activities:		
Acquisition of Double8 Games Co., Ltd.	—	(1,952)
Purchases of property and equipment	(34)	(33)
Net cash flows from (used in) investing activities	(34)	(1,985)
Cash flows from (used in) financing activities:		
Repayments of short-term senior note	—	(16,756)
Net cash flows used in financing activities	—	(16,756)
Net foreign exchange difference on cash and cash equivalents	(750)	(1,255)
Net increase (decrease) in cash and cash equivalents	21,248	(5,906)
Cash and cash equivalents at beginning of period	63,188	42,418
Cash and cash equivalents at end of period	\$ 84,436	\$ 36,512
Supplemental disclosures of cash flow information		
Cash paid for:		
Interest	\$ —	\$ 342
Income taxes	\$ 130	\$ 161

See accompanying notes to condensed consolidated financial statements

Note 1: Basis of presentation and summary of significant accounting policies

Description of business

DoubleDown Interactive Co., Ltd. (“DDI,” “we,” “us,” “our” or “the Company,” formerly known as The8Games Co., Ltd.) was incorporated in 2008 in Seoul, Korea as an interactive entertainment studio, focused on the development and publishing of casual games and mobile applications. DDI is a subsidiary of DoubleU Games Co., Ltd. (“DUG” or “DoubleU Games”), a Korean company and our controlling shareholder holding 67.7% of our outstanding shares. The remaining 32.3% of our outstanding shares are held by STIC Special Situation Private Equity Fund (“STIC”). In 2017, DDI acquired DoubleDown Interactive, LLC (“DDI-US”) from International Gaming Technologies (“IGT”) for approximately \$825 million. DDI-US, with its principal place of business located in Seattle, Washington, is our primary revenue-generating entity.

We develop and publish digital gaming content on various mobile and web platforms through our multi-format interactive all-in-one game experience concept. We host DoubleDown Casino, DoubleDown Classic and DoubleDown Fort Knox within various formats.

Acquisition of Double8 Games Co.,Ltd. (“Double8 Games”)

On February 25, 2020, we completed the acquisition of Double8 Games Co., Ltd. (“Double8 Games”) from DoubleU Games in exchange for KRW 2.3 billion (US\$1.9 million). Double8 Games is based in Seoul, Korea, with the primary business of developing digital gaming content for international markets. The acquisition was considered a business combination among entities under common control and, therefore, the transfer of net assets was recorded at their carrying value with all financial information prior to the acquisition adjusted for comparability.

Assets acquired and liabilities assumed primarily consist of working capital items, including a right of use asset and lease obligation. The difference between the cash paid and carrying value of the net assets received was recorded as a capital investment from parent.

Basis of presentation

Our unaudited condensed consolidated financial statements include all adjustments of a normal, recurring nature necessary for the fair presentation of the results for the interim periods presented. The results for the interim period presented are not necessarily indicative of those for the full year. The condensed consolidated financial statements should be read in conjunction with our consolidated financial statements for the years ended December 31, 2020, 2019 and 2018.

The condensed consolidated financial statements include the balances and accounts of DDI and our controlled subsidiaries. All significant inter-company transactions, balances and unrealized gains or losses have been eliminated. We view our operations and manage our business as one operating segment.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires our management to make estimates and assumptions that affect financial statements and accompanying notes. We regularly evaluate estimates and assumptions related to provisions for income taxes, revenue recognition, expense accruals, deferred income tax asset valuation allowances, valuation of goodwill and intangibles, and legal contingencies. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources.

The actual results and outcomes may differ from management’s estimates and assumptions due to risks and uncertainties, including uncertainty in the current economic environment due to the recent outbreak of a novel strain of the coronavirus (“COVID-19”).

Functional currency and translation of financial statements

Our functional currency is the Korean Won (“KRW”), and the U.S. Dollar (“dollar,” “USD,” “US\$,” or “\$”), is the functional currency of our United States subsidiaries. The accompanying condensed consolidated financial statements are presented in USD. The condensed consolidated balance sheet has been translated at the exchange rates prevailing at each balance sheet date. The condensed consolidated statements of income and comprehensive income and statement of cash flows have been translated using the weighted-average exchange rates prevailing during the periods of each statement. The equity capital is denominated in the functional currency, KRW, and is translated at historical exchange rates. All translation adjustments resulting from translating into the reporting currency are accumulated as a separate component of accumulated other comprehensive income in shareholders’ equity. Gains or losses resulting from foreign currency transactions are included in other income (expense).

Intercompany monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date with the gain or loss arising on translation recorded to other income (expense). Intercompany non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. When we parenthetically disclose USD amounts for certain financial instruments denominated in KRW for the benefit of the reader, we use the exchange rates in effect as of March 31, 2021, unless otherwise noted.

Financial instruments and concentration of credit risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

Accounts receivable are recorded and carried at the net invoiced amount, which is net of platform payment processing fees, unsecured, and represent amounts between us based on contractual obligations where an executed contract exists. We do not require collateral and have not recognized an allowance as management estimates the net receivable is fully collectible. Apple, Inc. (“Apple”), Facebook, Inc. (“Facebook”), and Google, LLC (“Google”) represent significant distribution, marketing, and payment platforms for our games. A substantial portion of our revenue for the three months ended March 31, 2021 was generated from players who accessed our games through these platforms and a significant concentration of our accounts receivable balance is comprised of balances owed to us by these platforms.

The following table summarizes the percentage of revenue and accounts receivable generated via our platform providers in excess of 10% of our total revenue and total accounts receivable:

	Three months ended March 31,	
	2021	2020
Apple	51.3%	50.0%
Facebook	26.8%	29.1%
Google	19.0%	17.9%

	Accounts receivable concentration	
	As of March 31, 2021	As of December, 31 2020
Apple	67.2%	54.1%
Facebook	18.0%	25.9%
Google	13.6%	18.0%

Note 2: Revenue from contracts with customers

Our social and mobile apps operate on a free-to-play model, whereby game players may collect virtual currency free of charge through the passage of time or through targeted marketing promotions. If a game player wishes to obtain virtual currency above and beyond the level of free virtual currency available to that player, the player may purchase additional virtual currency. Once a purchase is completed, the virtual currency is deposited into the player's account and is not separately identifiable from previously purchased virtual currency or virtual currency obtained by the game player for free.

Once obtained, virtual currency (either free or purchased) cannot be redeemed for cash nor exchanged for anything other than gameplay within our apps. When virtual currency is played on any of our games, the game player could "win" and would be awarded additional virtual currency or could "lose" and lose the future use of that virtual currency. We have concluded that our virtual currency represents consumable goods, because the game player does not receive any additional benefit from the games and is not entitled to any additional rights once the virtual currency is substantially consumed.

Control transfers when the virtual currency is consumed for gameplay. We recognize revenue from player purchases of virtual currency based on the consumption of this currency. We determined through a review of play behavior that game players generally do not purchase additional virtual currency until their existing virtual currency balances, regardless of source (e.g. bonus currency, gifted currency through social media channels, daily free chips, etc.), have been substantially consumed.

Based on an analysis of customers' historical play behavior, purchase behavior, and the amount of virtual currency outstanding, we are able to estimate the rate that virtual currency is consumed during gameplay. Accordingly, revenue is recognized using a user-based revenue model with the period between purchases representing the timing difference between virtual currency purchase and consumption. This timing difference is relatively short.

We continuously gather and analyze detailed customer play behavior and assess this data in relation to our judgments used for revenue recognition.

Disaggregation of revenue

We believe disaggregation of our revenue based on platform and geographical location is appropriate as these are categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The following table represents our revenue disaggregated based on mobile and web platforms (in thousands):

	Three months ended March 31,	
	2021	2020
Mobile	\$ 70,004	\$ 53,159
Web	26,663	22,902
Total	\$ 96,667	\$ 76,061

The following table represents our revenue disaggregated based on the geographical location of our players (in thousands):

	Three months ended March 31,	
	2021	2020
U.S. (1)	\$ 83,661	\$ 71,059
International	13,006	5,002
Total	\$ 96,667	\$ 76,061

(1) Geographic location is presented as being derived from the U.S. when data is not available.

Contract assets, contract liabilities and other disclosures

Customer payments are based on the payment terms established in our contracts. Payments for purchase of virtual currency are required at time of purchase, are non-refundable and relate to non-cancellable contracts that specify our performance obligations. All payments are initially recorded as revenue, as the player has no right of return after the purchase, consistent with our standard terms and conditions. Based on our analysis, at each period end, we estimate the number of days to consume virtual currency. This represents the revenue amount where the performance obligation has not been met and is deferred as a contract liability until we satisfy the obligation. The contract asset consists of platform fees for which revenue has not been recognized. For subscription revenue, the remaining portion of the daily ratable monthly subscription is recorded as a contract liability and the applicable platform fees as a contract asset.

The following table summarized our opening and closing balances in contract assets and contract liabilities (in thousands):

	<u>As of March 31, 2021</u>	<u>As of December 31, 2020</u>
Contract assets ⁽¹⁾	\$ 584	\$ 718
Contract liabilities	1,948	2,393

(1) Contract assets are included within prepaid expenses and other current assets in our condensed consolidated balance sheets.

Note 3: Goodwill and intangible assets

There were no changes to the carrying amount of goodwill in the three months ended March 31, 2021. Changes in the carrying amount of intangible assets were as follows:

	Useful Lives (in years)	March 31, 2021			December 31, 2020		
		Gross amount	Accum. amort	Net amount	Gross amount	Accum. amort	Net amount
Trademarks	indefinite	\$ 50,000	\$ —	\$50,000	\$ 50,000	\$ —	\$ 50,000
Customer relationships	4	75,000	(71,875)	3,125	75,000	(67,187)	7,813
Purchased technology	5	45,423	(35,314)	10,109	45,423	(33,149)	12,274
Development costs	3	9,486	(8,884)	602	9,486	(8,434)	1,052
Software	4	2,406	(2,308)	98	2,406	(2,181)	225
Total		<u>\$182,315</u>	<u>\$(118,381)</u>	<u>\$63,934</u>	<u>\$182,315</u>	<u>\$(110,951)</u>	<u>\$ 71,364</u>

The following reflects amortization expense related to intangible assets included with depreciation and amortization:

	<u>Three months ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
Amortization expense	\$7.4 million	\$7.9 million

Note 4: Debt

The components of debt as of March 31, 2021 and December 31, 2020 are as follows (in thousands):

	<u>As of March 31,</u> 2021	<u>As of December 31,</u> 2020
4.60% Senior Notes due to related party due 2024	44,111	45,956
Total debt	\$ 44,111	\$ 45,956
Less: Short-term debt	—	—
Total Long-term debt	\$ 44,111	\$ 45,956

Joint Investment Agreement

In 2017, in connection with the acquisition of DDI-US, a Joint Investment Agreement was executed by DUG and STIC Special Situation Private Equity Fund (“STIC”). As part of consummating the Joint Investment Agreement, we also entered into a series of additional inter-related multiple element financing agreements with STIC, whereby we issued to STIC, pursuant to a subscription agreement, (i) aggregate principal amount KRW210 billion (US\$185 million) of 2.5% Convertible Bonds due 2024 (the “2.5% Convertible Bonds”), unless earlier redeemed or converted into 715,258 common shares at an initial conversion price of KRW293,600, subject to certain adjustments, and (ii) aggregate principal amount of KRW90 billion (US\$79 million) 2.5% Non-convertible Bonds due 2024 (the “2.5% Non-convertible Bonds”) with detachable warrants to purchase 306,540 common shares at an initial exercise price of KRW293,600 per share, subject to certain adjustments. We collectively refer to the 2.5% Convertible Bonds and the 2.5% Non-convertible Bonds as the “Bonds.” See further discussion of the Bonds and the warrants below.

These inter-related agreements afforded DUG, STIC, and the Company the following significant obligations, rights and privileges:

- DUG has committed to take efforts to file an initial registration statement for an initial public offering (“IPO”) for DDI, provided that the expected IPO price generates at least an 8% internal rate of return (“IRR”) to STIC. If such IRR is not expected, DUG may only file a registration statement if requested by STIC. If STIC requests to sell its shares in the IPO, DUG will have to include at least 50% of such shares in the offering.
- DUG has a call option to purchase the equity-linked securities issued to STIC under certain time and price conditions, but which must be exercised by May 26, 2020, or it expires. On May 15, 2020, DUG exercised the right to call. See discussion under debt arrangements below.
- STIC has tag-along rights to sell all or part of its direct and indirect share interest in the Company, including the equity-linked securities, if DUG sells its interest in our common shares to a third party; and STIC has drag-along rights to request DUG to sell its interest in our common shares if STIC wishes to sell its interest in us to any third party under one of the following circumstances: (i) DUG does not exercise its call option; (ii) DUG is in material breach of the Joint Investment Agreement; or (iii) the purpose of the acquisition of DDI-US is not likely to be achieved as a result of a reduction in value of DDI-US.
- In all scenarios under which a buy out of the Bonds, warrants or shares could occur, DUG, and not DDI, has the associated rights and obligations, and the Joint Investment Agreement does not provide for the relevant instruments to be extinguished. Instead, they can be assigned to DUG in exchange for the appropriate consideration. DDI is not obligated, nor has the right to make any settlements in connection with these buyout scenarios.
- The Joint Investment Agreement further provides that none of DDI, DUD or DDI-US will enter into certain transactions or engage in certain activities without prior written consent from STIC, including, but not limited to, issuing new share capital, acquiring or selling material businesses and paying dividends.

The Joint Investment Agreement may be terminated by each party if (i) DUG has repaid or sold all Bonds to a third party; (ii) STIC no longer holds any shares resulting from the exercise of the warrants or conversion of the 2.5% Convertible Bonds; or (iii) DDI has completed the IPO.

Debt arrangements

4.60% Senior Notes due to related party due 2024

The 4.60% Senior Notes due to related party accrue 4.60% interest quarterly on the outstanding principal amount until maturity. Interest and remaining principal are due in full at maturity (May 27, 2024).

Bonds

2.5% Convertible Bonds

At various dates in May and June 2020, STIC, as holder of the 2.5% Convertible Bonds, exercised its right to convert all outstanding bonds into 715,258 common shares. In connection with these transactions, we paid STIC the accrued coupon interest of \$0.9 million and the unpaid yield-to-maturity interest of \$4.5 million was forfeited.

The conversion of the 2.5% Convertible Bonds was in accordance with the original terms of the instruments and were not subject to an inducement offer to convert as the terms of the conversion were not modified. As a result, the carrying value of the 2.5% Convertible Bonds, plus the forfeited yield-to-maturity interest, net of related income tax effects was recorded to common shares and additional paid-in-capital with no gain or loss recognized.

2.5% Non-convertible Bonds

On May 15, 2020, DUG exercised its call option right and simultaneously redeemed the 2.5% Non-convertible bonds as consideration to exercise the warrants into 306,539 shares of common stock. In connection with this transaction, we paid DUG the 2.5% accrued but unpaid coupon interest of \$0.3 million and the unpaid yield-to-maturity interest of \$1.9 million was forfeited and the remaining unaccrued bond discount eliminated. As a result, the carrying value of the 2.5% Non-convertible Bonds with warrants, plus the forfeited yield-to-maturity interest, net of related income tax effects was recorded to common shares and additional paid-in-capital with no gain or loss recognized.

Note 5: Fair value measurement

The carrying values of our accounts receivable, prepaid expenses and other current assets, accounts payable, accrued liabilities, and short-term senior notes approximate their recorded values due to the short-term nature of these instruments.

Our cash equivalents (Level 1 estimate) consist of money market funds and Korean market government bonds totaling \$82.1 million and \$61.1 million, as of March 31, 2021 and December 31, 2020, respectively. We rely on credit market data to track interest rates for other entities with similar risk profiles.

As of March 31, 2021 and December 31, 2020, we believe the fair value of our senior notes (Level 3 estimate) approximates carrying value due to the nature of the instruments and the lack of meaningful change to our credit profile.

Note 6: Income taxes

We are subject to federal and state income taxes in Korea and the United States. We account for our provision for income taxes in accordance with ASC 740, Income Taxes, which requires an estimate of the annual effective tax rate for the full year to be applied to the interim period, taking into account year-to-date amounts and projected results for the full year.

Our effective tax rate varies from the statutory Korean income tax rate due to the effect of foreign rate differential, withholding taxes, state and local income taxes, FDII deduction, research and development credits, and a valuation allowance on Korean deferred tax assets. Our effective tax rate could fluctuate significantly from quarter to quarter based on variations in the estimated and actual level of pre-tax income or loss by jurisdiction, changes in enacted tax laws and regulations, and changes in estimates regarding non-deductible expenses and tax credits. As of March 31, 2021 and December 31, 2020, we have provided a valuation allowance against our net deferred tax assets that we believe, based on the weight of available evidence, are not more likely than not to be realized.

The effective tax rate for the three months ended March 31, 2020 was 22.0%. The effective tax rate of 25.63% for the three months ended March 31, 2021 is higher than the Korean statutory rate of 20%, primarily due to foreign rate differential, withholding taxes, a valuation allowance on the Korean attributes, offset by the benefit of a FDII deduction and research tax credits.

Note 7: Net income per share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period, without consideration for potentially dilutive securities. Diluted net income per share is computed by dividing net income by the weighted-average number of common shares and dilutive common share equivalents outstanding for the period determined using the treasury-stock and if-converted methods. Dilutive common share equivalents are comprised of warrants and shares issuable under our convertible debt arrangement described above.

The following table presents the calculation of basic and diluted net income per share (in thousands except share and per share amounts):

	Three months ended March 31,	
	2021	2020
Numerator:		
Net income applicable to common shareholders - basic	\$ 19,416	\$ 12,860
Dilutive effect of assumed conversion of convertible debt	—	1,814
Net income applicable to common shareholders - diluted	\$ 19,416	\$ 14,674
Denominator:		
Weighted average shares outstanding - basic	2,214,522	1,192,725
Dilutive effect of assumed conversion of convertible debt	—	715,258
Dilutive effect of assumed conversion of warrants	—	128,868
Weighted average shares outstanding - diluted	2,214,522	2,036,851
Basic net income per share	\$ 8.77	\$ 10.78
Diluted net income per share	\$ 8.77	\$ 7.20

Note 8: Leases

We are lessee for corporate office space in Seattle, Washington and Seoul, Korea. The lessor for our Seoul, Korea leases is our parent, DoubleU Games (see Note 11). Our leases have remaining terms of three to five years. We do not have any finance leases. Our total variable and short-term lease payments are immaterial for all periods presented.

The Seattle, Washington lease originated in July 2012 and consists of 49,375 square feet. The lease will expire in October 2024.

In February 2019, we executed new subleases with our parent, DUG, for 21,218 square feet of office space in Gangnam-gu, Seoul, Korea. The lease term will expire in September 2023.

Supplemental balance sheet and cash flow information related to operating leases is as follows (in thousands):

	<u>As of March 31, 2021</u>	<u>As of December 31, 2020</u>
Operating lease right-of-use asset	\$ 9,974	\$ 10,864
Accrued rent	819	877
Total operating lease right-of-use asset, net	<u>\$ 9,155</u>	<u>\$ 9,987</u>
Short-term operating lease liabilities	\$ 3,014	\$ 3,033
Long-term operating lease liabilities	<u>\$ 6,960</u>	<u>\$ 7,831</u>
Total operating lease liabilities	<u>\$ 9,974</u>	<u>\$ 10,864</u>

Supplemental cash flow information related to leases was as follows (in thousands):

	<u>Three months ended</u> <u>March 31, 2021</u>	<u>Year ended</u> <u>December 31, 2020</u>
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 871	\$ 3,192

Note 9: Accumulated other comprehensive income

Changes in accumulated other comprehensive income (“AOCI”) by component for the three months ended March 31, 2021 were as follows (in thousands):

<u>Three months ended March 31, 2020</u>	<u>Currency translation</u> <u>adjustments</u>	<u>Defined benefit</u> <u>pension plan</u>	<u>Total</u>
Balance as of January 1, 2020	\$ 10,131	\$ (698)	\$ 9,433
Foreign currency translation gain/(loss)	9,565		9,565
Actuarial gain/(loss), net of tax expense of \$8		(26)	(26)
Balance as of March 31, 2020	<u>\$ 19,696</u>	<u>\$ (724)</u>	<u>\$ 18,972</u>
<u>Three months ended March 31, 2021</u>	<u>Currency translation</u> <u>adjustments</u>	<u>Defined benefit</u> <u>pension plan</u>	<u>Total</u>
Balance as of January 1, 2021	\$ 23,807	\$ (992)	\$ 22,815
Foreign currency translation gain/(loss)	1,329		1,329
Actuarial gain/(loss), net of tax expense of \$14		(55)	(55)
Balance as of March 31, 2021	<u>\$ 25,136</u>	<u>\$ (1,047)</u>	<u>\$ 24,089</u>

We do not tax effect foreign currency translation gain/(loss) because we have determined such gain (loss) is permanently reinvested.

Note 10: Commitments and contingencies

Legal contingencies

On April 12, 2018, a class-action lawsuit was filed against DDI-US demanding a return of unfair benefit under the pretext that the Company's social casino games are not legal in the State of Washington, United States. Similar class-action lawsuits were concurrently filed with certain of our competitors, certain of which, announced settlements which the court has recently approved.

In August 2018, we filed a Motion to Compel Arbitration, which was denied and immediately appealed in December 2018. We were granted a Motion to Stay pending appeal in February 2019. In October 2019, a court date was issued and subsequently abated as the Ninth Circuit Appeals court hears the oral arguments and a resolution of appeal is determined in a similar case with one of our competitors. On January 29, 2020, the Ninth Circuit affirmed the District Court's denial of arbitration, thereby denying our appeal to compel arbitration. The case is now in District Court. On June 17, 2020, we filed a motion in the United States District Court for the Western District of Washington, which, if granted, would certify certain questions of state law to the Washington State Supreme Court for interpretation in accordance with applicable state law. On August 11, 2020, the District Court denied DDI-US's motion to certify certain questions to the Washington State Supreme Court. We subsequently filed a motion for reconsideration of this ruling. On August 13, 2020, DDI-US filed a motion to strike the plaintiffs' nationwide class allegations, which was noted for consideration on October 2, 2020. On September 10, 2020, DDI-US filed a motion to dismiss under Fed. R. Civ P. 12 (B)(1) and a motion to abstain asking the District Court to stay this lawsuit pending the resolution of a Declaratory Judgment action filed by DDI-US (and IGT) in the Washington State Superior Court seeking a ruling on certain relevant issues under Washington state law, which was noted for consideration on October 2, 2020. No date for a hearing on these motions has been set. Additional discovery has continued, including, but not limited to, our issuance of discovery to plaintiffs. On January 15, 2021, our motion for reconsideration was denied. On February 25, 2021, plaintiffs filed a motion for class certification and for preliminary injunction. On March 19, 2021, our motion to strike the nationwide class allegations was denied. Discovery in the federal court case has commenced and is continuing. On April 25, 2021, plaintiffs filed their Second Amended Complaint, changing their allegations to include an additional corporate entity of co-defendant, IGT. DoubleDown Plaintiffs with its expert disclosures and filed its Opposition to Plaintiffs' Motion for Class Certification and Preliminary Injunction on May 11, 2021. Discovery and discovery-related motions practice continues. As previously reported, IGT tendered its defense of the lawsuit to the Company and sought indemnity for any damages from the lawsuit, based on various agreements associated with IGT's sale of the Company. The Company had previously tendered its defense to IGT and sought indemnity from it. The parties have entered into a standstill or tolling agreement, which expires on or before September 1, 2021.

The case is subject to significant uncertainties and, therefore, determining the likelihood of a loss and/or the measurement of any loss or range of loss cannot be reasonably estimated. We evaluated (1) the facts and circumstances known to us, including information regarding settlements and other relevant events and developments, (2) the advice and analyses of counsel and (3) the assumptions and judgement of management, all of which involve a series of complex judgments about future events. As a result, no amount has been recorded in connection with this lawsuit.

On January 8, 2021, a suit alleging patent infringement of certain patents for gaming applications used by DDI was filed. By agreement, the parties will stipulate to an extension to respond. DoubleDown filed a motion to dismiss plaintiffs' complaint on April 29, 2021, arguing that the asserted patents are not patent-eligible because they are drawn to an abstract idea. Plaintiff opposed the motion, and DoubleDown will file a reply on June 4, 2021. DoubleDown also filed a motion to stay discovery pending resolution of the motion to dismiss. The parties agreed to an interim stay of discovery pending resolution of the motion to stay. On May 28, 2021, Plaintiff made a settlement demand. DoubleDown has not responded.

On May 14, 2021, Hanover Insurance Co. filed a declaratory judgment action alleging that its insurance policy does not cover the claims made by NEXRF Corp. in NEXRF Corp. v. DoubleDown Interactive, LLC, DoubleU Games Co., Ltd., and DoubleDown Interactive, Ltd. (W.D. Wash. 2:20-cv-01875). DoubleDown has not yet been served with or responded to the Complaint.

The future outcome of these matters could be material to our operating results and cash flows in a future period. Legal costs associated with our legal proceedings are expensed as incurred.

Publishing and license agreements

DoubleU Games

We entered into the DoubleU Games License Agreement on March 7, 2018, and it was subsequently amended on July 1, 2019 and November 27, 2019. Pursuant to the DoubleU Games License Agreement, DoubleU Games grants us an exclusive license to develop and distribute certain DoubleU Games social casino game titles and sequels thereto in the social online game field of use. We are obligated to pay a royalty license fee to DoubleU Games in connection with these rights, with certain customary terms and conditions. The agreement remains in effect until either DUG no longer holds an interest, directly or indirectly, in DDI, or DDI no longer holds an interest, directly or indirectly, in DDI-US. In such event, the agreement provides that the parties will mutually renegotiate the terms of the agreement. As of March 31, 2021, we licensed approximately 38 game titles under the terms of this agreement.

International Gaming Technologies ("IGT")

In 2017, we entered into a Game Development, Distribution, and Services agreement with IGT, and it was subsequently amended on January 1, 2019. Under the terms of the agreement, IGT will deliver game assets so that we can port (a process of converting the assets into functioning slot games by platform) the technology for inclusion in our gaming apps. The agreement includes game assets that are used to create new games. Under the agreement, we pay IGT a royalty rate of 7.5% of revenue for their proprietary assets and 15% of revenue for third-party game asset types. We also pay a monthly fee for porting. The initial term of the agreement is ten (10) years with up to two additional five-year periods. Costs incurred in connection with this agreement for the three months ended March 31, 2020 and 2021 totaled \$3.0 million and \$3.0 million, respectively and are recognized as a component of cost of revenue.

Note 11: Related party transactions

Our related party transactions comprise of expenses for use of intellectual property, borrowings, and facilities, as previously described. We may also incur other expenses with related parties in the ordinary course of business, which are included in the consolidated financial statements.

The following is a summary of expenses charged by our parent, DUG (in thousands):

	Three months ended March 31,		Financial statement line item
	2021	2020	
Royalty expense	\$ 1,134	\$ 475	Cost of revenue
Interest expense	509	961	Interest expense
Rent expense	357	371	General and administrative expense
Other expense	35	4	General and administrative expense

Amounts due to our parent, DUG, are as follows (in thousands):

	At March 31,	At December 31,	Financial statement line item
	2021	2020	
4.6% Senior Note due related party	\$ 44,111	\$ 45,956	Long-term borrowings with related party
Royalties and other	3,590	3,631	Accounts payable and accrued expenses
Short-term lease liability	1,347	1,399	Short-term operating lease liabilities
Accrued interest on related party note	5,221	4,918	Other non-current liabilities
Long-term lease liability	2,004	2,454	Long-term operating lease liabilities

Note 12: Defined benefit pension plan

We operate a defined benefit pension plan under the employment regulations in Korea. The plan services the employees located in Seoul and is a final waged-based pension plan, which provides a specified amount of pension benefit based on length of service. The total benefit obligation of \$2.9 million and \$2.8 million was included in other non-current liabilities as of March 31, 2021 and December 31, 2020, respectively, and the change in actuarial gains or losses, which is not significant, was included in other comprehensive income. The plan is unfunded.