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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from _________ to _________

Commission File Number: 001-39533

Corsair Gaming, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**82-2335306** (I.R.S. Employer Identification No.)

115 N. McCarthy Boulevard
Milpitas, CA 95035
(Address of principal executive offices and zip code)

(510) 657-8747
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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, $0.0001 par value per share	CRSR	The Nasdaq Global Select Market

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

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

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

Large accelerated filer	☒	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 ☒

As of October 25, 2022, the registrant had 95,988,656 shares of common stock, $0.0001 par value per share, outstanding.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the Exchange Act) that reflect our current views with respect to, among other things, our operations and financial performance. These forward-looking statements are included throughout this Quarterly Report and relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. We have used the words “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,” “foreseeable,” “future,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “seek,” “will” and similar terms and phrases to identify the forward-looking statements.

The forward-looking statements contained in this Quarterly Report on Form 10-Q are based on management’s current expectations and are subject to uncertainty and changes in circumstances. There can be no assurance that future developments affecting us will be those that we have anticipated. Actual results may differ materially from these expectations due to changes in global, regional or local economic, business, competitive, market, regulatory and other factors, many of which are beyond our control, including, for example, the COVID-19 pandemic. We believe that these factors include but are not limited to those described under Part II, Item 1A, “Risk Factors” in this Quarterly Report on Form 10-Q. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this Quarterly Report on Form 10-Q. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable securities laws.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

Corsair Gaming, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net revenue	$ 311,769	$ 391,121	$ 976,368	$ 1,393,438
Cost of revenue	240,209	289,759	777,593	1,001,397
Gross profit	71,560	101,362	198,775	392,041
Operating expenses:				
Sales, general and administrative	66,932	76,112	216,456	234,134
Product development	15,616	14,495	50,752	45,150
Total operating expenses	82,548	90,607	267,208	279,284
Operating income (loss)	(10,988)	10,755	(68,433)	112,757
Other (expense) income:				
Interest expense	(2,734)	(7,202)	(5,689)	(16,656)
Other income (expense), net	1,662	(1,402)	1,796	(4,002)
Total other expense, net	(1,072)	(8,604)	(3,893)	(20,658)
Income (loss) before income taxes	(12,060)	2,151	(72,326)	92,099
Income tax benefit (expense)	6,115	(374)	11,262	(15,854)
Net income (loss)	(5,945)	1,777	(61,064)	76,245
Less: Net income attributable to noncontrolling interests	266	—	33	—
Net income (loss) attributable to Corsair Gaming, Inc.	$ (6,211)	$ 1,777	$ (61,097)	$ 76,245
Calculation of net income (loss) per share attributable to common stockholders of Corsair Gaming, Inc.:				
Net income (loss) attributable to Corsair Gaming, Inc.	$ (6,211)	$ 1,777	$ (61,097)	$ 76,245
Change in redemption value of redeemable noncontrolling interests	(2,690)	—	(12,330)	—
Net income (loss) attributable to common stockholders of Corsair Gaming, Inc.	$ (8,901)	$ 1,777	$ (73,427)	$ 76,245
Net income (loss) per share attributable to common stockholders of Corsair Gaming, Inc.:				
Basic	$ (0.09)	$ 0.02	$ (0.77)	$ 0.82
Diluted	$ (0.09)	$ 0.02	$ (0.77)	$ 0.76
Weighted-average common shares outstanding:				
Basic	95,858	93,918	95,537	92,894
Diluted	95,858	100,041	95,537	100,116

The accompanying notes are an integral part of these condensed consolidated financial statements

Corsair Gaming, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net income (loss)	$ (5,945)	$ 1,777	$ (61,064)	$ 76,245
Other comprehensive gain (loss):				
Foreign currency translation adjustments, net of tax benefit of $520 and $0 for the three months ended September 30, 2022 and 2021, respectively, and $507 and $0 for the nine months ended September 30, 2022 and 2021, respectively	(5,761)	(1,943)	(13,173)	(1,297)
Unrealized foreign exchange (loss) from long-term intercompany loans, net of tax benefit of $53 and $24 for the three months ended September 30, 2022 and 2021, respectively, and $127 and $56 for the nine months ended September 30, 2022 and 2021, respectively	(273)	(121)	(645)	(282)
Comprehensive income (loss)	(11,979)	(287)	(74,882)	74,666
Less: Comprehensive loss attributable to noncontrolling interests	(265)	—	(962)	—
Comprehensive income (loss) attributable to Corsair Gaming, Inc.	$ (11,714)	$ (287)	$ (73,920)	$ 74,666

The accompanying notes are an integral part of these condensed consolidated financial statements

Corsair Gaming, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands, except per share amounts)

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash	$ 57,275	$ 62,415
Restricted cash	4,176	2,734
Accounts receivable, net	156,311	291,287
Inventories	249,942	298,315
Prepaid expenses and other current assets	47,717	51,024
Total current assets	515,421	705,775
Restricted cash, noncurrent	231	231
Property and equipment, net	26,710	16,819
Goodwill	346,302	317,054
Intangible assets, net	224,256	225,709
Other assets	70,348	71,808
Total assets	$ 1,183,268	$ 1,337,396
Liabilities		
Current liabilities:		
Debt maturing within one year	$ 4,655	$ 4,753
Accounts payable	162,213	236,120
Other liabilities and accrued expenses	158,170	205,874
Total current liabilities	325,038	446,747
Long-term debt	239,052	242,898
Deferred tax liabilities	16,413	25,700
Other liabilities, noncurrent	47,796	53,871
Total liabilities	628,299	769,216
Commitments and Contingencies (Note 9)		
Temporary equity		
Redeemable noncontrolling interests	27,977	—
Permanent equity		
Corsair Gaming, Inc. stockholders’ equity:		
Preferred stock, $0.0001 par value: 5,000 shares authorized, nil and nil shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	—	—
Common stock, $0.0001 par value: 300,000 shares authorized, 95,950 and 94,510 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	10	9
Additional paid-in capital	504,633	470,364
Retained earnings	24,720	98,147
Accumulated other comprehensive loss	(13,163)	(340)
Total Corsair Gaming, Inc. stockholders’ equity	516,200	568,180
Nonredeemable noncontrolling interests	10,792	—
Total permanent equity	526,992	568,180
Total liabilities, temporary equity and permanent equity	$ 1,183,268	$ 1,337,396

The accompanying notes are an integral part of these condensed consolidated financial statements

Corsair Gaming, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited, in thousands)

	Three Months Ended September 30, 2022							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Corsair Gaming, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Permanent Equity
	Shares	Amount						
Balance as of June 30, 2022	95,780	$ 10	$ 498,741	$ 33,621	$ (7,660)	$ 524,712	$ 10,900	$ 535,612
Net income (loss)	—	—	—	(6,211)	—	(6,211)	109	(6,102)
Other comprehensive loss	—	—	—	—	(5,503)	(5,503)	(217)	(5,720)
Change in redemption value of redeemable noncontrolling interests	—	—	—	(2,690)	—	(2,690)	—	(2,690)
Issuance of common stock in connection with employee equity incentive plans	195	—	624	—	—	624	—	624
Shares withheld related to net share settlement	(25)	—	(402)	—	—	(402)	—	(402)
Stock-based compensation	—	—	5,670	—	—	5,670	—	5,670
Balance as of September 30, 2022	95,950	$ 10	$ 504,633	$ 24,720	$ (13,163)	$ 516,200	$ 10,792	$ 526,992

	Three Months Ended September 30, 2021							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Corsair Gaming, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Permanent Equity
	Shares	Amount						
Balance as of June 30, 2021	93,790	$ 9	$ 456,010	$ 71,655	$ 2,012	$ 529,686	$ —	$ 529,686
Net income	—	—	—	1,777	—	1,777	—	1,777
Other comprehensive loss	—	—	—	—	(2,064)	(2,064)	—	(2,064)
Issuance of common stock in connection with employee equity incentive plans	403	—	2,027	—	—	2,027	—	2,027
Shares withheld related to net share settlement	(7)	—	(208)	—	—	(208)	—	(208)
Stock-based compensation	—	—	5,797	—	—	5,797	—	5,797
Balance as of September 30, 2021	94,186	$ 9	$ 463,626	$ 73,432	$ (52)	$ 537,015	$ —	$ 537,015

	Nine Months Ended September 30, 2022							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Permanent Equity
	Shares	Amount						
Balance as of December 31, 2021	94,510	$ 9	$ 470,364	$ 98,147	$ (340)	$ 568,180	$ —	$ 568,180
Issuance of common stock in relation to business acquisition	690	1	14,504	—	—	14,505	—	14,505
Noncontrolling interests from business combination	—	—	—	—	—	—	12,084	12,084
Net income (loss)	—	—	—	(61,097)	—	(61,097)	14	(61,083)
Other comprehensive loss	—	—	—	—	(12,823)	(12,823)	(406)	(13,229)
Change in redemption value of redeemable noncontrolling interests	—	—	—	(12,330)	—	(12,330)	—	(12,330)
Dividend paid to nonredeemable noncontrolling interests	—	—	—	—	—	—	(900)	(900)
Issuance of common stock in connection with employee equity incentive plans	822	—	4,132	—	—	4,132	—	4,132
Shares withheld related to net share settlement	(72)	—	(1,379)	—	—	(1,379)	—	(1,379)
Stock-based compensation	—	—	17,012	—	—	17,012	—	17,012
Balance as of September 30, 2022	95,950	$ 10	$ 504,633	$ 24,720	$ (13,163)	$ 516,200	$ 10,792	$ 526,992

	Nine Months Ended September 30, 2021							
	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Permanent Equity
	Shares	Amount						
Balance as of December 31, 2020	91,935	$ 9	$ 438,667	$ (2,813)	$ 1,527	$ 437,390	$ —	$ 437,390
Net income	—	—	—	76,245	—	76,245	—	76,245
Other comprehensive loss	—	—	—	—	(1,579)	(1,579)	—	(1,579)
Issuance of common stock in connection with employee equity incentive plans	2,258	—	11,493	—	—	11,493	—	11,493
Shares withheld related to net share settlement	(7)	—	(215)	—	—	(215)	—	(215)
Stock-based compensation		—	13,681	—	—	13,681	—	13,681
Balance as of September 30, 2021	94,186	$ 9	$ 463,626	$ 73,432	$ (52)	$ 537,015	$ —	$ 537,015

The accompanying notes are an integral part of these condensed consolidated financial statements

Corsair Gaming, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Cash flows from operating activities:		
Net income (loss)	$ (61,064)	$ 76,245
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	16,877	13,656
Depreciation	7,695	7,581
Amortization	33,924	26,118
Debt issuance costs amortization	274	1,372
Loss on debt extinguishment	—	4,868
Deferred income taxes	(19,552)	(6,556)
Other	1,721	1,649
Changes in operating assets and liabilities:		
Accounts receivable	133,362	38,556
Inventories	54,371	(102,896)
Prepaid expenses and other assets	(7,132)	(7,790)
Accounts payable	(74,091)	(51,842)
Other liabilities and accrued expenses	(41,243)	24,100
Net cash provided by operating activities	45,142	25,061
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(19,534)	(1,684)
Payment of deferred contingent consideration	(95)	(4,678)
Purchase of property and equipment	(19,850)	(7,677)
Investment in available-for-sale convertible note	(1,000)	—
Net cash used in investing activities	(40,479)	(14,039)
Cash flows from financing activities:		
Proceeds from issuance of debt, net	—	248,513
Repayment of debt	(3,750)	(326,974)
Payment of debt issuance costs	(267)	—
Borrowing from line of credit	626,000	—
Repayment of line of credit	(626,000)	—
Payment of contingent consideration	(438)	—
Proceeds from issuance of shares through employee equity incentive plans	4,132	11,493
Payment of taxes related to net share settlement of equity awards	(1,399)	(215)
Dividends paid to noncontrolling interests	(2,205)	—
Net cash used in financing activities	(3,927)	(67,183)
Effect of exchange rate changes on cash	(4,434)	(1,078)
Net decrease in cash and restricted cash	(3,698)	(57,239)
Cash and restricted cash at the beginning of the period	65,380	133,568
Cash and restricted cash at the end of the period	$ 61,682	$ 76,329
Supplemental cash flow disclosures:		
Cash paid for interest	$ 5,406	$ 10,066
Cash paid for income taxes	9,243	9,842
Supplemental schedule of non-cash investing and financing activities:		
Equipment purchased and unpaid at period end	$ 1,617	$ 2,084
Right-of-use assets obtained in exchange for operating lease liabilities	1,767	34,557
Issuance of common stock relating to business acquisition	14,505	—
Debt issuance costs unpaid at period end	283	168

The accompanying notes are an integral part of these condensed consolidated financial statements

Corsair Gaming, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business

Description of Business

Corsair Gaming, Inc., a Delaware corporation, together with its subsidiaries *(collectively, “Corsair” the “Company”, “we”, “us”, or “our”)*, is a global provider and innovator of high-performance gear for gamers, streamers and content creators, many of which build their own PCs using our components.

Corsair is organized into two reportable segments:

- **Gamer and creator peripherals**. Includes our high-performance gaming keyboards, mice, headsets, controllers, and our streaming gear, which includes capture cards, Stream Decks, USB microphones, our Facecam streaming camera, studio accessories and EpocCam software, as well as coaching and training services, among others.

- **Gaming components and systems**. Includes our high-performance power supply units, or PSUs, cooling solutions, computer cases, DRAM modules, as well as high-end prebuilt and custom-built gaming PCs and laptops, and gaming monitor, among others.

2. Summary of Significant Accounting Policies

Basis of Presentation

Our interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles *(“U.S. GAAP”)* and applicable rules and regulations of the U.S. Securities and Exchange Commission *(“SEC”)* regarding interim financial reporting. The accounting policies we follow are set forth in Part II, Item 8, Note 2, “Significant Accounting Policies”, of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10K for the year ended December 31, 2021 which was filed with the SEC on March 1, 2022.

The condensed consolidated balance sheet as of December 31, 2021, included herein, was derived from the audited consolidated financial statements as of that date. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed, combined or omitted pursuant to such rules and regulations. Therefore, these interim condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2021, included in our Annual Report on Form 10-K.

The interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, and in management’s opinion, include all adjustments, which consist of only normal recurring adjustments necessary for the fair statement of our condensed consolidated balance sheet as of September 30, 2022 and our results of operations for the three and nine months ended September 30, 2022 and 2021. The results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results expected for the current fiscal year or any other future periods.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Corsair and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. For consolidated entities where we own less than 100% of the equity, our consolidated net comprehensive income (loss) is reduced by the portion attributable to the noncontrolling interests.

In determining whether an entity is considered a controlled entity, we apply the VIE (Variable Interest Entity) and VOE (voting interest entity) models. Entities that do not qualify as a VIE are assessed for consolidation under the VOE model. Under the VOE model, we consolidate the entity if we determine that we have a controlling financial interest in the entity through our ownership of greater than 50% of the outstanding voting shares of the entity and that other equity holders do not have substantive voting, participating or liquidation rights.

On January 1, 2022 (the “Closing” or “Closing Date”), we completed the acquisition of a 51% ownership stake in Elgato iDisplay Holdings LTD. and its related companies (together “iDisplay”). (See Note 5, “Business Combination - iDisplay Acquisition” for more details on the iDisplay Acquisition). We have determined that iDisplay does not qualify as a VIE and Corsair has a controlling financial interest in iDisplay under the VOE model and therefore, iDisplay's results of operations are fully consolidated with Corsair with effect from January 1, 2022. As a result, we recorded net income of $0.3 million and $33 thousand attributable to noncontrolling interests in our condensed consolidated statement of operations for the three and nine months ended September 30, 2022, respectively, equal to the 49% of the ownership interest retained in iDisplay by the noncontrolling interests.

Noncontrolling Interests

We have included both redeemable noncontrolling interests and noncontrolling interests in our condensed consolidated balance sheet in connection with our consolidation of the 51% ownership of iDisplay.

Redeemable noncontrolling interests that are redeemable and not solely within our control are classified within temporary equity in the condensed consolidated balance sheets. Redeemable noncontrolling interests are measured at the greater of the redemption value (calculated based on the formula stipulated in the Shareholders Agreement between the iDisplay seller and Corsair and, including the amounts for dividends not currently declared or paid, for which the payment is not solely within our control), or the carrying value before giving effect to the redemption feature. The redeemable noncontrolling interests are recorded at their maximum redemption value at each reporting date. The redemption value is remeasured each quarter and changes in the value are recognized immediately. Any resulting change in the value of the redeemable noncontrolling interests is recognized through retained earnings and this adjustment also impacts the net income or loss attributable to common stockholders of Corsair Gaming, Inc used in the net income (loss) per share calculation. (See Note 15 for more information regarding the redeemable noncontrolling interests).

In addition, we have noncontrolling interests recorded at carrying value which do not have redemption features and are classified within permanent equity in our condensed consolidated balance sheet.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, the valuation of intangible assets, accounts receivable, sales return reserves, reserves for customer incentives, warranty reserves, inventory, derivative instruments, stock-based compensation, and deferred income tax. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. We adjust such estimates and assumptions when facts and circumstances dictate. Actual results could differ materially from those estimates due to risks and uncertainties, including uncertainty in the current economic environment.

Risks and Uncertainties

In February 2022, Russia invaded Ukraine resulting in, among other things, broad economic sanctions being imposed on Russia, and Russia's drastic reduction in supply of natural gas to Europe in response, which has further increased existing global supply chain, logistics, and inflationary challenges and energy costs. Although our business in Russia and Ukraine was not material to our results, we believe the war has degraded the consumer sentiment in Europe and coupled with the unexpected worldwide inflationary pressures and the negative impacts from the strengthening of the U.S. dollar, has dampened consumer spending, which led to the 20.3% and 29.9% decrease in our net revenue in the three and nine months ended September 30, 2022, respectively, compared to the same periods last year.

Due to the COVID-19 pandemic, there has been and will continue to be uncertainty and disruption in the global economy and financial markets. Since early 2020 through the first half of 2021, we have experienced an increase in demand for our gear as more people were under shelter-in-place restrictions, which we believe have limited people's access to alternative forms of entertainment and social interaction, and thus have increased the demand for home entertainment and connecting with others through content creation. In contrast, as the COVID-19 pandemic subsides, it has resulted in shelter-in-place and other similar restrictions being eased. Such easing of restrictions has resulted in consumers returning to other alternative forms of entertainment and interaction. This in turn has resulted in a decline in demand for our products since the second half of 2021.

In addition, we have experienced and may in the future continue to experience supply chain challenges, including longer production and shipping times, and increased shipping and logistics costs, each of which has negatively impacted our gross margins, as well as the need to purchase long-lead time items ahead of demand due to supply constraints.

The extent of the impact of macroeconomic conditions, the COVID-19 pandemic and geopolitical tensions on our business, sales, results of operations, cash flows and financial condition will depend on future developments, which are not within our control and are highly uncertain and cannot be predicted. We will continue to evaluate these risks and uncertainties and further our mitigation plans.

During the second fiscal quarter of 2022, as part of the plan to rationalize inventory level to align with our updated revenue outlook for 2022, we increased our inventory impairment and related charges by approximately $22.7 million, as compared to the same period last year. In the third fiscal quarter of 2022, we have seen the excess inventory situation in the distribution channels begin to ease in the United States. Inventory impairment and related charges, of a routine nature, were recognized in the three months ended September 30, 2022, and the amount was immaterial.

In order to align our expenses with the expected revenue level, we implemented a restructuring plan in 2022 and terminated 94 employees worldwide, resulting in approximately $1.6 million of restructuring costs, primarily consisting of severance and benefits. Our restructuring plan has been completed as of September 30, 2022.

Recently Adopted Accounting Pronouncements

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*, to provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. We adopted this standard effective January 1, 2022. The adoption of this new standard did not have a material impact on our condensed consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805),* which requires contract assets and contract liabilities (i.e., deferred revenue) acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, Revenue from Contracts with Customers. Generally, this new guidance will result in the acquirer recognizing contract assets and contract liabilities at the same amounts recorded by the acquiree. Historically, such amounts were recognized by the acquirer at fair value in acquisition accounting. We adopted this standard effective January 1, 2022. The adoption of this new standard did not have a material impact on our condensed consolidated financial statements.

Accounting Pronouncements Issued but Not Yet Adopted

None.

3. Fair Value Measurement

U.S. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy is broken down into the following three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.

Level 2—Pricing inputs are other than quoted prices in active market, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3—Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

The carrying values of certain of our financial instruments, including accounts receivable and accounts payable, approximate their fair values due to their short maturities. The following tables summarize our financial assets and financial liabilities that were measured at fair value on a recurring basis, and indicate the fair value hierarchy of the valuation inputs utilized to determine such fair value (in thousands):

	September 30, 2022							
	(Level 1)		(Level 2)		(Level 3)		Total	
Assets:								
Foreign currency forward contracts(1)	$	—	$	828	$	—	$	828
Available-for-sale debt securities (2)		—		—		1,000		1,000
Total assets	$	—	$	828	$	1,000	$	1,828
Liabilities:								
Deferred cash consideration in connection with a business acquisition—SCUF(3)	$	—	$	—	$	954	$	954
Foreign currency forward contracts(1)		—		15		—		15
Total liabilities	$	—	$	15	$	954	$	969

	December 31, 2021							
	(Level 1)		(Level 2)		(Level 3)		Total	
Assets:								
Foreign currency forward contracts(1)	$	—	$	33	$	—	$	33
Other		—		3		—		3
Total assets	$	—	$	36	$	—	$	36
Liabilities:								
Deferred cash consideration in connection with a business acquisition—SCUF(3)	$	—	$	—	$	1,250	$	1,250
Foreign currency forward contracts(1)		—		427		—		427
Other		—		—		224		224
Total liabilities	$	—	$	427	$	1,474	$	1,901

(1) The fair values of the forward contracts were based on similar exchange traded derivatives and the related asset or liability is included within Level 2 of the fair value hierarchy.

(2) In May 2022, we invested in a convertible promissory note issued by a private company (the "Note") for $1.0 million. The Note is interest bearing and matures in April 2023. The Note is classified as an available-for-sale security and is included in prepaid expenses and other assets in our condensed consolidated balance sheets. We included the Note as Level 3 in the fair value hierarchy due to the absence of quoted market prices or other observable data. The fair value of the Note is estimated based on a qualitative analysis using the most recent observable transaction price and other significant unobservable inputs requiring management judgement.

(3) In December 2019, one of our subsidiaries entered into an Agreement and Plan of Merger with Scuf Holdings, Inc. and its subsidiaries (collectively "SCUF") and acquired 100% of their equity interests (the "SCUF Acquisition"). The fair value of the SCUF contingent consideration was determined based on the estimates of acquired tax benefits owed to SCUF's sellers according to the merger agreement, and these estimates represent a level 3 fair value measurement. The $1.3 million liability as of December 31, 2021 consisted of $0.3 million based on a contractual amount and the remaining $1.0 million is subject to update upon filing our tax return for tax year 2021. In March 2022, we paid the $0.3 million contractual amount, and the contingency around the remaining $1.0 million liability is expected to be resolved in the fourth quarter of 2022 and this amount is expected to be paid by the end of 2022.

4. Derivative Financial Instruments

From time to time, we enter into derivative instruments such as foreign currency forward contracts, to minimize the short-term impact of foreign currency exchange rate fluctuations on certain foreign currency denominated assets and liabilities, and interest rate cap contracts, to minimize our exposure to interest rate movements on our variable rate debts. The derivative instruments are recorded at fair value in prepaid expenses and other current assets or other liabilities and accrued expenses on the condensed consolidated balance sheets. We do not designate such instruments as hedges for accounting purposes; accordingly, changes in the value of these contracts are recognized in each reporting period in other (expense) income, net in the condensed consolidated statements of operations. We do not enter into derivative instruments for trading purposes.

The foreign currency forward contracts generally mature within two to four months. The notional principal amount of outstanding foreign exchange forward contracts was $32.4 million and $48.6 million as of September 30, 2022 and December 31, 2021, respectively, none of which have been designated as hedging instruments during the periods presented. Total fair value gains (losses) recognized in other (expense) income, net in relation to these derivative instruments was $1.5 million and $0.4 million for the three months ended September 30, 2022 and 2021, respectively, and was $4.1 million and $0.5 million for the nine months ended September 30, 2022 and 2021, respectively.

5. Business Combinations

iDisplay Acquisition

On January 1, 2022, we completed the acquisition of a 51% ownership stake in iDisplay (the "*iDisplay Acquisition*"), a leader in electronic development and design specializing in display technology, headquartered in Taiwan.

The fair value consideration for iDisplay was $36.4 million, including $21.9 million in cash and the issuance of 690,333 shares of our common stock with a fair value of $14.5 million at Closing Date. The consideration was reduced for the effective 51% settlement of a pre-existing contractual accounts payable balance owed to iDisplay of $3.5 million. The iDisplay Acquisition will allow us to direct the development and integration of iDisplay's display-based touch-screen technologies into our products for creators, gamers and streamers. iDisplay's results of operations are fully consolidated with Corsair with effect from January 1, 2022.

The seller of iDisplay (the "iDisplay Seller") has retained 49% noncontrolling interests in iDisplay. Under the Shareholders Agreement between Corsair and the iDisplay Seller, a put option was provided to the iDisplay Seller and a call option was provided to Corsair for the option to transfer (i) 14% ownership interest in iDisplay to Corsair upon the first anniversary of the Closing and (ii) an additional 15% of ownership interest in iDisplay to Corsair upon the second anniversary of the Closing. Both put and call options expire on January 1, 2025. The exercise price of the put option and the call option is based on multiples of iDisplay's trailing twelve-month earnings before interest, income tax, depreciation and amortization ("TTM EBITDA") less any debt. The 29% noncontrolling interests entitled to the put option is considered a redeemable noncontrolling interests. See Note 2, "Summary of Significant Accounting Policies – Noncontrolling Interests" and Note 15, "Redeemable Noncontrolling Interests" for more information regarding the redeemable noncontrolling interests.

The fair value of the 49% noncontrolling interests was estimated to be $29.6 million. The control premium assigned to Corsair's 51% controlling financial interest was 15%, which resulted in an implied minority discount of 13%. The control premium was based on an analysis considering similar market transactions involving control premiums, as well as factors specific to iDisplay, including its significant customer concentration.

Subsequent to the iDisplay Acquisition Closing Date, we recorded measurement period adjustments which increased goodwill by $1.0 million and decreased identifiable intangible assets and deferred liabilities by $1.1 million and $0.1 million, respectively. The final allocation of the iDisplay Acquisition purchase consideration to the estimated fair value of the assets acquired and liabilities assumed at the acquisition date is as follows (in thousands):

	Amounts
Cash	$ 2,330
Accounts receivable	3,382
Inventories	2,772
Prepaid and other assets	424
Operating lease right-of-use asset	360
Property and equipment	277
Identifiable intangible assets	34,200
Goodwill	32,987
Total assets acquired	76,732
Accounts payable	(5,106)
Deferred tax liabilities	(4,561)
Accrued liabilities	(731)
Operating lease liabilities	(360)
Total liabilities assumed	(10,758)
Net assets acquired	65,974
Noncontrolling interests	(29,606)
Fair value of consideration transferred	$ 36,368
Purchase consideration:	
Cash	$ 21,864
Corsair common stock	14,504
Fair value of consideration transferred	$ 36,368

The fair value of certain working capital related items, including accounts receivable, prepaid and other assets, accounts payable and accrued liabilities, as well as the fair value of property and equipment approximated their book values at the date of the iDisplay Acquisition. The fair value of the inventories was estimated by major category, at net realizable value, which we believe approximates the price a market participant could achieve in a current sale. The difference between the fair value of the inventories and the book value recorded by iDisplay on the acquisition date was $0.3 million, which was recognized in cost of revenue in the consolidated statements of operations upon the sale of the acquired inventory.

The excess of the purchase consideration over the fair value of the identifiable intangible assets and the net tangible assets and liabilities acquired has been estimated to be $33.0 million, of which $29.3 million and $3.7 million are assigned to our gamer and creator peripherals reporting unit and gaming component and systems reporting unit, respectively. We believe goodwill represents the strengthening of our supply chain with display-based touch-screen technologies into our products for creators, gamers and streamers, and the ability to design and generate new technologies to enhance the features of our products.

A portion of the identifiable intangible assets are not deductible for tax purposes of which $4.6 million deferred tax liability has been estimated at the date of acquisition for the difference between the book and tax bases of these assets. The goodwill is not deductible for tax purposes.

Valuation of identified intangible assets

The following table summarizes the valuation of the identifiable intangible assets acquired in the iDisplay Acquisition and the estimate of their respective useful lives as of Closing Date, including subsequent measurement period adjustments:

	Valuation (In thousands)	Useful Life (In years)
Patent portfolio	$ 5,100	6
Supplier relationships	6,800	6
Developed technology	22,300	6
Total identifiable intangible assets	$ 34,200	

The fair value of patent portfolio was estimated using the relief from royalty approach and the economic useful life was determined based on the average product life cycle of the products manufactured by iDisplay. The supplier relationships intangible asset represents the value assigned to the relationship iDisplay had established over the years with a broad network of suppliers and OEMs that have been crucial to the quality and magnitude of iDisplay manufacturing capability. The fair value of supplier relationships was estimated using the multi-period excess earnings approach and the economic useful life was determined to be aligned with the estimated useful life of the developed technology acquired from iDisplay. The developed technology intangible asset represents unpatented propriety technologies, such as hardware designs and architectures and process technologies used in the on-going research and design of the products manufactured by iDisplay. The fair value of developed technology was estimated using the income approach and the economic useful life was based on the technology cycle of the products manufactured, as well as the cash flows anticipated over the forecasted periods. The valuations of the intangible assets were calculated with the assistance of a third-party valuation firm. The fair values of these intangibles were valued based on long-term cash flow projections, which we consider to be Level 3 inputs.

These intangibles are being amortized over their estimated useful lives using the straight-line method of amortization, which reflects the pattern in which the economic benefits of the intangible asset are consumed. Amortization of patent portfolio and supplier relationships is included in cost of revenue and amortization of developed technology is included in product development expense in our condensed consolidated statements of operations.

Acquisition-related costs

We incurred acquisition-related costs of approximately $0.1 million and $0.7 million for the three and nine months ended September 30, 2022, respectively, and $0.6 million for the year ended December 31, 2021. These costs are recorded in sales, general and administrative expenses in the consolidated statement of operations.

Unaudited Pro-forma Financial Information

Pro forma financial information is not included because the effects of the acquisition are not material to our consolidated statements of operations for 2021.

6. Goodwill and Intangible Assets

Goodwill

The following table summarizes the changes in the carrying amount of goodwill by reportable segment (in thousands):

	Gaming Components and Systems	Gamer and Creator Peripherals	Total
Balance as of December 31, 2021	$ 145,310	$ 171,744	$ 317,054
Addition from iDisplay Acquisition	3,485	28,485	31,970
Measurement period adjustments	235	782	1,017
Effect of foreign currency exchange rates	(157)	(3,582)	(3,739)
Balance as of September 30, 2022	$ 148,873	$ 197,429	$ 346,302

Intangible assets, net

The following table is a summary of intangible assets, net (in thousands):

	September 30, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 53,986	$ 21,821	$ 32,165	$ 32,086	$ 14,922	$ 17,164
Trade name	29,339	6,253	23,086	30,665	4,942	25,723
Customer relationships	218,527	111,405	107,122	218,566	94,910	123,656
Patent portfolio	31,042	9,884	21,158	31,481	8,196	23,285
Non-competition agreements	—	—	—	2,521	2,193	328
Supplier relationships	5,922	740	5,182	—	—	—
Total finite-life intangibles	338,816	150,103	188,713	315,319	125,163	190,156
Indefinite life trade name	35,430	—	35,430	35,430	—	35,430
Other	113	—	113	123	—	123
Total intangible assets	$ 374,359	$ 150,103	$ 224,256	$ 350,872	$ 125,163	$ 225,709

In the year after an identified intangible asset becomes fully amortized, we remove the fully amortized balances from the gross asset and accumulated amortization amounts from the table above.

The estimated future amortization expense of intangible assets as of September 30, 2022 is as follows (in thousands):

	Amounts
Remainder of 2022	$ 9,670
2023	37,561
2024	36,110
2025	35,814
2026	32,454
Thereafter	37,104
Total	$ 188,713

7. Balance Sheet Components

The following tables present the components of certain balance sheet amounts (in thousands):

Cash and Restricted Cash

	September 30, 2022	December 31, 2021
Cash	$ 57,275	$ 62,415
Restricted cash—short term	4,176	2,734
Restricted cash—noncurrent	231	231
Total cash and restricted cash	$ 61,682	$ 65,380

Accounts Receivable, Net

	September 30, 2022	December 31, 2021
Accounts receivable from customers	$ 131,340	$ 291,816
Due from factor	25,599	—
Allowance for doubtful accounts	(628)	(529)
Accounts receivable, net	$ 156,311	$ 291,287

On September 29, 2022, one of our fully consolidated subsidiaries entered into an accounts receivable factoring agreement ("*Factoring Agreement*") with a third-party financial institution ("*Factor*"). Pursuant to the terms of the arrangement, we sell certain of our customer receivables on a non-recourse basis to the Factor. Proceeds from factoring the accounts receivable are due upon collection of payments from the customers, but upon our request, the Factor may, at their sole discretion, remit a portion of the proceeds to us prior to their collection of payments from the customers. Our obligations to the Factor arising from the Factoring Agreement are secured by certain assets of our subsidiary. In the three months ended September 30, 2022, we sold receivables and received cash proceeds of $66.3 million and $40.6 million, respectively. The cost of factoring is included in selling, general and administrative expenses in our condensed consolidated statements of operations and the amount incurred in the three months ended September 30, 2022, was immaterial.

As of September 30, 2022, the amount due from the Factor was $25.6 million, or 16.4% of our accounts receivable, net balance, with one other customer with more than 10% of our accounts receivable, net balance. Two customers represented 10% or more of our accounts receivable, net balance as of December 31, 2021.

Inventories

	September 30, 2022	December 31, 2021
Raw materials	$ 51,726	$ 62,110
Work in progress	9,975	4,931
Finished goods	188,241	231,274
Inventories	$ 249,942	$ 298,315

Property and Equipment, Net

	September 30, 2022	December 31, 2021
Manufacturing equipment	$ 27,342	$ 26,094
Computer equipment, software and office equipment	11,757	9,407
Furniture and fixtures	4,884	5,154
Leasehold improvements	15,935	4,709
Total property and equipment	$ 59,918	$ 45,364
Less: Accumulated depreciation and amortization	(33,208)	(28,545)
Property and equipment, net	$ 26,710	$ 16,819

Other Assets

	September 30, 2022	December 31, 2021
Right-of-use assets	$ 43,095	$ 51,387
Deferred tax asset	20,093	12,737
Other	7,160	7,684
Other assets	$ 70,348	$ 71,808

Other Liabilities and Accrued Expenses

	September 30, 2022	December 31, 2021
Accrued reserves for customer incentive programs	$ 52,151	$ 66,733
Accrued reserves for sales return	26,989	37,166
Income tax payable	13,902	6,316
Accrued freight expenses	11,931	18,296
Accrued payroll and related expense	10,280	20,526
Operating lease liabilities, current	7,690	9,457
Contract liabilities	3,406	6,663
Other	31,821	40,717
Other liabilities and accrued expenses	$ 158,170	$ 205,874

Other Liabilities, Noncurrent

	September 30, 2022	December 31, 2021
Operating lease liabilities, noncurrent	$ 44,574	$ 51,153
Other	3,222	2,718
Other liabilities, noncurrent	$ 47,796	$ 53,871

Nonmonetary Transactions

The sales and purchases of inventory with our manufacturers are accounted for as nonmonetary transactions. Upon sale of raw materials to the manufacturer, for the inventories on-hand with the manufacturer where there is an anticipated reciprocal purchase by us, we will record this nonmonetary transaction as prepaid inventories and accrued liabilities. When we transact the reciprocal purchase of inventory from the manufacturer, we will record a payable to the manufacturer at the purchase price, which replaces the initial nonmonetary transaction and inventory will be reflected at carrying value, which includes the costs for the raw materials and the incremental costs charged by the manufacturer for additional work performed on the inventory. In connection with such nonmonetary transactions with our manufacturers, as of September 30, 2022, we recognized $0.5 million prepaid inventory and $0.6 million accrued liabilities and as of December 31, 2021, we recognized $5.0 million prepaid inventory and $5.4 million accrued liabilities in the condensed consolidated balance sheet.

Because the transactions are nonmonetary, they have not been included in the condensed consolidated statements of cash flows pursuant to ASC 230, *Statement of Cash Flows*.

8. Debt

Our debt consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Term Loan (variable rate) due September 2026	$ 245,000	$ 248,750
Debt discount and issuance cost, net of amortization	(1,293)	(1,099)
Total debt	243,707	247,651
Less: debt maturing within one year	4,655	4,753
Long-term debt	$ 239,052	$ 242,898

First Lien Credit and Guaranty Agreement (Extinguished in September 2021)

In August 2017, we entered into a syndicated First Lien Credit and Guaranty Agreement (*"First Lien"*) with various financial institutions. The First Lien originally provided a $235 million term loan (*"First Lien Term Loan"*) for a business acquisition and to repay existing indebtedness of the acquired company and a $50 million revolving line-of-credit (*"Revolver"*). The First Lien and the Revolver was to mature on August 28, 2024 and August 28, 2022, respectively. Subsequently, we entered into several amendments to the First Lien and the principal amount of the First Lien Term Loan was increased by $10 million in 2017 and increased by $115 million in each of 2018 and 2019, primarily to fund various business acquisitions and operation needs.

The First Lien Term Loan initially carried interest at a rate equal to, at our election, either the (a) greatest of (i) the prime rate, (ii) sum of the Federal Funds Effective Rate plus 0.5%, (iii) one month LIBOR plus 1.0% and (iv) 2%, plus a margin of 3.5%, or (b) the greater of (i) LIBOR and (ii) 1.0%, plus a margin of 4.5%. The Revolver initially bore interest at a rate equal to, at our election, either the (a) greatest of (i) the prime rate, (ii) sum of the Federal Funds Effective Rate plus 0.5%, (iii) one month LIBOR plus 1.0% and (iv) 2%, plus 3.5%, or (b) the greater of (i) LIBOR and (ii) 1.0%, plus a margin of 4.5%. As a result of the First Lien amendment in October 2018, the First Lien term loan and Revolver margin were both changed to range from 2.75% to 3.25% for base rate loans and to range from 3.75% to 4.25% for Eurodollar loans, based on our net leverage ratio.

We may prepay the First Lien Term Loan and the Revolver at any time without premium or penalty other than customary LIBOR breakage. In the nine months ended September 30, 2021, with the excess cash on hand, we made voluntary prepayments of $78.3 million. The remaining $248.5 million of the First Lien Term Loan was fully prepaid with the proceeds from the Term Loan (defined below) on September 3, 2021, and as a result, all obligations and covenants thereunder were terminated. Accordingly, we recorded losses on extinguishment of debt of $4.9 million for the nine months ended September 30, 2021.

The effective interest rate inclusive of the debt discount and debt issuance costs for the First Lien was approximately 5.7% and 5.4% for the three and nine months ended September 30, 2021, respectively.

Credit Agreement

On September 3, 2021, we entered into a new Credit Agreement ("*Credit Agreement*") which provides for a $100.0 million five-year revolving credit facility ("*Revolving Facility*") and a $250.0 million five-year term loan facility ("*Term Loan*"), with each maturing in September 2026. The Credit Agreement also permits, subject to conditions stated therein, additional incremental facilities in a maximum aggregate principal amount not to exceed $250.0 million. We may prepay the Term Loan and the Revolving Facility at any time without premium or penalty.

The credit facilities under the Credit Agreement replaced our senior credit facilities under the First Lien Credit and Guaranty Agreement. The net proceeds from borrowings under the Credit Agreement of $248.5 million (net of $1.5 million of debt discount) were used to repay all amounts outstanding under the First Lien Term Loan on September 3, 2021.

The Term Loan and Revolving Facility under the Credit Agreement initially carried interest at the Company's election at either (a) LIBOR plus a percentage spread (ranging from 1.25% to 2.0%) based on our total net leverage ratio, or (b) the base rate (described in the Credit Agreement as the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) one-month LIBOR plus 1.0%) plus a percentage spread (ranging from 0.25% to 1.0%) based on our net leverage ratio.

The Credit Agreement contains covenants with which we must comply during the term of the agreement, which we believe are ordinary and standard for agreements of this nature. The financial covenants include the maintenance of a maximum Consolidated Total Net Leverage Ratio of 3.0 to 1.0 and a minimum Consolidated Interest Coverage Ratio of 3.0 to 1.0 (as defined in the Credit Agreement). The Credit Agreement also includes events of default customary for facilities of this nature and upon the occurrence of such events of default, among other things, all outstanding amounts under the Credit Agreement may be accelerated and/or the lenders' commitments terminated. In addition, upon the occurrence of certain events of default, the interest on the Term loan and Revolving Facility can be increased by 2.0%.

Our obligations under the Credit Agreement are guaranteed by substantially all of our U.S. subsidiaries and secured by a security interest in substantially all assets of the Company and the guarantor subsidiaries, subject to certain exceptions detailed in the Credit Agreement and related ancillary documentation.

On June 30, 2022, we entered into a First Amendment of the Credit Agreement ("*First Amendment*"), which among other changes resulted in the Bloomberg Short-Term Bank Yield Index rate ("*BSBY*") being utilized as a replacement rate for LIBOR. Consequently, following the First Amendment, the Term Loan and Revolving Facility will each bear interest at the Company's election at either (a) BSBY plus a percentage spread (ranging from 1.25% to 2.25%) based on our total net leverage ratio, or (b) the base rate (as described in the Credit Agreement) as the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) one-month BSBY plus 1.0%) plus a percentage spread (ranging from 0.25% to 1.25%) based on our total net leverage ratio. In addition, pursuant to the First Amendment, the maximum permitted Consolidated Total Net Leverage Ratio (as defined in the Credit Agreement) was also amended to increase to 3.50 to 1.0 between the quarters ending September 30, 2022 through and including March 31, 2023, and such ratio will revert to 3.00 to 1.00 from the quarter ended June 30, 2023 and each quarter thereafter, provided that, upon the occurrence of a Qualified Acquisition (as defined in the Credit Agreement), such ratio can be increased to 3.50 to 1.0 temporarily provided all the requirements set forth in the Credit Agreement are met.

On September 29, 2022, we entered into an accounts receivable Factoring Agreement with a Factor. See Note 7 "Balance Sheet Components – Accounts Receivable, Net" for additional information on the Factoring Agreement. In connection with the Factoring Agreement, we also entered into (i) a Second Amendment ("*Second Amendment*") to the Credit Agreement to permit the transactions contemplated by the Factoring Agreement and (ii) an Assignment of Factoring Proceeds and Intercreditor Agreement with the Factor and the administrative agent under the Credit Agreement to establish the respective rights of the Factor and the Credit Agreement Agent in and to the related factoring collateral.

The First and Second Amendment were both accounted for as debt modifications.

As of September 30, 2022, we were not in default under the Credit Agreement.

As of September 30, 2022 and December 31, 2021, we had no outstanding balance under the Revolving Facility.

The carrying value of our Term Loan was $243.7 million and $247.7 million as of September 30, 2022 and December 31, 2021, respectively. The estimated fair value of the Term Loan as of September 30, 2022, which we have classified as a Level 2 financial instrument, was approximately $243.2 million.

The effective interest rate inclusive of the debt discount and debt issuance costs was approximately 3.8% and 2.5% for the three and nine months ended September 30, 2022, respectively.

The following table summarizes the interest expense recognized for all periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
First Lien Guaranty Agreement:				
Contractual interest expense for term loan	$ —	$ 2,399	$ —	$ 9,818
Amortization of debt discount and issuance cost	—	291	—	1,343
Loss on debt extinguishment	—	4,107	—	4,904
Credit Agreement:				
Contractual interest expense for term loan	2,129	286	4,364	286
Contractual interest expense for revolving facility	489	—	964	—
Amortization of debt discount and issuance cost	102	29	274	29
Other	14	90	87	276
Total interest expense recognized	$ 2,734	$ 7,202	$ 5,689	$ 16,656

The estimated future principal payments under our total long-term debt as of September 30, 2022 are as follows (in thousands):

	Amounts
Remainder of 2022	$ 1,250
2023	6,875
2024	12,500
2025	12,500
2026	211,875
Thereafter	—
Total debt	$ 245,000

9. Commitments and Contingencies

Product Warranties

Changes in our warranty obligations were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Beginning of the period	$ 4,765	$ 5,749	$ 5,655	$ 5,865
Warranty provision related to products shipped	244	1,690	2,709	5,223
Deductions for warranty claims processed	(1,449)	(1,678)	(4,804)	(5,327)
End of period	$ 3,560	$ 5,761	$ 3,560	$ 5,761

Unconditional Purchase Obligations

Our long-term non-cancelable purchase commitments consist primarily of multi-year contractual arrangements relating to subscriptions for cloud computing hosting arrangements for various reporting applications and the related support services. Long-term non-cancelable purchase commitments as of September 30, 2022 were as follows (in thousands):

	Amounts
Remainder of 2022	$ 563
2023	2,417
2024	2,417
2025	328
2026	—
Thereafter	—
Total	$ 5,725

Our total long term non-cancelable purchase commitments outstanding as of December 31, 2021 were $7.1 million.

Letters of Credit

There were no letters of credit outstanding as of September 30, 2022; total letters of credit outstanding were $0.5 million as of December 31, 2021. No amounts have been drawn upon the letters of credit for all periods presented.

Legal Proceedings

We may from time to time be involved in various claims and legal proceedings of a character normally incident to the ordinary course of business. Litigation can be expensive and disruptive to normal business operations, and the results of complex legal proceedings are difficult to predict, and our view of these matters may change in the future as the litigation and events related thereto unfold. We expense legal fees as incurred and we record a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on currently available information, we believe there are no existing claims or proceedings that are likely to have a material adverse effect on our financial position, or the outcome of these matters is currently not determinable. An unfavorable outcome to any legal matter, if material, could have an adverse effect on our operations or financial position, liquidity of results of operations.

Indemnification

In the ordinary course of business, we may provide indemnifications of varying scope and terms with respect to certain transactions. We have entered into indemnification agreements with directors and certain officers and employees that will require Corsair, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. No demands have been made upon Corsair to provide indemnification under such agreements, and thus, there are no claims that we are aware of that could have a material effect on our condensed consolidated balance sheets, statements of operations, or statements of cash flows. We currently have directors' and officers' insurance.

10. Stockholders' Equity

On September 25, 2020, in connection with the closing of the IPO, we filed an Amended and Restated Certificate of Incorporation which increased the authorized shares of common stock for issuance to 300,000,000 and authorized 5,000,000 shares of preferred stock, with a par value of $0.0001 per share, for issuance. There were no shares of preferred stock outstanding as of September 30, 2022 and December 31, 2021.

11. Equity Incentive Plans and Stock-Based Compensation

As of September 30, 2022, we have two active equity incentive plans: the 2020 Equity Incentive Plan and the Employee Stock Purchase Plan ("*ESPP*").

The following table summarizes stock-based compensation expense by line item in the accompanying condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Cost of revenue	$ 369	$ 282	$ 1,034	$ 756
Sales, general and administrative	4,505	4,889	13,518	11,061
Product development	769	641	2,329	1,839
Stock-based compensation expense, net of amounts capitalized (1)	$ 5,643	$ 5,812	$ 16,881	$ 13,656
Income tax benefits related to stock-based compensation expense	$ 123	$ 832	$ 493	$ 5,987

(1) Total stock-based compensation expense capitalized in inventory and as cloud computing arrangement implementation costs were not material for each of the periods presented.

The following table summarizes by type of grant, the total unrecognized stock-based compensation expense and the remaining period over which such expense is expected to be recognized (in thousands, except number of years):

	September 30, 2022 Unrecognized Expense	September 30, 2022 Remaining weighted average period (In years)
Stock Options	$ 24,702	2.6
RSUs	27,773	3.0
ESPP	300	0.25
Total unrecognized stock-based compensation expense	$ 52,775	

The total intrinsic value of options exercised was $0.4 million and $4.4 million for the three and nine months ended September 30, 2022, respectively, and was $8.8 million and $62.4 million for the three and nine months ended September 30, 2021, respectively. The total fair value of RSUs vested was $1.1 million and $4.0 million for the three and nine months ended September 30, 2022, respectively, and was $0.8 million for both the three and nine months ended September 30, 2021.

12. Net Income (Loss) Per Share

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Numerator				
Net income (loss)	$ (5,945)	$ 1,777	$ (61,064)	$ 76,245
Less: Net income attributable to noncontrolling interests	266	—	33	—
Net income (loss) attributable to Corsair Gaming, Inc.	(6,211)	1,777	(61,097)	76,245
Change in redemption value of redeemable noncontrolling interests	(2,690)	—	(12,330)	—
Net income (loss) attributable to common stockholders of Corsair Gaming, Inc.	$ (8,901)	$ 1,777	$ (73,427)	$ 76,245
Denominator				
Basic weighted-average shares outstanding	95,858	93,918	95,537	92,894
Effect of dilutive securities (1)	—	6,123	—	7,222
Total diluted weighted-average shares outstanding	95,858	100,041	95,537	100,116
Net income (loss) per share attributable to common stockholders of Corsair Gaming, Inc.				
Basic	$ (0.09)	$ 0.02	$ (0.77)	$ 0.82
Diluted	$ (0.09)	$ 0.02	$ (0.77)	$ 0.76
Anti-dilutive potential common shares (1)	11,241	1,226	10,941	792

(1) Potential common share equivalents were not included in the calculation of diluted net income (loss) per share as the effect would have been anti-dilutive.

13. Income Taxes

The table below presents our income (loss) before income taxes, income tax benefit (expense) and effective income tax rates for all periods presented (in thousands, except percentages):

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Income (loss) before income taxes	$ (12,060)	$ 2,151	$ (72,326)	$ 92,099
Income tax benefit (expense)	6,115	(374)	11,262	(15,854)
Effective tax rate	50.7%	17.4%	15.6%	17.2%

We are subject to income taxes in the United States and foreign jurisdictions in which we do business. These foreign jurisdictions have statutory tax rates different from those in the United States. Accordingly, our effective tax rates will vary depending on the relative proportion of foreign to United States income, the utilization of net operating loss and tax credit carry forwards, changes in geographic mix of income and expense, and changes in management's assessment of matters such as the ability to realize deferred tax assets, and changes in tax laws.

Our effective tax rates were 50.7% and 17.4% for the three months ended September 30, 2022 and 2021, respectively. The increase in effective tax rates was primarily due to the change in the forecast and the mix of losses between the various jurisdictions.

Our effective tax rates were 15.6% and 17.2% for the nine months ended September 30, 2022 and 2021, respectively. The decrease in effective tax rates was primarily due to an increase in losses in our foreign subsidiaries, which was partially offset by a decrease in excess tax benefits from stock-based compensation recognized in the nine months ended September 30, 2022, as compared to the same period last year. In addition, in the nine months ended September 30, 2021, we recorded a $1.4 million one-time tax expense related to the remeasurement of our United Kingdom deferred tax liabilities as a result of the enactment of the increased corporate tax rate in the United Kingdom.

Unrecognized tax benefits were $3.8 million as of September 30, 2022 and December 31, 2021, and if recognized, would favorably affect the effective income tax rate in future periods.

14. Segment and Geographic Information

We have two reportable segments:

- **Gamer and Creator Peripherals**. Includes our high-performance gaming keyboards, mice, headsets, controllers, and our streaming gear, which includes capture cards, Stream Decks, USB microphones, our Facecam streaming camera, studio accessories and EpocCam software, as well as coaching and training services, among others.
- **Gaming Components and Systems**. Includes our high-performance power supply units, or PSUs, cooling solutions, computer cases, DRAM modules, as well as high-end prebuilt and custom-built gaming PCs and laptops, and gaming monitor, among others.

The segments are defined as those operations our chief operating decision maker (*"CODM"*) regularly reviews to analyze performance and allocate resources. Our CODM is determined to be Corsair's Chief Executive Officer. The results of the reportable segments are derived directly from our reporting system and are based on the methods of internal reporting which are not necessarily in conformity with GAAP. Management measures net revenue and gross profit to evaluate the performance of, and allocate resources to, each of the segments.

The table below summarizes the financial information for each reportable segment (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net revenue				
Gamer and Creator Peripherals	$ 96,848	$ 139,260	$ 319,985	$ 470,329
Gaming Components and Systems	214,921	251,861	656,383	923,109
Total net revenue	$ 311,769	$ 391,121	$ 976,368	$ 1,393,438
Gross Profit				
Gamer and Creator Peripherals	$ 31,790	$ 48,580	$ 85,405	$ 172,080
Gaming Components and Systems	39,770	52,782	113,370	219,961
Total gross profit	$ 71,560	$ 101,362	$ 198,775	$ 392,041

The CODM manages assets on a total company basis, not by operating segments; therefore, asset information and capital expenditures by operating segments are not presented.

Geographic Information

The following table summarizes our net revenue by geographic region based on the location of the customer (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net revenue				
Americas	$ 164,378	$ 189,330	$ 506,835	$ 606,788
Europe and Middle East	91,092	147,703	284,521	560,905
Asia Pacific	56,299	54,088	185,012	225,745
Total net revenue	$ 311,769	$ 391,121	$ 976,368	$ 1,393,438

Revenues from sales to customers in the United States represented 44.7% and 41.4% for the three months ended September 30, 2022 and 2021, respectively, and represented 44.5% and 37.3% for the nine months ended September 30, 2022 and 2021, respectively. No other countries besides the United States represented 10% or more of total net revenue for each of the periods presented.

Two customers represented at least 10% of total net revenue for the three and nine months ended September 30, 2022. One customer represented at least 10% of total net revenue for the three and nine months ended September 30, 2021.

15. Redeemable Noncontrolling Interests

Under the Shareholders Agreement between Corsair and the iDisplay Seller a put option was provided to the iDisplay Seller to transfer to Corsair (i) 14% of their ownership interest in iDisplay upon the first anniversary of the Closing Date of the iDisplay Acquisition, and (ii) an additional 15% of their ownership interest in iDisplay upon the second anniversary of the Closing Date. The put option will expire after January 1, 2025. The exercise price of the put option is based on multiples of iDisplay's historical TTM EBITDA less any debt. The put option makes this portion of the noncontrolling interests redeemable and therefore, the redeemable noncontrolling interests are classified as temporary equity and carried at redemption value on our condensed consolidated balance sheet. The change in redemption value is recognized through retained earnings.

As of the Closing Date of the iDisplay Acquisition, the fair value of the total 49% noncontrolling interests in iDisplay has been estimated to be $29.6 million, of which $17.5 million is attributable to the 29% redeemable noncontrolling interests and classified within temporary equity and $12.1 million is attributable to the 20% noncontrolling interests classified within permanent equity on our condensed consolidated balance sheets.

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

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Balance at beginning of period	$ 26,749	$ —
Redeemable noncontrolling interests in iDisplay estimated at fair value at Closing Date	—	17,522
Net income attributable to redeemable noncontrolling interests	157	19
Other comprehensive loss attributable to redeemable noncontrolling interests	(314)	(589)
Dividend paid to the redeemable noncontrolling interests	(1,305)	(1,305)
Change in redemption value of redeemable noncontrolling interests (1)	2,690	12,330
Balance at end of period (2)	$ 27,977	$ 27,977

(1) These amounts represent a $2.7 million and $12.3 million increase in redemption value over the carrying value for the three and nine months ended September 30, 2022 respectively. These amounts were recorded as an offset to retained earnings and increased the net loss used in the calculation of net loss per share attributable for these periods.

(2) The redeemable noncontrolling interests balance at September 30, 2022 included the amount that would be paid to the noncontrolling interests holder if they exercise their put option (calculated based on multiples of iDisplay's historical TTM EBITDA less any debt), and the accrual for dividends based on the Shareholders Agreement.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the section titled "Risk Factors" and in other parts of this Quarterly Report on Form 10-Q.

Overview

We are a leading global provider and innovator of high-performance gear for gamers, streamers and content creators, many of which build their own PCs using our components. Our gear is sold to end users worldwide through either our retail channel or our direct-to-consumer channel. In our retail channel, we distribute our gear either directly to the retailer, such as Amazon and Best Buy, or through key distributors. In the last two years, we have entered into four large new markets: microphones and cameras markets for content creators, the gaming monitors market and prebuilt gaming laptops market for both gamers and content creators. We continue to optimize the value of existing products and to introduce new products to the market driving growth. Over the longer term, we believe we will be able to continue to grow in new markets as well as the markets that we participate in through innovation and leading technologies and entry into new categories via organic growth or acquisition.

We group our products into two categories (operating segments):

- ***Gamer and creator peripherals.*** Includes our high-performance gaming keyboards, mice, headsets, controllers, and streaming gear, which includes capture cards, Stream Decks, USB microphones, our Facecam streaming camera, studio accessories, and EpocCam software, as well as coaching and training services, among others.
- ***Gaming components and systems.*** Includes our high-performance power supply units, or PSUs, cooling solutions, computer cases, and DRAM modules, as well as high-end prebuilt and custom-built gaming PCs and laptops, and gaming monitor, among others.

Since 2018, we have completed eight acquisitions, including our acquisition of 51% of the share capital of iDisplay, a leader in electronic development and design specializing in display technology, in January 2022. The iDisplay acquisition will allow us to direct the development and integration of iDisplay's display-based touch-screen technologies into our products for creators, gamers and streamers. iDisplay's results of operations are fully consolidated with Corsair with effect from January 1, 2022.

Summary of Financial Results

Our revenue for the three months ended September 30, 2022, decreased by $79.4 million or 20.3%, compared to the same period last year. Our revenue for the nine months ended September 30, 2022, decreased by $417.1 million or 29.9% compared to the same period last year. The decrease in revenue for the three- and nine-month periods was primarily driven by the continuing slowdown in consumer spending in Europe mainly related to the Russia and Ukraine war, the unexpected high inflationary pressure on consumer spending, and currency pressure from the strengthening of the U.S. dollar against the Euro and British Pound, causing some of our products to become more expensive in Europe. The decrease in revenue for the nine months ended September 30, 2022 was also partly due to the easing of the COVID-19 shelter in-place restrictions which resulted in decreased demand for our gear as consumers sought alternative forms of entertainment. The decrease in demand for our gear in 2022 resulted in a buildup of inventory in our warehouses as well as in the retail channel, causing our channel partners to delay ordering while they clear excess inventory. In the three months ended September 30, 2022, the excess inventory situation in the retail channel has begun to ease in the United States, and we expect it to gradually ease in Europe starting next quarter.

Our gross margins decreased from 25.9% to 23.0% for the three months ended September 30, 2022, and from 28.1% to 20.4% for the nine months ended September 30, 2022, in each case, as compared to the same periods last year. The decrease in our gross margins for the three- and nine-month periods were primarily due to increased logistics costs and higher promotional activities. The decrease in gross margin for the nine months ended September 30, 2022 was also partially due to the higher inventory impairment and related charges in 2022 as a result of our inventory rationalization plan to align our inventory balance with the updated revenue outlook for 2022. In addition, the decrease in gross margins for the three and nine months ended September 30, 2022 was partially offset by lower freight costs as the elevated freight rate caused by the pandemic has normalized to close to pre-pandemic level, beginning in the third fiscal quarter of 2022.

As of September 30, 2022, we had cash and restricted cash, in the aggregate of $61.7 million and $245.0 million Term Loan outstanding (face value). We generated $45.1 million cash from operations in the nine months ended September 30, 2022.

Key Factors Affecting Our Business

Our results of operations and financial condition are affected by numerous factors, including those discussed in the section titled “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q and those described below.

Impact of Industry Trends

Our results of operations and financial condition are impacted by industry trends in the gaming market, including:

- *Increasing gaming engagement.* We believe that gaming’s increasing time share of global entertainment consumption will drive continued growth in spending on both games and gaming gear. Gaming continues to become increasingly social and streaming viewership more widely adopted along with increasing numbers of content creators. We believe this trend will continue and we are well positioned to serve the streaming market with best-in-class tools for content creation.
- *Introduction of new high-performance computing hardware and sophisticated games*. We believe that the introduction and availability of more powerful CPUs and GPUs that place increased demands on other system components, such as memory, power supply or cooling, has a significant effect on increasing the demand for our gear. The shortage of reasonably priced GPUs since the second half of 2021 has had a negative impact to our gaming component revenue. Starting from the third fiscal quarter of 2022, we saw the availability of reasonably priced GPUs begin to normalize and bring along some positive effects to the market. In addition, we believe that our business success depends in part on the introduction and success of games with sophisticated graphics that place increasing demands on system processing speed and capacity and therefore require more powerful CPUs or GPUs, which in turn drives demand for our high-performance gaming components and systems, such as PSUs and cooling solutions, and our gaming PC memory. As a result, our operating results may be materially affected by the timing of, and the rate at which computer hardware companies introduce, new and enhanced CPUs and GPUs, as well as the availability and pricing of such CPUs and GPUs, the timing of, and rate at which computer game companies and developers introduce, sophisticated new and improved games that require increasingly high levels of system and graphics processing power, and whether these new products and games are widely accepted by gamers.

Impact of Product Mix

Our gamer and creator peripherals segment has a higher gross margin than our gaming components and systems segment. As a result, our overall gross margin is affected by changes in product mix. External factors can have an impact on our product mix, such as popular game releases that can increase sales of peripherals and availability of new CPUs and GPUs that can impact component sales. In addition, within our gamer and creator peripherals and gaming components and systems segments, gross margin varies between products, and significant shifts in product mix within either segment may also significantly impact our overall gross margin.

Impact of Customer Concentration

We operate a global sales network that consists primarily of retailers (including eRetailers), as well as distributors we use to access certain retailers. Further, a limited number of retailers and distributors represent a significant portion of our net revenue, with eRetailer Amazon accounting for 26.3% and 26.4% of our net revenue for the nine months ended September 30, 2022 and 2021, respectively, and sales to our ten largest customers accounting for approximately 52.0% and 50.5% of our net revenue for the nine months ended September 30, 2022 and 2021, respectively. Our customers, including Amazon, typically do not enter into long-term agreements to purchase our gear but instead enter into purchase orders with us. As a result of this concentration and the lack of long-term agreements with our customers, a primary driver of our net revenue and operating performance is maintaining good relationships with these retailers and distributors. To help maintain good relationships, we implement initiatives such as our updated packaging design that helps eRetailers such as Amazon process our packages more efficiently. Further, given our global operations, a significant percentage of our expenses relate to shipping costs. Our ability to effectively optimize these shipping expenses, for example utilizing expensive shipping options such as air freight for smaller packages and more urgent deliveries and more cost-efficient options, such as train or boat, for other shipments, has an impact on our expenses and results of operations.

Impact of New Product Introductions

Gamers demand new technology and product features, and we expect our ability to accurately anticipate and meet these demands will be one of the main drivers for any future sales growth and market share expansion. In 2022, we had launched and started shipping several new products, such as our new K70 Pro RGB keyboard and Elgato’s new accessories including our new Facecam and next generation of HD60 X Capture card, Corsair DDR5 memory and new high-performance gaming controllers including SCUF Reflex, Reflex Pro and Reflex FPS, among others. However, there can be no assurance that our new product introductions will have a favorable impact on our operating results or that customers will choose our new gear over those of our competitors.

Impact of Seasonal Sales Trends

Since 2020, our revenue seasonality has been impacted positively and negatively, and thus has not followed historic patterns, by external events, such as shelter-in-place restrictions, global supply chain and logistics issues and availability of affordable GPUs, primarily caused by the COVID-19 pandemic. Historically, prior to 2020, we have experienced and expect to continue to experience seasonal fluctuations in sales due to the buying patterns of our customers and spending patterns of gamers. Our net revenue has generally been lowest in the first and second calendar quarters due to lower consumer demand following the fourth quarter holiday season and because of the decline in sales that typically occurs in anticipation of the introduction of new or enhanced CPUs, GPUs, and other computer hardware products, which usually take place in the second calendar quarter, and which tend to drive sales in the following two quarters. Further, our net revenue tends to be higher in the third and fourth calendar quarter due to seasonal sales such as “Black Friday,” “Cyber Monday” and “Singles Day” in China, as retailers tend to make purchases in advance of these sales, and our sales also tend to be higher in the fourth quarter due to the introduction of new consoles and high-profile games in connection with the holiday season. As a consequence of seasonality, our net revenue for the second calendar quarter is generally the lowest of the year followed by the first calendar quarter. Historical seasonal patterns may not continue in the future and have been impacted, and may be further impacted in the future, by increasing supply constraints, GPU shortages, shifts in customer behavior and the evolving impacts of the COVID-19 pandemic.

Impact of Fluctuations in Currency Exchange Rates

We are subject to inherent risks attributed to operating in a global economy. Some of our international sales are denominated in foreign currencies and any unfavorable movement in the exchange rate between U.S. dollars and the currencies in which we conduct sales in foreign countries, in particular, our revenue for the three and nine months ended September 30, 2022 were negatively impacted by the strengthening of the U.S. dollar against the Euro and the British Pound. In addition, we generally pay our employees located outside the United States in the local currency, with a significant portion of those payments being made in Taiwan dollars and Euros. Additionally, as a result of our foreign sales and operations, we have other expenses, assets and liabilities that are denominated in foreign currencies, in particular the Chinese Yuan, Euro and British Pound.

Impact of Fluctuations in Integrated Circuits Pricing

Integrated circuits, or ICs, account for most of the cost of producing our high-performance memory products. IC prices are subject to pricing fluctuations which can affect the average sales prices of memory modules, and thus impact our net revenue, and can have an effect on gross margins. The impact on net revenues can be significant as our high-performance memory products, included within our gaming components and systems segment, represent a significant portion of our net revenue.

Impact of Macroeconomic Conditions, COVID-19 Pandemic and Supply Chain Challenges

In February 2022, Russia invaded Ukraine resulting in, among other things, broad economic sanctions being imposed on Russia, which has further increased existing global supply chain, logistics, and inflationary challenges. Although our business in Russia and Ukraine was not material to our results, we believe the war has degraded the consumer sentiment in Europe and coupled with the unexpected worldwide inflationary pressures and the negative impacts from the strengthening of the U.S. dollar, has dampened consumer spending, which led to the 20.3% and 29.9% decrease in our net revenue in the three and nine months ended September 30, 2022, respectively, compared to the same periods last year.

Due to the COVID-19 pandemic, there has been and will continue to be uncertainty and disruption in the global economy and financial markets. Since early 2020, we have experienced an increase in demand for our gear as more people were under shelter-in-place restrictions, which we believe have limited people’s access to alternative forms of entertainment and social interaction, and thus have increased the demand for home entertainment and connecting with others through content creation. In contrast, as the COVID-19 pandemic subsides, it has resulted in shelter-in-place and other similar restrictions being eased. Such easing of restrictions has resulted in consumers returning to other alternative forms of entertainment and interaction. This in turn has resulted in a decline in demand for our products since the second half of 2021.

In addition, we have experienced and may in the future continue to experience supply chain challenges, including longer production and shipping times, and increased shipping and logistics costs, each of which has negatively impacted our gross margins, as well as the need to purchase long-lead time items ahead of demand due to supply constraints.

The extent of the impact of macroeconomic conditions, the COVID-19 pandemic, and geopolitical tensions on our business, sales, results of operations, cash flows and financial condition will depend on future developments, which are not within our control and are highly uncertain and cannot be predicted. We will continue to evaluate these risks and uncertainties and further our mitigation plans.

During the second fiscal quarter of 2022, as part of our plan to rationalize inventory level to align with our updated revenue outlook for 2022, we increased our inventory impairment and related charges by approximately $22.7 million, as compared to the same period last year. In the third fiscal quarter of 2022, we have seen the excess inventory situation in the distribution channels begin to ease in the United States. Inventory impairment and related charges, of a routine nature, were recognized in the three months ended September 30, 2022, and the amount was immaterial.

In order to align our expenses with the expected revenue level, we implemented a restructuring plan in 2022 and terminated 94 employees worldwide, resulting in approximately $1.6 million of restructuring costs in the nine months ended September 30, 2022, primarily consisting of severance and benefits. Our restructuring plan has been completed as of September 30, 2022.

Components of our Operating Results

Net Revenue

We generate materially all of our net revenue from the sale of gamer and creator peripherals and gaming components and systems to retailers, including online retailers, gamers and distributors worldwide. Our revenue is recognized net of allowances for returns, discounts, sales incentives and any taxes collected from customers.

Cost of Revenue

Cost of revenue consists primarily of product costs, including costs of contract manufacturers, inbound freight costs from manufacturers to our distribution hubs as well as inter-hub shipments, cost of materials and overhead, duties and tariffs, warranty replacement cost to process and rework returned items, depreciation of tooling equipment, warehousing costs, excess and obsolete inventory write-downs, and certain allocated costs related to facilities and information technology, or IT, and personnel-related expenses and other operating expenses related to supply chain logistics.

Operating Expenses

Operating expenses consist of product development and sales, general and administrative expenses.

Sales, general and administrative. Sales, general and administrative, or SG&A, expenses represent the largest component of our operating expenses and consist of distribution costs, sales, marketing and other general and administrative costs. Distribution costs include outbound freight and the costs to operate our distribution hubs. Sales and marketing costs relate to the costs to operate our global sales force that works in conjunction with our channel partners, gaming team and event sponsorships, advertising and marketing promotions of our products and services, costs of maintaining our web store and credit card processing fees related to sales on our webstore, personnel-related cost and allocated overhead costs. General and administrative costs consist primarily of personnel-related expenses for our finance, legal, human resources, IT and administrative personnel, as well as the costs of professional services related to these functions and allocated overhead costs. SG&A expenses also includes factoring fees.

We expect our total sales, general and administrative expenses to increase in absolute dollars as we continue to actively promote and distribute a higher volume of our products and also due to the anticipated growth of our business and related infrastructure, including increases in legal, accounting, insurance, compliance, investor relations and other consulting costs.

Product development. Product development costs are generally expensed as incurred. Product development costs consist primarily of the costs associated with the design and testing of new products and improvements to existing products. These costs relate primarily to compensation of personnel and consultants involved with product design, definition, compatibility testing and qualification, as well as depreciation costs of equipment used, prototype material costs and allocated overhead costs.

We expect our product development expenses to increase in absolute dollars as we continue to make significant investments in developing new products and enhancing existing products.

Interest Expense

Interest expense consists of interest associated with our debt financing arrangements, including our revolving line of credit, amortization of debt issuance costs and debt discounts, loss from debt extinguishment, consisting of the write-off of unamortized debt discount and fees associated with the prepayment of our term loans.

Other (Expense) Income, Net

Other (expense) income, net consists primarily of our foreign currency exchange gains and losses relating to transactions and remeasurement of asset and liability balances denominated in foreign currencies. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in foreign currency exchange rates.

Income Tax Expense

We are subject to income taxes in the United States and foreign jurisdictions in which we do business. These foreign jurisdictions have statutory tax rates different from those in the United States. Accordingly, our effective tax rates will vary depending on the relative proportion of foreign to United States income, the utilization of foreign tax credits and changes in tax laws. Deferred tax assets are reduced through the establishment of a valuation allowance, if, based upon available evidence, it is determined that it is more likely than not that the deferred tax assets will not be realized.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the tax and financial reporting bases of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests represents the share of the net income of iDisplay attributable to the 49% ownership interest of iDisplay not acquired by Corsair.

Results of Operations

The following tables set forth the components of our condensed consolidated statements of operations, in dollars (thousands) and as a percentage of total net revenue, for each of the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net revenue	$ 311,769	$ 391,121	$ 976,368	$ 1,393,438
Cost of revenue	240,209	289,759	777,593	1,001,397
Gross profit	71,560	101,362	198,775	392,041
Operating expenses:				
Sales, general and administrative	66,932	76,112	216,456	234,134
Product development	15,616	14,495	50,752	45,150
Total operating expenses	82,548	90,607	267,208	279,284
Operating income (loss)	(10,988)	10,755	(68,433)	112,757
Other (expense) income:				
Interest expense	(2,734)	(7,202)	(5,689)	(16,656)
Other income (expense), net	1,662	(1,402)	1,796	(4,002)
Total other expense, net	(1,072)	(8,604)	(3,893)	(20,658)
Income (loss) before income taxes	(12,060)	2,151	(72,326)	92,099
Income tax benefit (expense)	6,115	(374)	11,262	(15,854)
Net income (loss)	(5,945)	1,777	(61,064)	76,245
Less: Net income attributable to noncontrolling interests	266	—	33	—
Net income (loss) attributable to Corsair Gaming, Inc.	$ (6,211)	$ 1,777	$ (61,097)	$ 76,245

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	77.0	74.1	79.6	71.9
Gross profit	23.0	25.9	20.4	28.1
Operating expenses:				
Sales, general and administrative	21.5	19.5	22.2	16.8
Product development	5.0	3.7	5.2	3.2
Total operating expenses	26.5	23.2	27.4	20.0
Operating income (loss)	(3.5)	2.7	(7.0)	8.1
Other (expense) income:				
Interest expense	(0.9)	(1.8)	(0.6)	(1.2)
Other income (expense), net	0.5	(0.4)	0.2	(0.3)
Total other expense, net	(0.4)	(2.2)	(0.4)	(1.5)
Income (loss) before income taxes	(3.9)	0.5	(7.4)	6.6
Income tax benefit (expense)	2.0	(0.1)	1.2	(1.1)
Net income (loss)	(1.9)	0.4	(6.2)	5.5
Less: Net income attributable to noncontrolling interests	0.1	—	0.0	—
Net income (loss) attributable to Corsair Gaming, Inc.	(2.0)%	0.4%	(6.2)%	5.5%

Components of Results of Operations

Net Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Net revenue	$ 311,769	$ 391,121	$ 976,368	$ 1,393,438

Net revenue decreased $79.4 million, or 20.3%, for the three months ended September 30, 2022, as compared to the same period last year. The decrease was due to a 30.5% decrease in sales for our gamer and creator peripherals segment and a 14.7% decrease in sales for our gaming components and systems segment.

Net revenue decreased $417.1 million, or 29.9%, for the nine months ended September 30, 2022, as compared to the same period last year. The decrease was due to a 32.0% decrease in sales for our gamer and creator peripherals segment and a 28.9% decrease in sales for our gaming components and systems segment.

We believe the decrease in net revenue in both segments for the three- and nine-month periods was primarily due to consumer consumption in Europe being negatively impacted by the Russia-Ukraine war, coupled with lower consumer discretionary spending due to higher-than-expected inflationary pressures, as well as currency pressure from the strengthening of the U.S. dollar against the Euro and British Pound, causing some of our products to become more expensive in Europe. The decrease in our Europe and Middle East Region net revenue accounted for approximately 71.3% and 66.3% of the decline in our total net revenue in the three and nine months ended September 30, 2022, respectively. The decrease in our net revenue for the nine months ended September 30, 2022 was also in part due to a slow-down in demand compared to the same period last year as a result of more entertainment options becoming available due to the easing of the COVID-19 shelter-in-place restrictions, starting in the second half of 2021.

Gross Profit and Gross Margin (defined as gross profit as a percentage of revenue)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Gross profit	$ 71,560	$ 101,362	$ 198,775	$ 392,041
Gross margin	23.0%	25.9%	20.4%	28.1%

Gross margin decreased by 2.9% for the three months ended September 30, 2022, as compared to the same period last year. This decrease was primarily attributable to an unfavorable shift towards higher mix of net revenue from our lower margin gaming components and systems segment, increased promotional activity and logistics costs, as well as increased amortization of intangible assets from our iDisplay acquisition.

Gross margin decreased by 7.7% for the nine months ended September 30, 2022, as compared to the same period last year. This decrease was primarily attributable to an increase in inventory impairment and related charges in 2022 due to the inventory rationalization plan to align our inventory balance with our updated revenue outlook for 2022. The gross margin in the nine months ended September 30, 2022, as compared to the same period last year was also negatively impacted by increased promotional activity and logistics costs, as well as increased amortization of intangible assets from the iDisplay acquisition.

In addition, the decrease in gross margins for the three and nine months ended September 30, 2022, was partially offset by lower freight costs as the elevated freight rate caused by the pandemic has normalized to close to pre-pandemic level, beginning in the third fiscal quarter of 2022.

Sales, General and Administrative (SG&A)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Sales, general and administrative	$ 66,932	$ 76,112	$ 216,456	$ 234,134

SG&A expenses decreased $9.2 million, or 12.1%, for the three months ended September 30, 2022, as compared to the same period last year. The decrease was primarily due to a $4.0 million decrease in distribution cost including outbound freight cost due to decreased sales volume, a $3.4 million decrease in marketing and advertising expenses, and a $0.8 million decrease in personnel-related costs.

SG&A expenses decreased $17.7 million, or 7.6%, for the nine months ended September 30, 2022, as compared to the same period last year. The decrease was primarily due to a $9.2 million decrease in distribution cost including outbound freight cost with lower shipment volume, a $5.5 million decrease in personnel-related costs with lower bonus expense, a $3.4 million decrease in marketing and advertising expenses and a $1.8 million decrease in legal and other professional fees. These decreases were offset partially by a $3.5 million charge related to the acceleration of the amortization of capitalized cloud computing implementation costs in the nine months ended September 30, 2022.

Product Development

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Product development	$ 15,616	$ 14,495	$ 50,752	$ 45,150

Product development expenses increased $1.1 million, or 7.7%, for the three months ended September 30, 2022, as compared to the same period last year. The increase was primarily due to a $0.9 million increase in amortization of intangible assets acquired in the iDisplay acquisition.

Product development expenses increased $5.6 million, or 12.4%, for the nine months ended September 30, 2022, as compared to the same period last year. The increase was primarily due to a $2.9 million increase in amortization of intangible assets acquired in the iDisplay acquisition and a $2.6 million increase in allocation of corporate IT-related and facility-related costs.

Interest Expense and Other (Expense) Income, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Interest expense	$ (2,734)	$ (7,202)	$ (5,689)	$ (16,656)
Other (expense) income, net	1,662	(1,402)	1,796	(4,002)

Interest expense decreased $4.5 million, or 62.0%, for the three months ended September 30, 2022, as compared to the same period last year. Interest expenses decreased $11.0 million, or 65.8%, for the nine months ended September 30, 2022, as compared to the same period last year. The decrease in interest expense in both the three- and nine-month periods was primarily due to a lower principal balance on our Term Loan executed in September 2021 which replaced our First Lien Term Loan and lower interest rate compared to the same periods last year.

Other (expense) income, net is primarily comprised of foreign exchange gains and losses on cash, accounts receivable and intercompany balances denominated in currencies other than the functional currencies of our subsidiaries. Our foreign currency exposure is primarily driven by fluctuations in the foreign currency exchanges rates of the Euro, British Pound and the Chinese Yuan.

Income Tax Benefit (Expense)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Income (loss) before income taxes	$ (12,060)	$ 2,151	$ (72,326)	$ 92,099
Income tax benefit (expense)	6,115	(374)	11,262	(15,854)
Effective tax rate	50.7%	17.4%	15.6%	17.2%

We are subject to income taxes in the United States and foreign jurisdictions in which we do business. These foreign jurisdictions have statutory tax rates different from those in the United States. Accordingly, our effective tax rates will vary depending on the relative proportion of foreign to United States income, the utilization of net operating loss and tax credit carry forwards, changes in geographic mix of income and expense, and changes in management's assessment of matters such as the ability to realize deferred tax assets, and changes in tax laws.

Our effective tax rates were 50.7% and 17.4% for the three months ended September 30, 2022, and 2021, respectively. The increase in effective tax rates was primarily due to the change in the forecast and the mix of losses between various jurisdictions.

Our effective tax rates were 15.6% and 17.2% for the nine months ended September 30, 2022, and 2021, respectively. The decrease in effective tax rates was primarily due to an increase in losses in our foreign subsidiaries which was partially offset by a decrease in excess tax benefits from stock-based compensation recognized in the nine months ended September 30, 2022, as compared to the same period last year. In addition, in the nine months ended September 30, 2021, we recorded a $1.4 million one-time tax expense related to the remeasurement of our United Kingdom deferred tax liabilities as a result of the enactment of the increased corporate tax rate in the United Kingdom.

Segment Results

Segment Net Revenue

The following table sets forth our net revenue by segment expressed both in dollars (thousands) and as a percentage of net revenue:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
Gamer and Creator Peripherals Segment	$ 96,848	31.1%	$ 139,260	35.6%	$ 319,985	32.8%	$ 470,329	33.8%
Gaming Components and Systems Segment								
Memory Products	115,194	36.9	115,524	29.5	346,468	35.5	436,123	31.3
Other Component Products	99,727	32.0	136,337	34.9	309,915	31.7	486,986	34.9
	214,921	68.9	251,861	64.4	656,383	67.2	923,109	66.2
Total Net Revenue	$ 311,769	100.0%	$ 391,121	100.0%	$ 976,368	100.0%	$ 1,393,438	100.0%

Gamer and Creator Peripherals Segment

Net revenue of the gamer and creator peripherals segment decreased $42.4 million, or 30.5%, for the three months ended September 30, 2022 as compared to the same period last year, primarily due to the decline in consumer demand in Europe due to the war between Russia and Ukraine, inflationary economic pressures and currency pressure from the strengthening of the U.S. dollar against the Euro and British Pound, causing some of our products to be more expensive in Europe.

Net revenue of the gamer and creator peripherals segment decreased $150.3 million, or 32.0%, for the nine months ended September 30, 2022 as compared to the same period last year, primarily due to the decline in consumer demand in Europe due to the war between Russia and Ukraine, inflationary economic pressures and currency pressure from the strengthening of the U.S. dollar against the Euro and British Pound, causing some of our products to be more expensive in Europe. The decrease in net revenue in the nine months ended September 30, 2022 was also partly due to the easing of the COVID-19 shelter-in-place restriction because more entertainment options becoming available, starting in the second half of 2021.

Gaming Components and Systems Segment

Net revenue of the gaming components and systems segment decreased $36.9 million, or 14.7%, for the three months ended September 30, 2022 as compared to the same period last year, primarily attributable to our other components products, which was more affected by the decline in consumer demand in Europe due to the war between Russia and Ukraine and the inflationary economic pressures.

Net revenue of the gaming components and systems segment decreased $266.7 million, or 28.9%, for the nine months ended September 30, 2022 as compared to the same period last year, primarily driven by the decline in consumer demand in Europe due to the war between Russia and Ukraine and inflationary economic pressures. In addition, the decrease in net revenue for the nine months ended September 30, 2022 was also attributable to the shortage of reasonably priced GPUs which curtailed the demand for new PC builds and its components, as well as supply and logistics constraints caused by the COVID-19 pandemic. The availability of reasonably priced GPUs began to normalize in the three months ended September 30, 2022 and together with the new technology platforms launched by Nvidia, AMD and Intel during such period, we expect to see some positive impact in the customer demand for our component products beginning in the fourth quarter of 2022.

Segment Gross Profit and Gross Margin

The following table sets forth our gross profit expressed in dollars (thousands) and gross margin by segment:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
Gamer and Creator Peripherals Segment	$ 31,790	32.8%	$ 48,580	34.9%	$ 85,405	26.7%	$ 172,080	36.6%
Gaming Components and Systems Segment								
Memory Products	16,595	14.4	15,935	13.8	46,545	13.4	77,984	17.9
Other Component Products	23,175	23.2	36,847	27.0	66,825	21.6	141,977	29.2
	39,770	18.5	52,782	21.0	113,370	17.3	219,961	23.8
Total Gross Profit	$ 71,560	23.0%	$ 101,362	25.9%	$ 198,775	20.4%	$ 392,041	28.1%

Gamer and Creator Peripherals Segment

The gross margin of the gamer and creator peripherals segment decreased in the three months ended September 30, 2022 by 2.1% as compared to the same period last year, primarily due to increased promotional activity and logistics costs, as well as increased amortization of intangible assets from the iDisplay acquisition.

The gross margin of the gamer and creator peripherals segment decreased in the nine months ended September 30, 2022 by 9.9% as compared to the same period last year, primarily attributable to an increase in inventory impairment and related charges in 2022 due to the inventory rationalization plan to align our inventory balance with our updated revenue outlook for 2022, as well as increased logistics costs and promotional activity, and increased amortization of intangible assets from the iDisplay acquisition.

In addition, the decrease in gross margins of the gamer and creator peripherals segment for the three and nine months ended September 30, 2022, was partially offset by lower freight costs as the elevated freight rate caused by the pandemic has normalized to close to pre-pandemic level, beginning in the third fiscal quarter of 2022.

Gaming Components and Systems Segment

The gross margin of the gaming components and systems segment decreased in the three months ended September 30, 2022 by 2.5% as compared to the same period last year, primarily attributable to a change in sales mix toward more lower margin products in this segment as well as increased promotional activity.

The gross margin of the gaming components and systems segment decreased in the nine months ended September 30, 2022 by 6.5% as compared to the same period last year, primarily attributable to an increase in inventory impairment and related charges in 2022 due to the inventory rationalization plan to align our inventory balance with our updated revenue outlook for 2022, as well as increased logistics costs and promotional activity.

In addition, the decrease in gross margins of the gaming components and systems segment for the three and nine months ended September 30, 2022, was partially offset by lower freight costs as the elevated freight rate caused by the pandemic has normalized to close to pre-pandemic level, beginning in the third fiscal quarter of 2022.

Liquidity and Capital Resources

Our principal sources of liquidity have been the payments received from customers purchasing our products and the borrowings under our Credit Agreement (defined below).

On September 29, 2022, one of our subsidiaries entered into an accounts receivable Factoring Agreement with a Factor, a third-party financial institution. Pursuant to the terms of the arrangement, we sell certain of our customer receivables on a non-recourse basis to the Factor. Our obligations to the Factor arising from the Factoring Agreement are secured by certain assets of our subsidiary. The cost of factoring is not expected to have a material effect to our overall liquidity, financial condition or results of operations.

Our principal uses of cash generally will include purchases of inventory, payroll and other operating expenses related to the development and marketing of our products, capital expenditure, repayments of debt and related interest, income tax payments, continued investments in businesses and technology, and selective mergers and acquisitions.

As of September 30, 2022, we had cash and restricted cash, in aggregate of $61.7 million, including $19.7 million held by our foreign subsidiaries. Amounts held outside of the United States are generally utilized to support our non-U.S. liquidity needs. Repatriations of amounts held outside the United States generally will not be taxable from a U.S. federal tax perspective but may be subject to state income or foreign withholding tax. We do not expect restrictions or potential taxes incurred on repatriation of amounts held outside of the United States to have a material effect on our overall liquidity, financial condition or results of operations.

We believe that the anticipated cash flows from operations based on our current business outlook, combined with our current levels of cash balances at September 30, 2022, supplemented with the borrowings under our Revolving Credit Facility will be sufficient to fund our principal uses of cash for at least the next twelve months. In the longer term, liquidity will depend to a great extent on our future revenues and our ability to appropriately manage our costs based on the demand for our products. We may require additional funding and need or choose to raise the required funds through borrowings or public or private sales of debt or equity securities. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financial covenants that would restrict our operations. There can be no assurance that any such equity or debt financing will be available on favorable terms, or at all.

Liquidity

The following table summarizes our cash flows for the periods presented (in thousands):

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net cash provided by (used in):		
Operating activities	$ 45,142	$ 25,061
Investing activities	(40,479)	(14,039)
Financing activities	(3,927)	(67,183)

Cash Flows from Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2022 was $45.1 million and consisted of $65.3 million net cash inflow from changes in our net operating assets and liabilities, partially offset by our net loss of $61.1 million, which included non-cash adjustments of $40.9 million. The net cash inflow from changes in our net operating assets and liabilities was primarily related to a decrease in accounts receivable mainly from the cash we received from the Factor during the period and a decrease in inventories mainly from lower purchases. These net cash inflows were partially offset by a decrease in accounts payable due to lower inventory purchases and a decrease in other liabilities and accrued expenses mainly due to lower accrual for sales returns and customer incentives and bonus expense. The non-cash adjustments consisted primarily of amortization and depreciation, stock-based compensation expense and change in net deferred tax liabilities.

Net cash provided by operating activities for the nine months ended September 30, 2021 was $25.1 million and consisted of net income of $76.2 million and non-cash adjustments of $48.7 million and was partially offset by $99.8 million from changes in our net operating assets and liabilities. The non-cash adjustments consisted primarily of amortization and depreciation, stock-based compensation expense, loss on debt extinguishment and amortization of debt issuance costs and change in deferred tax assets. The net cash outflow from changes in our net operating assets and liabilities was primarily related to an increase in inventory, prepaid expenses and other assets, and a decrease in accounts payable mainly due to timing of payments. The net cash outflow was partially offset by a decrease in accounts receivable and an increase in other liabilities and accrued expenses.

Cash Flows from Investing Activities

Cash used in investing activities was $40.5 million for the nine months ended September 30, 2022 and primarily consisted of $19.5 million for the iDisplay acquisition (net of cash acquired), $19.9 million capital expenditure including renovation and furnishing of our new headquarters in Milpitas, California, as well as purchases of equipment and software, and $1.0 million for the investment in an available-for-sale convertible note.

Cash used in investing activities was $14.0 million for the nine months ended September 30, 2021 and consisted of $7.7 million for the purchase of capital equipment and software, $4.7 million for the payment of deferred and contingent consideration primarily related to the Origin business acquisition, and $1.7 million for the acquisition of an immaterial business.

Cash Flows from Financing Activities

Cash used in financing activities was $3.9 million for the nine months ended September 30, 2022 and consisted primarily of $4.0 million repayment of debt and debt issuance costs, $2.2 million payment of dividends to noncontrolling interests, $1.4 million payment of taxes related to net share settlement of equity awards, partially offset by $4.1 million proceeds received from the issuance of shares through the employee equity incentive plans. During the nine months ended September 30, 2022, we also borrowed $626.0 million from our revolving credit facility to fund our operations and the full amount was repaid within the same period.

Cash used in financing activities was $67.2 million for the nine months ended September 30, 2021 and consisted primarily of $327.0 million repayments of debt (First Lien Term Loan) and $0.2 million payment of taxes related to net share settlement of equity awards. These cash outflows were partially offset by $248.5 million net proceeds from our new Term Loan executed in September 2021 and $11.5 million proceeds received from the issuance of shares through the employee equity incentive plans.

Capital Resources

Credit Agreement (Term Loan and Revolving Credit Facility)

On September 3, 2021, we refinanced the First Lien Credit and Guaranty Agreement with a new Credit Agreement ("Credit Agreement"). The new Credit Agreement provides for a total commitment of $350 million, consisting of a $100 million revolving credit facility ("Revolving Credit Facility") and a $250 million term loan facility ("Term Loan"). The net proceeds from borrowings under the Term Loan of $248.5 million (net of $1.5 million of debt discount) were used to repay all amounts outstanding under the First Lien Term Loan on September 3, 2021.

The Credit Agreement is available for a period of five years, maturing September 2026, and provides for additional incremental facilities up to a maximum aggregate principal amount of $250.0 million, subject to the satisfaction of certain conditions. We may prepay the Term Loan and the Revolving Facility at any time without premium or penalty.

The Term Loan and Revolving Credit Facility under the Credit Agreement initially carried interest at our election at either (a) LIBOR plus a percentage spread (ranging from 1.25% to 2.0%) based on our total net leverage ratio, or (b) the base rate (described in the Credit Agreement as the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) one-month LIBOR plus 1.0%) plus a percentage spread (ranging from 0.25% to 1.0%) based on our total net leverage ratio.

The Credit Agreement contains covenants with which we must comply during the term of the agreement, which we believe are ordinary and standard for agreements of this nature, including the maintenance of a maximum Consolidated Total Net Leverage Ratio of 3.0 to 1.0 and a minimum Consolidated Interest Coverage Ratio of 3.0 to 1.0 (as defined in our Credit Agreement). The Credit Agreement also includes events of default customary for facilities of this nature and upon the occurrence of such events of default, among other things, all outstanding amounts under the Credit Agreement may be accelerated and/or the lenders' commitments terminated. In addition, upon the occurrence of certain events of default, the interest on the Term loan and Revolving Credit Facility can increase by 2.0%.

Our obligations under the Credit Agreement are guaranteed by substantially all of our U.S. subsidiaries and secured by a security interest in substantially all assets of the Company and the guarantor subsidiaries, subject to certain exceptions detailed in the Credit Agreement and related ancillary documentation.

On June 30, 2022, we entered into a First Amendment of the Credit Agreement ("*First Amendment*") which among other changes resulted in the Bloomberg Short-Term Bank Yield Index rate ("*BSBY*") being utilized as a replacement rate for LIBOR. Consequently, following the First Amendment, the Term Loan and Revolving Facility will each bear interest at our election at either (a) BSBY plus a percentage spread (ranging from 1.25% to 2.25%) based on our total net leverage ratio, or (b) the base rate (as described in the Credit Agreement) as the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) one-month BSBY plus 1.0%) plus a percentage spread (ranging from 0.25% to 1.25%) based on our total net leverage ratio. In addition, pursuant to the First Amendment, the maximum permitted Consolidated Total Net Leverage Ratio (as defined in the Credit Agreement) was also amended to increase to 3.50 to 1.0 between the quarters ending September 30, 2022 through and including March 31, 2023, and such ratio will revert to 3.00 to 1.00 from the quarter ended June 30, 2023 and each quarter thereafter, provided that, upon the occurrence of a Qualified Acquisition (as defined in the Credit Agreement), such ratio can be increased to 3.50 to 1.0 temporarily provided all the requirements set forth in the Credit Agreement are met.

On September 29, 2022, we entered into an accounts receivable Factoring Agreement with a Factor. In connection with the Factoring Agreement, we also entered into (i) a Second Amendment *("Second Amendment"*) to the Credit Agreement to permit the transactions contemplated by the Factoring Agreement and (ii) an Assignment of Factoring Proceeds and Intercreditor Agreement with the Factor and the administrative agent under the Credit Agreement to establish the respective rights of the Factor and the Credit Agreement Agent in and to the related factoring collateral.

As of September 30, 2022, we were not in default under the Credit Agreement. Total principal outstanding of the Term Loan was $245.0 million and the available and uncommitted capacity under the Revolving Credit Facility was $100 million.

Contractual Obligations and Other Commitments

The following table summarizes our contractual cash and other obligations as of September 30, 2022 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Debt principal and interest payments (1)	$ 292,965	$ 19,069	$ 49,446	$ 224,450	$ —
Inventory-related purchase obligations (2)	68,402	67,442	960	—	—
Operating lease obligations (3)	65,281	10,775	17,745	11,801	24,960
Other purchase obligations (4)	21,179	17,978	3,201	—	—
Contingent consideration in connection with a business acquisition	954	954	—	—	—
Total	$ 448,781	$ 116,218	$ 71,352	$ 236,251	$ 24,960

(1) Amounts represent the principal cash payments as of September 30, 2022 of our Term Loan based on the repayment schedule according to the Credit Agreement and the expected interest payments associated with the Term Loan. See Note 8, "Debt" to our condensed consolidated financial statements for more information.
(2) Amounts represent an estimate of purchase obligations related to inventory.
(3) Amounts represent contractual obligations from our operating leases for offices and warehouse spaces.
(4) Amounts represent non-cancelable obligations related to capital expenditures, software licenses, marketing and other activities.

As of September 30, 2022, we had $2.6 million in non-current income tax payable, including interest and penalties, related to our income tax liability for uncertain tax positions. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years in connection with these tax liabilities; therefore, such amounts are not included in the contractual cash obligation table above.

Critical Accounting Polices and Estimates

A critical accounting policy is defined as one that has both a material impact on our financial condition and results of operations and requires us to make difficult, complex and/or subjective judgments, often as a result of the need to make estimates about matters that are inherently uncertain. Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the condensed consolidated financial statements, as well as the reported amounts of revenue and expenses during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe to be applicable and we evaluate them on an ongoing basis to ensure they remain reasonable under current conditions. Actual results may differ significantly from those estimates, which could have a material impact on our business, results of operations, and financial condition.

Other than the new items discussed in Note 2 of our condensed consolidated financial statements, there have been no material changes to our critical accounting policies and estimates during the nine months ended September 30, 2022 as compared to the critical accounting policies and estimates described in our Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on March 1, 2022.

Recent Accounting Pronouncements

Refer to Note 2 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for recent accounting pronouncements adopted and to be adopted.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest rates and foreign currency exchange rates.

Interest Rate Risk

As of September 30, 2022, we had cash and restricted cash of $61.7 million, which consisted primarily of bank deposits. Our cash is held for working capital purposes.

As of September 30, 2022, under the Credit Agreement, we had $245.0 million Term Loan outstanding (face value), and the Term Loan bears variable market rates, primarily BSBY. See Note 8, “Debt - Credit Agreement” to our condensed consolidated financial statements for additional information on the Credit Agreement. A significant change in these market rates may adversely affect our operating results. As of September 30, 2022, a hypothetical 100 basis point change in interest rates would result in a change to annual interest expense by approximately $2.5 million.

Foreign Currency Risk

Approximately 16.1% of our net revenue for the nine months ended September 30, 2022 was denominated in foreign currencies, primarily Euro and British Pound. Any unfavorable movement in the exchange rate between U.S. dollars and the currencies in which we conduct sales in foreign countries could have an adverse impact on our net revenue and gross margins as we may have to adjust local currency product pricing due to competitive pressures if there is significant volatility in foreign currency exchange rates. Our operating expenses are denominated in the currencies of the countries in which our operations are located, which are primarily in the United States, Europe, China and Taiwan. Our operating results and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates.

We enter into forward currency contracts to reduce the short-term effects of currency fluctuations on Euro, British Pound, and Chinese Yuan denominated cash, accounts receivable, and intercompany receivable and payable balances. These forward contracts generally mature within two to three months, and we do not enter into foreign currency forward contracts for trading purposes. The outstanding notional principal amount was $32.4 million and $48.6 million as of September 30, 2022 and December 31, 2021, respectively. The gains or losses on these contracts are recognized in earnings based on the changes in fair value.

The impact of changes in foreign currency rates, including the gains or (losses) on the forward currency contracts, recognized in other (expense) income, net was $1.5 million and $(4.1) million for the nine months ended September 30, 2022 and 2021, respectively. A hypothetical ten percent change in exchange rates between foreign currencies and the U.S. dollar would increase or decrease our gains or losses on foreign currency exchange of approximately $1.0 million in our condensed consolidated financial statements for the nine months ended September 30, 2022.

Item 4. Controls and Procedures.

Limitations on Effectiveness of Controls and Procedures

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but there can be no assurance that such improvements will be sufficient to provide us with effective internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2022, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that 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 the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We may from time to time be involved in various legal proceedings of a character normally incident to the ordinary course of our business. Although the outcome of any pending matters, and the amount, if any, of our ultimate liability and any other forms of remedies with respect to these matters, cannot be determined or predicted with certainty, we do not believe that the ultimate outcome of these matters will have a material adverse effect on our business, results of operations or financial condition.

Item 1A.

Risk Factor Summary

Below is a summary of the principal factors that make an investment in our common stock speculative or risky. This summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, and other risks that we face, can be found below under the heading "Risk Factors" and should be carefully considered, together with other information in this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission, or the SEC, before making investment decisions regarding our common stock.

- Our competitive position and success in the market depend to a significant degree upon our ability to build and maintain the strength of our brand among gaming enthusiasts and any failure to build and maintain our brand may seriously harm our business.
- Our success and growth depend on our ability to continuously develop and successfully market new gear and improvements. If we are unable to do so, demand for our current gear may decline and new gear we introduce may not be successful.
- We depend upon the introduction and success of new third-party high-performance computer hardware, particularly graphics processing units, or GPUs, and central processing units, or CPUs, and sophisticated new video games to drive sales of our gear. If newly introduced GPUs, CPUs and sophisticated video games are not successful, if the rate at which those products are introduced declines or if such products are not readily available, it may seriously harm our business.
- We face intense competition, and if we do not compete effectively, we could lose market share, demand for our gear could decline and our business may be seriously harmed.
- If the gaming industry, including streaming and esports, does not grow as expected or declines, our business could be seriously harmed.
- If we lose or are unable to attract and retain key management, our ability to compete could be seriously harmed and our financial performance could suffer.
- Currency exchange rate fluctuations could result in our gear becoming relatively more expensive to our overseas customers or increase our manufacturing costs, each of which may seriously harm our business.
- Total unit shipments of our gear tend to be higher during the third and fourth quarters of the year. As a result, our sales are subject to seasonal fluctuations, which may seriously harm our business.
- The coronavirus outbreak has had, and could continue to have, a materially disruptive effect on our business.
- The ongoing war between Russia and Ukraine could adversely affect our business, financial condition and results of operations.
- We are controlled by a single stockholder, whose interest in our business may be different than yours.
- We are a "controlled company" within the meaning of the Nasdaq Global Select Market, rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.

Risk Factors

Our business involves significant risks, some of which are described below. You should consider carefully the risks and uncertainties described below, together with all of the other information contained in this Quarterly Report on Form 10-Q such as "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial *statements and related notes. If any of the following risks actually occurs, our business, reputation, financial condition, results of operations, revenue and future prospects could be seriously harmed. In such event, the market price of our common stock could decline and you could lose all or part of your investment. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. This Quarterly Report on Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this Quarterly Report on Form 10-Q. Unless otherwise indicated, references to our business being seriously harmed in these risk factors and elsewhere will include harm to our business, reputation, financial condition, results of operations, revenue and future prospects.*

Risks Related to Our Business

Our competitive position and success in the market depend to a significant degree upon our ability to build and maintain the strength of our brands among gaming enthusiasts and streamers, and any failure to build and maintain our brands may seriously harm our business.

We regard our brands as a valuable asset, and we consider it essential to both maintaining and strengthening our brands that we be perceived by current and prospective customers as a leading supplier of cutting-edge, high-performance gear for gaming and streaming. This requires that we constantly innovate by introducing new and enhanced gear that achieves significant levels of acceptance among gamers. We also need to continue to invest in, and devote substantial resources to, advertising, marketing and other efforts to create and maintain brand recognition and loyalty among our retailer customers, distributors and gamers. However, product development, marketing and other brand promotion activities may not yield increased net revenue and, even if they do, any increased net revenue may not offset the expenses incurred in building our brands. Further, certain marketing efforts such as sponsorship of esports athletes, content creators or events could become prohibitively expensive, and as a result these marketing initiatives may no longer be feasible.

If we fail to build and maintain our brands, or if we incur substantial expenses in an unsuccessful attempt to build and maintain our brands, our business may be harmed. Our brands may also be damaged by events such as product recalls, perceived declines in quality or reliability, product shortages, damaging action or conduct of our sponsored esports athletes or content creators and other events, some of which are beyond our control.

Our success and growth depend on our ability to continuously develop and successfully market new gear and improvements. If we are unable to do so, demand for our current gear may decline and new gear we introduce may not be successful.

The gear we sell, which includes gamer and creator peripherals and gaming components and systems, is characterized by short product life cycles, frequent new product introductions, rapidly changing technology and evolving industry standards. In addition, average selling prices of some of our gear tend to decline as the gear matures, and we expect this trend to continue. As a result, we must continually anticipate and respond to changing gamer requirements, innovate in our current and emerging categories of gear, introduce new gear and enhance existing gear in a timely and efficient manner in order to remain competitive and execute our growth strategy.

We believe that the success of our gear depends to a significant degree on our ability to identify new features or category opportunities, anticipate technological developments and market trends and distinguish our gear from those of our competitors. In order to further grow our business, we also will need to quickly develop, manufacture and ship innovative and reliable new gear and enhancements to our existing gear in a cost-effective and timely manner to take advantage of developments in enabling technologies and the introduction of new computer hardware, such as new generations of GPUs and CPUs, and computer games, all of which drive demand for our gear. Further, our growth depends in part on our ability to introduce and successfully market new gear and categories of gear. For example, in the last 24 months, we entered into four large new markets, namely the microphones and cameras markets for content creators, the gaming monitors market and prebuilt gaming laptops market for both gamers and content creators, and in the future, we intend to introduce other gear designed to appeal to these markets. To the extent we do so, we will likely encounter competition from large, well-known consumer electronics and peripherals companies. Some of these companies have significantly greater financial, manufacturing, marketing and other resources than we do and may be able to devote greater resources to the design, development, manufacturing, distribution, promotion, sale and support of their products. We cannot predict whether we will be successful in developing or marketing new gear and categories of gear and, if we fail to do so, our business may be seriously harmed.

In addition, we implemented a work from home policy for many of our employees as a result of the COVID-19 coronavirus outbreak, which may have a substantial impact on attendance, morale and productivity, disrupt access to facilities, equipment, networks, corporate systems, books and records and may add additional expenses and strain on our business. The duration and extent of the impact from the coronavirus outbreak on our business depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, the extent and effectiveness of containment actions and the impact of these and other factors on our employees. If a substantial number of our employees continue to work from home, it could negatively impact new gear and improvements and potentially result in delays or releasing significant updates.

If we do not execute on these factors successfully, demand for our current gear may decline and any new gear that we may introduce may not gain widespread acceptance. If this were to occur, our business may be seriously harmed. In addition, if we do not continue to distinguish our gear through distinctive, technologically advanced features and designs, as well as continue to build and strengthen our brand recognition and our access to distribution channels, our business may be seriously harmed

We depend upon the introduction and success of new third-party high-performance computer hardware, particularly GPUs and CPUs, and sophisticated new video games to drive sales of our gear. If newly introduced GPUs, CPUs and sophisticated video games are not successful, if the rate at which those products are introduced declines, or if they are not readily available, it may seriously harm our business.

We believe that the introduction of more powerful GPUs, CPUs and similar computer hardware that place increased demands on other system components, such as memory, PSUs or cooling, has a significant effect on the demand for our gear. The manufacturers of those products are large, public, independent companies that we do not influence or control. As a result, our business results can be materially affected by the frequency with which new high-performance hardware products are introduced by these independent third parties, whether these products achieve widespread acceptance among gamers, whether such products are readily available at affordable prices and whether additional memory, enhanced PSUs or cooling solutions, new computer cases or other peripheral devices are necessary to support those products. Although we believe that, historically, new generations of high-performance GPUs and CPUs have positively affected the demand for our gear, there can be no assurance that this will be the case in the future. For example, the introduction of a new generation of highly efficient GPUs and CPUs that require less power or that generate less heat than prior generations may reduce the demand for both our power supply units and cooling solutions. In the past, semiconductor and computer hardware companies have typically introduced new products annually, generally in the second calendar quarter, which has tended to drive our sales in the following two quarters. If computer hardware companies do not continue to regularly introduce new and enhanced GPUs, CPUs and other products that place increasing demands on system memory and processing speed, require larger power supply units or cooling solutions or that otherwise drive demand for computer cases and other peripherals, or if gamers do not accept those products, our business may be seriously harmed.

We also believe that sales of our gear are driven by conditions in the computer gaming industry. In particular, we believe that our business depends on the introduction and success of computer games with sophisticated graphics that place greater demands on system processing speed and capacity and therefore require more powerful GPUs or CPUs, which in turn drives demand for our DRAM modules, PSUs, cooling systems and other components and peripherals. Likewise, we believe that the continued introduction and market acceptance of new or enhanced versions of computer games helps sustain consumer interest in computer gaming generally. The demand for our gear would likely decline, perhaps substantially, if computer game companies and developers do not introduce and successfully market sophisticated new and improved games that require increasingly high levels of system and graphics processing power on an ongoing basis or if demand for computer games among computer gaming enthusiasts or conditions in the computer gaming industry deteriorate for any reason. As a result, our sales and other operating results fluctuate due to conditions in the market for computer games, and downturns in this market may seriously harm our business.

We face intense competition, and if we do not compete effectively, we could lose market share, demand for our gear could decline and our business may be seriously harmed.

We face intense competition in the markets for all of our gear. We operate in markets that are characterized by rapid technological change, constant price pressure, rapid product obsolescence, evolving industry standards and new demands for features and performance. We experience aggressive price competition and other promotional activities by competitors, including in response to declines in consumer demand and excess product supply or as competitors seek to gain market share.

In addition, because of the continuing convergence of the markets for computing devices and consumer electronics, we expect greater competition in the future from well-established consumer electronics companies. Many of our current and potential competitors, some of which are large, multi-national businesses, have substantially greater financial, technical, sales, marketing, personnel and other resources and greater brand recognition than we have. Our competitors may be in a stronger position to respond quickly to new technologies and may be able to design, develop, market and sell their products more effectively than we can. In addition, some of our competitors are small or mid-sized specialty companies that can react to changes in industry trends or consumer preferences or to introduce new or innovative products more quickly than we can. As a result, our product development efforts may not be successful or result in market acceptance of our gear. Our primary competitors include:

Competitors in the gamer and creator peripherals market. Our primary competitors in the market for gaming keyboards and mice include Logitech and Razer. Our primary competitors in the market for headset and related audio products include Logitech, Razer, Steel Series and HP through its HyperX brand. Our primary competitors in the gamer and creator streaming gear market include Logitech, following its acquisition of Blue Microphones, and AVerMedia. Our primary competitors in the performance controller market include Microsoft and Logitech.

Competitors in the gaming components and systems market. Our primary competitors in the market for PSUs, cooling solutions and computer cases include Cooler Master, NZXT, EVGA, Seasonic and Thermaltake. Our primary competitors in the market for DRAM modules include G.Skill, Kingston and Micron through its Crucial division. Our primary competitors in the market for prebuilt gaming PCs and laptops include Dell through its Alienware brand, HP through its Omen brand, Asus, MSI and Razer. Our primary competitors in the market for custom-built gaming PCs and laptops include iBuypower and Cyberpower.

Competitors in new markets. We are considering introducing new gear for gamers or streamers and content creators and, to the extent we introduce gear in new categories, we will likely experience substantial competition from additional companies, including large computer gaming and streaming peripherals and consumer electronics companies with global brand recognition and significantly greater resources than ours.

Our ability to compete successfully is fundamental to our success in existing and new markets. We believe that the principal competitive factors in our markets include performance, reliability, brand and associated style and image, time to market with new emerging technologies, early identification of emerging opportunities, interoperability of products and responsive customer support on a worldwide basis. If we do not compete effectively, demand for our gear could decline, our net revenue and gross margin could decrease and we could lose market share, which may seriously harm our business.

Further, our ability to successfully compete depends in large part on our ability to compete on price for our high-performance gear. Much of the gear we sell is priced higher than products offered by our competitors. If gamers or streamers are not willing to pay the higher price point for our gear, we will either need to discount our gear or our sales volume could decrease. In either event, our business could be seriously harmed.

If gaming, including streaming and esports, does not grow as expected or declines our business could be seriously harmed.

Over the past three decades, gaming has grown from a relatively niche industry to a significant segment of the global entertainment industry with a wide following across various demographic groups globally. This growth includes, and has been driven by, the rapid expansion of live game streaming by content creators and the growing popularity of professional competitive gaming, also referred to as esports. However, the continued growth of the video gaming industry will depend on numerous factors, many of which are beyond our control, including but not limited to:

- the rate of growth of PCs and gaming consoles or the migration of gamers to mobile devices and tablets away from PCs, which historically have been the core focus of our business;
- the continued growth of streaming, including its popularity among fans and aspiring content creators and how it impacts their desire to purchase high-performance gaming and streaming gear;
- the continued growth of esports, including its increasing popularity among fans and amateur esports athletes and how it impacts their desire to purchase high-performance gaming gear;
- general economic conditions, particularly economic conditions adversely affecting discretionary consumer spending;
- social perceptions of gaming, especially those related to the impact of gaming on health and social development;
- the introduction of legislation or other regulatory restrictions on gaming, such as restrictions addressing violence in video games and addiction to video games, also referred to as Gaming Disorder by the World Health Organization;
- the relative availability and popularity of other forms of entertainment; and
- changes in consumer demographics, tastes and preferences.

We generate a significant portion of our net revenue from gaming-related gear. As a result, any decline or slowdown in the growth of the gaming industry or the declining popularity of the gaming industry could materially and adversely affect our business.

We have no specific plans to attract gamers who use only mobile devices or tablets and we have no plans to develop gear specifically designed for gamers who use mobile devices or tablets. As a result, if gamers migrate to mobile devices or tablets and away from PCs and consoles, our business may be seriously harmed. In addition, there can be no assurance that the active demographics in gaming will continue to buy into and drive the growth in gamer culture and the games industry overall nor can there be any assurance that gaming will expand into new demographics that will drive growth. Further, if gamers' interest in video games is diminished, this may seriously harm our business.

Our growth prospects are, to a certain extent, connected with the ongoing growth of live game streaming and esports and any reduction in the growth or popularity of live game streaming or esports may seriously harm our business.

The success of our business depends on live game streaming and esports driving significant growth in the high-performance gaming and content streaming market, which could prompt strong growth in the sales of our gear. However, there are a number of factors which could result in the esports or live game streaming markets having limited or negative impact on our sales and overall growth. These factors include:

- our competitors marketing products that gain broader acceptance among game streamers, esports participants and content creators;
- esports amateurs and/or spectators not purchasing our gear that is utilized by esports athletes and teams or streamers and content creators, including the esports athletes and teams, and streamers we sponsor;
- the popularity of esports games that do not utilize any of our gear, for example games that run on mobile devices or tablets that replace more traditional esports; and
- our research and development and the gear we sell failing to satisfy the increasing high-performance requirements of competitive gamers or streamers.

Further, there are a number of factors which could result in the growth in live game streaming or the esports markets stagnating, or even decreasing. These factors include:

- consumer interest in watching either live or streamed broadcasts of competitors playing video games diminishing or even disappearing;
- regulations limiting the broadcast of live streaming or esports;
- reduced accessibility of streaming and other gaming video content, whether due to platform fragmentation, the erection of paywalls, or otherwise; and
- economics or monetization of esports performing below expectations, ultimately causing a decrease in outside investments in esports.

If one or more of the above factors are realized, our business may be seriously harmed.

If we lose or are unable to attract and retain key management, our ability to compete could be seriously harmed and our financial performance could suffer.

Our performance depends to a significant degree upon the contributions of our management team, particularly Andrew J. Paul, our co-founder, Chief Executive Officer and Director. If we lose the services of one or more of our key executives, we may not be able to successfully manage our business, meet competitive challenges or achieve our growth objectives. To the extent that our business grows, we will need to attract and retain additional qualified management personnel in a timely manner, and we may not be able to do so.

We rely on highly skilled personnel and if we are unable to attract, retain or motivate key personnel or hire qualified personnel our business may be seriously harmed.

Our performance is largely dependent on the talents and efforts of highly skilled individuals, particularly our marketing personnel, sales force, electrical engineers, mechanical engineers and computer professionals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel and, if we are unable to hire and train a sufficient number of qualified employees for any reason, we may not be able to implement our current initiatives or grow, or our business may contract and we may lose market share. Moreover, certain of our competitors or other technology businesses may seek to hire our employees. There can be no assurance that our stock-based and other compensation will provide adequate incentives to attract, retain and motivate employees in the future, particularly if the market price of our common stock does not increase or declines. If we do not succeed in attracting, retaining and motivating highly qualified personnel, our business may be seriously harmed. Further, we also face significant competition for employees, particularly in the San Francisco Bay Area where our headquarters are located, and as a result, skilled employees in this competitive geographic location can often command higher compensation and may be difficult to hire. In addition, Russia's invasion of Ukraine, poor relations between the United States and Russia, and sanctions by the United States and the European Union against Russia could have an adverse impact on our research and development efforts as we outsource significant research and development activities to companies in Ukraine.

Currency exchange rate fluctuations could result in our gear becoming relatively more expensive to our overseas customers or increase our manufacturing costs, each of which may seriously harm our business.

Our international sales and our operations in foreign countries subject us to risks associated with fluctuating currency exchange rates. Because sales of our gear is denominated primarily in U.S. dollars, an increase in the value of the U.S. dollar relative to the currency used in the countries where our gear is sold has and may continue to result in an increase in the price of our gear in those countries, which has and may continue to lead to a reduction in sales in such countries. Likewise, because we pay our suppliers and third-party manufacturers, most of which are located outside of the United States, primarily in U.S. dollars, any decline in the value of the U.S. dollar relative to the applicable local currency, such as the Chinese Yuan or the New Taiwan dollar, may cause our suppliers and manufacturers to raise the prices they charge us. In addition, we generally pay our employees located outside the United States in the local currency and, as a result of our foreign sales and operations, we have other expenses, assets and liabilities that are denominated in foreign currencies and changes in the value of the U.S. dollar could result in significant increases in our expenses that may seriously harm our business.

Total unit shipments of our gear have historically been higher during the third and fourth quarters of the year. As a result, our sales may be subject to seasonal fluctuations, which may seriously harm our business.

Since 2020, our revenue seasonality has been impacted positively and negatively, and thus has not followed historic patterns, by external events, such as shelter-in-place restrictions, global supply chain and logistics issues and availability of affordable GPUs, primarily caused by the COVID-19 pandemic. Historically, prior to 2020, we have experienced and expect to continue to experience seasonal fluctuations in sales due to the spending patterns of gamers who purchase our gear. Our total unit shipments have generally been lowest in the first and second calendar quarters due to lower sales following the fourth quarter holiday season and because of the decline in sales that typically occurs in anticipation of the introduction of new or enhanced GPUs, CPUs and other computer hardware products, which usually takes place in the second calendar quarter, and which tends to drive sales in the following two quarters. As a consequence of seasonality, our total unit shipments for the second calendar quarter are generally the lowest of the year, followed by total unit shipments for the first calendar quarter. As a result, our total unit shipments are subject to seasonal fluctuations, which may seriously harm our business. Historical seasonal patterns may not continue in the future and have been impacted, and may be further impacted in the future, by increasing supply constraints, GPU shortages, shifts in customer behavior and the evolving impacts of the COVID-19 pandemic.

Our results of operations are subject to substantial quarterly and annual fluctuations, which may adversely affect the market price of our common stock.

Our results of operations have in the past fluctuated, sometimes substantially, from period to period, and we expect that these fluctuations will continue. A number of factors, many of which are outside our control, may cause or contribute to significant fluctuations in our quarterly and annual net revenue and other operating results. These fluctuations may make financial planning and forecasting more difficult. In addition, these fluctuations may result in unanticipated decreases in our available cash, which could negatively impact our business. These fluctuations also could both increase the volatility and adversely affect the market price of our common stock. There are numerous factors that may cause or contribute to fluctuations in our operating results. As discussed below, these factors may relate directly to our business or may relate to technological developments and economic conditions generally.

Factors affecting our business and markets. Our result of operations may be materially adversely affected by factors that directly affect our business and the competitive conditions in our markets, including the following:

- changes in demand for our lower margin products relative to demand for our higher margin gear;
- introduction or enhancement of products by us and our competitors, and market acceptance of these new or enhanced products;
- loss of significant retail customers, cancellations or reductions of orders and product returns;
- fluctuations in average selling prices of and demand for our gear;

- change in demand for our gear due to our gear having higher price-points than products supplied by our competitors;
- discounts and price reductions offered by our competitors;
- a delay, reduction or cessation of deliveries from one or more of the third parties that manufacture our gear;
- increased costs or shortages of our gear or components used in our gear;
- changes in the frequency with which new high-performance computer hardware, particularly GPUs and CPUs, and sophisticated new computer games that drive demand for additional DRAM modules, higher wattage PSUs, enhanced cooling solutions and peripherals are introduced;
- fluctuations in the available supply of high-performance computer hardware resulting in the increased costs to gamers, which could ultimately lead to decreased demand for our gaming gear, due to factors such as component supply shortages or gamers purchasing GPUs for non-gaming purposes such as cryptocurrency mining;
- the war between Russia and the Ukraine resulting in shipments of resources from these countries being delayed, or even ceasing, which could cause the GPU shortage to last longer as the production of GPUs requires resources that come from these countries such as highly purified neon gas and palladium, of which Ukraine and Russia, respectively, are the world's leading exporters;
- potential changes in trade relations or the implementation of export sanctions, in particular any sanctions between the United States and China;
- unexpected changes in laws, including tax and trade laws, and regulatory requirements;
- delays or problems in our introduction of new gear;
- delays or problems in the shipment or delivery of gear to customers;
- changes in freight costs;
- changes in purchasing patterns by the distributors and retailers to which we sell our gear;
- seasonal electronics product purchasing patterns by our retail and distributor customers, as well as the gamers and streamers that purchase their gear directly from us;
- competitive pressures resulting in, among other things, lower selling prices or loss of market share; and
- cost and adverse outcomes of litigation, governmental proceedings or any proceedings to protect our brand or other intellectual property.

General economic conditions. Our business may be materially adversely affected by factors relating to global, national and regional economies, including:

- uncertainty in economic conditions, either globally or in specific countries or regions;
- fluctuations in currency exchange rates;
- outbreaks of pandemics, such as the novel coronavirus;
- the impact of political instability, natural disasters, war and/or events of terrorism, such as the war between Russia and Ukraine, and the corresponding tensions created from such conflict between Russia, the United States and countries in Europe as well as other countries such as China;
- macro-economic fluctuations in the United States and global economies, including those that impact discretionary consumer spending such as may result from the COVID-19 coronavirus outbreak, increased interest rates or increased inflation;
- changes in business cycles that affect the markets in which we sell our gear; and
- the effect of fluctuations in interest rates on consumer disposable income.

Technological factors. In addition to technological developments directly relating to our gear, more generalized changes in technology may have a significant effect on our operating results. For example, our business could be seriously harmed by rapid, wholesale changes in technology in or affecting the markets in which we compete or widespread adoption of cloud computing.

One or more of the foregoing or other factors may cause our expenses to be disproportionately higher or lower or may cause our net revenue and other operating results to fluctuate significantly in any particular quarterly or annual period. Our results of operations in one or more future quarters or years may fail to meet the expectations of investment research analysts or investors, which could cause an immediate and significant decline in the market price of our common stock.

Cloud computing may seriously harm our business.

Cloud computing refers to a computing environment in which software is run on third-party servers and accessed by end-users over the internet. In a cloud computing environment a user's computer may be a so-called "dumb terminal" with minimal processing power and limited need for high-performance components. Through cloud computing, gamers will be able to access and play graphically sophisticated games that they may not be able to otherwise play on a PC that is not fully equipped with the necessary, and often expensive, hardware. If cloud computing is widely accepted, the demand for high-performance computer gaming hardware products such as the PC high-performance memory, prebuilt and custom gaming PCs and laptops, and other PC gaming components we sell, could diminish significantly. As a result, if cloud computing gaming were to become widely adopted, such adoption could seriously harm our business.

Conditions in the retail and consumer electronics markets may significantly affect our business and could have an adverse effect on our net revenue.

We derive most of our revenue from higher priced gear sold through online and brick-and-mortar retailers to gamers, and we are vulnerable to declines in consumer spending due to, among other things, depressed economic conditions, reductions in disposable income and other factors that affect the retail and consumer electronics markets generally. In addition, our revenues are attributable to sales of high-performance gamer and creator peripherals and gaming components and systems, all of which are products that are geared to the computer gaming market which, like other consumer electronic markets, is susceptible to the adverse effects of poor economic conditions.

Other significant negative effects could include limited growth or reductions in worldwide sales of products that incorporate DRAM modules, such as PCs, smartphones and servers, resulting in excess supply in the worldwide DRAM market and reduced demand for our gear from our customers as they limit or lower their spending and inventory levels. Adverse economic conditions may also reduce our cash flow due to delays in customer payments, increase the risk of customer bankruptcy or business failures and result in increases in bad debt write-offs and receivables reserves.

Other negative effects on our business resulting from adverse economic conditions worldwide may include:

- higher costs for promotions, customer incentive programs and other initiatives used to stimulate demand;
- constraints on consumer spending caused by higher inflation, increased interest rates and exchange rate fluctuations, leading to weaker consumer demand for our products;
- increased risk of excess and obsolete inventories, which may require write-downs or impairment charges, such as the $22.5 million inventory impairment and related charges recognized during the second quarter of 2022;
- financial distress or bankruptcy of key suppliers or third-party manufacturers, resulting in insufficient product quantities to meet demand or increases in the cost of producing our gear; and
- financial distress or bankruptcy of key distributors, resellers or retailers.

Depressed economic conditions, whether in our key regional markets or globally, could result in a decline in both product prices and the demand for our gear, which may seriously harm our business.

Our sponsorship of individuals, teams and events within the gaming community is subject to numerous risks that may seriously harm our business.

We interact with the gaming community in numerous ways, including through the sponsorship of streamers, esports events, tournaments, esports athletes and teams. These sponsored events and individuals are associated with our brand and represent our commitment to the gaming community. There can be no assurance that we will be able to maintain our existing relationships with any of our sponsored individuals or teams in the future or that we will be able to attract new highly visible gamers to endorse our gear. Additionally, certain individuals or teams with greater access to capital may increase the cost of certain sponsorships to levels we may choose not to match. If this were to occur, our sponsored individuals, teams or events may terminate their relationships with us and endorse our competitors' products, and we may be unable to obtain endorsements from other comparable alternatives. In addition, if any of our sponsored individuals or teams become unpopular or engage in activities perceived negatively in the gaming community or more broadly, our sponsorship expenditures could be wasted and our brand reputation could be damaged which, in turn, could seriously harm our business.

DRAM integrated circuits account for most of the cost of producing our DRAM modules and fluctuations in the market price of DRAM integrated circuits may have a material impact on our net revenue and gross profit.

DRAM integrated circuits, or ICs, account for most of the cost of producing our DRAM modules. The market for these ICs is highly competitive and cyclical. Prices of DRAM ICs have historically been subject to volatility over relatively short periods of time due to a number of factors, including imbalances in supply and demand. We expect these fluctuations will recur in the future, which could seriously harm our business. For example, changes in the selling prices of our DRAM modules can have a substantial impact on our net revenue as our performance memory products represents a significant portion of our overall net revenue. In addition, declines in the market price of ICs enable our competitors to lower prices and we will likely be forced to lower our product prices in order to compete effectively which could have an adverse effect on our net revenue. Further, because we carry inventory of DRAM ICs and DRAM modules at our facility in Taiwan, fluctuations in the market price of these ICs can have an effect on our gross margin. For example, declines in the prices of these ICs and their related products have tended to have a negative short-term impact on gross margin of our DRAM modules. In addition, selling prices of our DRAM modules, on the one hand, and market prices of DRAM ICs, on the other hand, may rise or fall at different rates, which may also affect our gross margin. Any of these circumstances could materially adversely affect our net revenue and gross margins.

We use DRAM ICs produced by Samsung, Micron and Hynix in our DRAM modules. We purchase those DRAM ICs, pursuant to purchase orders and not long-term supply contracts, largely from third-party distributors and, to a lesser extent, directly from those manufacturers. According to the most recent external market share data for the trailing twelve months ended June 30, 2022, Samsung, a manufacturer of DRAM ICs, had an approximately 43% share of the worldwide DRAM IC market, compared to approximately 28% for Hynix and approximately 23% for Micron in each case for the same period. However, should supply from any of these vendors be limited, there can be no assurance that we would be able to meet our needs by purchasing DRAM ICs produced by other manufacturers or from agents and distributors. Further, there are a limited number of companies capable of producing the high-speed DRAM ICs required for our high-performance DRAM modules, and any inability to procure the requisite quantities and quality of DRAM ICs could reduce our production of DRAM modules and could seriously harm our business.

The coronavirus outbreak has had, and could continue to have, a materially disruptive effect on our business.

The COVID-19 disease has spread globally and has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place orders and shutdowns. For example, starting in mid-March 2020, the governor of California, where our headquarters are located, issued shelter-in-place orders restricting non-essential activities, travel and business operations for an indefinite period of time, subject to certain exceptions for necessary activities. Such orders or restrictions have resulted in our headquarters closing, work stoppages, slowdowns and delays, travel restrictions and cancellation of events, among other effects, thereby negatively impacting our operations.

The spread of COVID-19 has and could continue to seriously harm our business. Current and potential impacts include, but are not limited to, the following:

- the extended closures in early February 2020 and slow ramp up of capacity of many factories in China and other countries in Asia where many of our products and the components and subcomponents used in the manufacture of our gear created, and could continue to create, supply chain disruptions for our gear;
- supply chain challenges, including longer production and shipping times, and increased supply, shipping and logistics costs, each of which has negatively impacted our gross margins, as well as the need to purchase long-lead time items ahead of demand due to supply constraints;
- labor shortages within delivery and other industries due to extended worker absences could create further supply chain disruptions;
- extended employee absences could negatively impact our business, including potential reductions in the availability of the sales team to complete sales and delays in deliverables and timelines within our engineering and support functions;
- fluctuations in foreign exchange rates could make our products less competitive in a price-sensitive environment for our non-US customers; and

- significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity, including our ability to repay the indebtedness outstanding from our credit facilities.

Starting in early 2020 in connection with the COVID-19 pandemic, we experienced an increase in demand for our gear as more people were under shelter-in-place restrictions, which we believe have limited people’s access to alternative forms of entertainment and social interaction, and thus have increased the demand for home entertainment and connecting with others through content creation. In contrast, as the COVID-19 pandemic subsides, it has resulted in shelter-in-place and other similar restrictions being eased, starting earlier 2021. Such easing of restrictions has resulted in consumers returning to other alternative forms of entertainment and interaction. This in turn has resulted in a decline in demand for our products since the second half of 2021. In addition, we have, and continue to, experience disruption in our supply chain and increased distribution costs, which led to increases in operating costs such as the significantly elevated ocean freight costs since the second half of 2021.

The extent to which the COVID-19 outbreak, including the spread of more contagious and deadly variants, ultimately impacts our business, results of operations, cash flows and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience significant impacts to our business as a result of its global economic impact, including any economic downturn or recession that has occurred or may occur in the future.

The ongoing war between Russia and Ukraine could adversely affect our business, financial condition and results of operations.

In February 2022, Russian military forces invaded Ukraine. In response, Ukrainian military personnel and civilians are actively resisting the invasion. Although the length, impact and outcome of the ongoing military conflict in Ukraine is highly unpredictable, this conflict has contributed to significant market and other disruptions, including significant volatility in commodity prices and supply of energy resources, instability in financial markets, supply chain interruptions, political and social instability, changes in consumer or purchaser preferences as well as increase in cyberattacks and espionage.

Russia's recognition of two separatist republics in the Donetsk and Luhansk regions of Ukraine and subsequent military action against Ukraine have also led to an unprecedented expansion of sanction programs imposed by the United States, the European Union, the United Kingdom, Canada, Switzerland, Japan and other countries against Russia, Belarus, the Crimea Region of Ukraine, the so-called Donetsk People's Republic and the so-called Luhansk People's Republic. The situation is rapidly evolving as a result of the conflict in Ukraine, and the United States, the European Union, the United Kingdom and other countries may implement additional sanctions, export controls or other measures against Russia, Belarus and other countries, regions, officials, individuals or industries in the respective territories. In response to Russia’s invasion of Ukraine and the aforementioned sanctions, we ceased the sale of all of our gear in Russia with immediate effect. While we do not expect this decision to have a material adverse effect on our business, results of operations or financial condition, such sanctions and other measures, as well as the existing and potential further responses from Russia or other countries to such sanctions, tensions and military actions, could adversely affect the global economy and financial markets and could adversely affect our business, financial condition and results of operations.

In addition, the conflict, sanctions against Russia and Russia’s drastic reduction to the supply of natural gas to Europe in response to sanctions has and could continue to negatively impact the production and sales of consumer electronics due to a variety of factors such as lower consumer confidence, increase the ongoing disruption of supply chains, worsen the current semiconductor chip shortage since Russia and Ukraine are critical suppliers of neon gas and palladium used in chip production, exacerbate energy shortages and high energy prices, and increase cybersecurity threats. These impacts have adversely impacted our operations, sales and profitability, and could continue to do so

We are actively monitoring the situation in Ukraine and assessing its impact on our business, including our suppliers and customers. We have no way to predict the progress or outcome of the conflict in Ukraine or its impacts in Ukraine, Russia or Belarus as the conflict, and any resulting government reactions, are rapidly developing and beyond our control. The extent and duration of the military action, sanctions and resulting market disruptions could be significant and could potentially have substantial impact on the global economy and our business for an unknown period of time. Any of the abovementioned factors could affect our business, financial condition and results of operations. Any such disruptions may also magnify the impact of other risks described in this Quarterly Report on Form 10-Q.

A significant portion of our net revenue is generated by sales of DRAM modules and any significant decrease in the average selling prices of our DRAM modules would seriously harm our business.

A significant percentage of our net revenue is generated by sales of DRAM modules. In particular, net revenue generated by sales of DRAM modules accounted for a total of 33.2% and 27.2% of our net revenue in the nine months ended September 30, 2022 and 2021, respectively. As a result, any significant decrease in average selling prices of our DRAM modules, whether as a result of declining market prices of DRAM ICs or for any other reason, would seriously harm our business. Selling prices for our DRAM modules tend to increase or decrease with increases or decreases, respectively, in market prices of DRAM ICs.

Sales to a limited number of customers represent a significant portion of our net revenue, and the loss of one or more of our key customers may seriously harm our business.

In the nine months ended September 30, 2022 and 2021, sales to Amazon accounted for 26.3% and 26.4% of our net revenue, respectively. Sales to our ten largest customers accounted for 52.0% and 50.5% of the same period ended September 30, 2022 and 2021, respectively, of our net revenue. Our customers, including Amazon, typically do not enter into long-term agreements to purchase our gear but instead enter into purchase orders with us from time to time. These purchase orders may generally be cancelled and orders can be reduced or postponed by the customer. In addition, our customers are under no obligation to continue purchasing from us and may purchase similar products from our competitors, and some of our customer agreements contain "most favored nation" clauses. Further, while we maintain accounts receivables insurance for many of our customers, we do not maintain such coverage for Amazon and others. As a result, if either Amazon or others were to default on its payment to us, we would not be covered by such insurance, and our business may be seriously harmed. If the financial condition of a key customer weakens, if a key customer stops purchasing our gear, or if uncertainty regarding demand for our gear causes a key customer to reduce their orders and marketing of our gear, our business could be seriously harmed. A decision by one or more of our key customers to reduce, delay or cancel its orders from us, either as a result of industry conditions or specific events relating to a particular customer or failure or inability to pay amounts owed to us in a timely manner, or at all, may seriously harm our business. In addition, because of our reliance on key customers, the loss of one or more key customers as a result of bankruptcy or liquidation or otherwise, and the resulting loss of sales, may seriously harm our business. Additionally, some of our customer agreements contain "most favored nation" clauses.

We have limited manufacturing facilities that only assemble our DRAM modules, custom built PCs, custom cooling and controllers, we have no guaranteed sources of supply of products or components and we depend upon a small number of manufacturers, some of which are exclusive or single-source suppliers, to supply our gear, each of which may result in product or component shortages, delayed deliveries and quality control problems.

We maintain limited manufacturing facilities that only assemble certain products such as our DRAM modules, custom built PCs, custom cooling and performance controllers, and as a result, we depend entirely upon third parties to manufacture and supply the gear we sell and the components used in our gear such as gaming peripherals and gaming components. Our gear that is manufactured by outsourced parties is generally produced by a limited number of manufacturers and in some instances is purchased on a purchase order basis. For example, each model of our gaming keyboards, gaming mice, gaming headsets, computer cases, PSUs and cooling solutions is produced by a single manufacturer. We do not have long-term supply agreements with most of our manufacturers and suppliers. In addition, we carry limited inventory of our gear, and the loss of one or more of these manufacturers or suppliers, or a significant decline in production or deliveries by any of them, could significantly limit our shipments of gear or prevent us from shipping that gear entirely.

Our reliance upon a limited number of manufacturers and suppliers exposes us to numerous risks, including those described below.

Risks relating to production and manufacturing. Our business could be seriously harmed if our manufacturers or suppliers ceased or reduced production or deliveries, raised prices, lengthened production or delivery times or changed other terms of sale. In particular, price increases by our manufacturers or suppliers could seriously harm our business if we are unable to pass those price increases along to our customers. Further, the supply of products from manufacturers and suppliers to us could be interrupted or delayed, and we may be unable to obtain sufficient quantities of our products because of factors outside of our control. For example, our manufacturers and suppliers may experience financial difficulties, be affected by natural disasters or pandemics, have limited production facilities or manufacturing capacity, may experience labor shortages or may be adversely affected by regional unrest or military actions, such as the war between Russia and Ukraine. In addition, we may be slower than our competitors in introducing new products or reacting to changes in our markets due to production or delivery delays by our third-party manufacturers or suppliers. Likewise, lead times for the delivery of products being manufactured for us can vary significantly and depend on many factors outside of our control, such as demand for manufacturing capacity and availability of components. In addition, if one of our exclusive or single-source manufacturers were to stop production, or experience product quality or shortage issues, we may be unable to locate or engage a suitable replacement on terms we consider acceptable and, in any event, there would likely be significant delays before we were able to transition production to a new manufacturer and potentially significant costs associated with that transition.

Risks relating to product quality. Our manufacturers or suppliers may provide us with products or components that do not perform reliably or do not meet our quality standards or performance specifications or are susceptible to early failure or contain other defects. This may seriously harm our reputation, increase our warranty and other costs or lead to product returns or recalls, any of which may seriously harm our business.

Risks relating to product and component shortages. From time to time we have experienced product shortages due to both disruptions in supply from the third parties that manufacture or supply our gear and our inability or the inability of these third-party manufacturers to obtain necessary components, and we may experience similar shortages in the future. Moreover, procurement of the other components used in our gear is generally the responsibility of the third parties that manufacture our gear, and we therefore have limited or no ability to control or influence the procurement process or to monitor the quality of components.

Any disruption in or termination of our relationships with any of our manufacturers or suppliers or our inability to develop relationships with new manufacturers or suppliers as and when required would cause delays, disruptions or reductions in product shipment and may require product redesigns, all of which could damage relationships with our customers, seriously harm our brand, increase our costs and otherwise seriously harm our business. Likewise, shortages or interruptions in the supply of products or components, or any inability to procure these products or components from alternate sources at acceptable prices in a timely manner, could delay shipments to our customers and increase our costs, any of which may seriously harm our business.

If our proprietary iCUE software or Elgato streaming software suite have any "bugs" or glitches, or if we are unable to update the iCUE software or Elgato streaming software suite to incorporate innovations, our business may be seriously harmed.

Because most of the gear we sell is linked through either our iCUE software or our Elgato streaming software suite, "bugs" or other glitches in the software may cause it to not perform reliably, meet our quality standards or meet performance specifications. Further, even if we detect any bugs or other glitches in the iCUE software or our Elgato streaming software suite we may be unable to update the affected software effectively to remediate these problems. In addition, in order for us to stay competitive, we need to update the iCUE software, Elgato streaming software suite and any other software utilized by our gear, to incorporate innovations and other changes to address gamers and content creators' changing needs. If we are unable to update the iCUE software or our Elgato streaming software suite to include such updates or address any bugs or glitches, its use to gamers and content creators may be substantially diminished, which could seriously harm our business.

The need to continuously develop new gear and product improvements increases the risk that our gear will contain defects or fail to meet specifications, which may increase our warranty costs and product returns, lead to recalls of gear, damage our reputation and seriously harm our business.

Gear that does not meet specifications or that contains, or is perceived by our customers or gamers to contain, defects could impose significant costs on us or seriously harm our business. Our gear may suffer from design flaws, quality control problems in the manufacturing process or components that are defective or do not meet our quality standards. Moreover, the markets we serve are characterized by rapidly changing technology and intense competition and the pressure to continuously develop new gear and improvements and bring that gear and improvements to market quickly heightens the risks that our gear will be subject to both quality control and design problems. Because we largely rely on third parties to manufacture our gear and the components that are used in our gear, our ability to control the quality of the manufacturing process and the components that are used to manufacture our gear is limited. Product quality issues, whether as a result of design or manufacturing flaws or the use of components that are not of the requisite quality or do not meet our specifications, could result in product recalls, product redesign efforts, lost revenue, loss of reputation, and significant warranty and other expenses. In that regard, we have previously voluntarily recalled the SF-series PSUs. Recalls of gear and warranty-related issues can be costly, cause damage to our reputation and result in increased expenses, lost revenue and production delays. We may also be required to compensate customers for costs incurred or damages caused by defective gear. If we incur warranty or product redesign costs, institute recalls of gear or suffer damage to our reputation as a result of defective gear, our business could be seriously harmed.

While we operate a facility in Taiwan that assembles, tests and packages all of our DRAM modules and certain other products, we rely upon manufacturers in China and Southeast Asia to produce a significant portion of our other products, which exposes us to risks that may seriously harm our business.

We operate a facility in Taiwan that assembles, tests, packages and ultimately supplies all of our DRAM modules and a significant portion of our cooling solutions, prebuilt and custom gaming systems and custom gaming controllers. We also assemble, test, package and ultimately supply our custom-built PCs in our U.S. facility, and our customized gaming controllers in our U.S. and U.K. facilities. All of the other gear we sell, including the components used to assemble our DRAM modules, are produced at factories operated by third parties located in China, Taiwan and countries in Southeast Asia. The fact that all of these facilities, manufacturers, suppliers and factories are concentrated in China, Taiwan and countries in Southeast Asia exposes us to numerous risks.

We believe one of the most significant risks associated with this concentration is that production may be interrupted or limited because of labor shortages in southern China, lockdowns due to COVID-19 outbreaks and by strains on the local infrastructure. In addition, production at facilities located in China, Taiwan or Southeast Asia, including our own manufacturing, testing and packaging facility in Taiwan, and deliveries from those facilities, may be adversely affected by tensions, hostilities or trade disputes involving China, Taiwan, the United States or other countries. There is considerable potential political instability in Taiwan related to its disputes with China. In addition, political instability in countries in Southeast Asia where we source certain components, such as Thailand, could result in delays in shipments or our inability to source certain critical components for our products. Although we do not do business in North Korea, any future increase in tensions between South Korea and North Korea, such as an outbreak or escalation of military hostilities, or between Taiwan and China could materially adversely affect our operations in Asia or the global economy, which in turn may seriously harm our business.

Other risks resulting from this concentration of our manufacturing facilities and our suppliers in China, Taiwan and Southeast Asia include the following:

- the interpretation and enforcement of China's laws continues to evolve, which may make it more difficult for us to obtain a reliable supply of our gear at predictable costs;
- these facilities are located in regions that may be affected by earthquakes, typhoons, other natural disasters, pandemic outbreaks, political instability, military actions, power outages or other conditions that may cause a disruption in supply;
- our costs may be increased and deliveries of our gear may be decreased or delayed by trade restrictions; and
- our reliance on foreign manufacturers and suppliers exposes us to other risks of doing business internationally, some of which are described below under "We conduct our operations and sell our gear internationally and the effect of business, legal and political risks associated with international operations may seriously harm our business."

In addition, if significant tariffs or other restrictions are placed on Chinese imports or any related counter-measures are taken by China, our business may be seriously harmed if such tariffs or counter-measures affect the manufacturing costs of any of our gear. Further, such tariffs could adversely impact our gross profits if we cannot pass the increased costs incurred as a result of these tariffs through to our consumers, or if the resulting increased prices result in a decrease in consumer demand.

The occurrence of any one or more of these risks may seriously harm our business.

If we do not successfully coordinate the worldwide manufacturing and distribution of our gear, we could lose sales.

Our business requires that we coordinate the manufacturing and distribution of our gear over a significant portion of the world. We rely upon third parties to manufacture our gear and to transport and distribute our gear to our customers. If we do not successfully coordinate the timely and efficient manufacturing and distribution of our gear, our costs may increase, we may experience a build-up in inventory, we may not be able to deliver sufficient quantities to meet customer demand and we could lose sales, each of which could seriously harm our business.

Our operating results are particularly sensitive to freight costs, and our costs may increase significantly if we are unable to ship and transport finished products efficiently and economically across long distances and international borders, which may seriously harm our business.

The majority of our gear is manufactured in Asia, and we transport significant volumes of finished products across long distances and international borders. As a result, our operating results can be significantly affected by changes in transportation costs. In that regard, although we ship our DRAM modules, which have selling prices that are relatively high compared to their size and weight, by air, we generally use ocean freight to ship our other products because of their relatively low selling prices compared to their size and weight. If we underestimate the demand for any of the products we ship by ocean freight, or if deliveries of those products to us by our manufacturers are delayed or interrupted, we may be required to ship those products by air in order to fill orders on a timely basis. Shipping larger or heavier items, such as cases or PSUs, by air is significantly more expensive than using ocean freight. As a result, any requirement that we ship these products by air, whether because we underestimate demand or because of an interruption in supply from the manufacturers who produce these products or for any other reason, could materially increase our costs. In addition, freight rates can vary significantly due to large number of factors beyond our control, including changes in fuel prices or general economic conditions or the threat of terrorist activities or acts of piracy. If demand for air or ocean freight should increase substantially, it could make it difficult for us to procure sufficient cargo transportation space at prices we consider acceptable, or at all. Increases in our freight expenses, or any inability to ship our gear as and when required, may seriously harm our business.

Because our gear must cross international borders, we are subject to risk of delay if our documentation does not comply with customs rules and regulations or for similar reasons. In addition, any increases in customs duties or tariffs, as a result of changes to existing trade agreements between countries or otherwise, could increase our costs or the final cost of our gear to our retailer customers or gamers or decrease our margins. The laws governing customs and tariffs in many countries are complex, subject to many interpretations and often include substantial penalties for non-compliance.

Our effective tax rate may increase in the future, including as a result of tax legislation changes, which may have a material adverse effect on our business, financial condition and results of operations.

Our effective tax rate may be impacted by changes in or interpretations of tax laws in any given jurisdiction, utilization of or limitations on our ability to utilize any tax credit carry-forwards, changes in geographical allocation of revenue and expense and changes in management's assessment of matters such as our ability to realize the value of deferred tax assets.

In particular, the U.S. government may enact significant changes to the taxation of business entities including, among others, an increase in the corporate income tax rate, the imposition of minimum taxes or surtaxes on certain types of income, significant changes to the taxation of income derived from international operations, and an addition of further limitations on the deductibility of business interest. While certain draft legislation has been publicly released and is under development in Congress at this time, the likelihood of these changes being enacted or implemented is unclear.

Our effective tax rate could also 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 rates, tax treaties, and regulations or the interpretation of them;
- changes to our assessment about our ability to realize our deferred tax assets that are based on estimates of our future results, the prudence and 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
- the effects of acquisitions.

In the past, we have experienced fluctuations in our effective income tax rate which reflects a variety of factors that may or may not be present in any given year. In light of these factors, there can be no assurance that our effective income tax rate will not change in future periods. Accordingly, if our effective tax rate were to increase, it may have a material adverse effect on our business, financial condition and results of operations.

Our ability to utilize our net operating losses, or NOLs, carryforwards and certain other tax attributes may be limited.

Our ability to utilize our NOL carryforwards to offset potential future taxable income and related income taxes that would otherwise be due is dependent upon our generation of future taxable income before the expiration dates of the NOL carryforwards, and we cannot predict with certainty when, or whether, we will generate sufficient taxable income to use all of our NOL carryforwards.

Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an "ownership change," generally defined as a greater than 50 percentage point change (by value) in its equity ownership by certain stockholders over a three-year period, the corporation's ability to use its pre-change NOL carryforwards and other pre-change tax attributes (such as research and development tax credits) to offset its post-change income or taxes may be limited. We have experienced ownership changes in the past, and we may experience ownership changes in the future and/or subsequent shifts in our stock ownership (some of which may be outside our control). As a result, if we earn net taxable income, our ability to use our pre-change NOL carryforwards to offset U.S. federal taxable income may be subject to limitations under Section 382, which could potentially result in increased future tax liability to us. 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.

Technological developments or other changes in our industry could render our gear less competitive or obsolete, which may seriously harm our business.

Our industry is characterized by rapidly evolving technology and standards. These technological developments require us to integrate new technology and standards into our gear, create new and relevant categories of gear and adapt to changing business models in a timely manner. Our competitors may develop or acquire alternative and competing technologies and standards that could allow them to create new and disruptive products or produce similar competitive products at lower costs of production. Advances in the development of gaming, computing and audiovisual technology could render our gear less competitive or obsolete. For example, the emergence of augmented reality and virtual reality headsets could render certain of our gamer and creator peripherals such as keyboards and mice less relevant, similar to how cloud computing could drastically reduce the need for gaming components and systems. If we are unable to provide new gear for augmented or virtual reality devices or to address other technological trends, our business may be seriously harmed. In addition, government authorities and industry organizations may adopt new standards that apply to our gear. As a result, we may need to invest significant resources in research and development to maintain our market position, keep pace with technological changes and compete effectively. Our product development expenses were $50.8 million and $45.2 million for the nine months ended September 30, 2022 and 2021, respectively, representing 5.2% and 3.2% of our net revenue for these periods, respectively. Our failure to improve our gear, create new and relevant categories of gear and adapt to changing business models in a timely manner may seriously harm our business.

In addition, Russia’s invasion of Ukraine, poor relations between the United States and Russia, and sanctions by the United States and the European Union against Russia could have an adverse impact on our research and development efforts as we outsource significant research and development activities to companies in Ukraine.

We order most of our gear from third-party manufacturers based on our forecasts of future demand and targeted inventory levels, which exposes us to the risk of both product shortages, which may result in lost sales and higher expenses, and excess inventory, which may require us to sell our gear at substantial discounts and lead to write-offs.

We depend upon our product forecasts to make decisions regarding investments of our resources and production levels of our gear. Because of the lead time necessary to manufacture our gear and the fact that we usually have little or no advance notice of customer orders, we must order our gear from third-party manufacturers and therefore commit to substantial purchases prior to obtaining orders for those products from our customers. This makes it difficult for us to adjust our inventory levels if orders fall below our expectations. Our failure to predict low demand for product can result in excess inventory, as well as lower cash flows and lower margins if we were unable to sell a product or if we were required to lower product prices in order to reduce inventories, and may also result in inventory write-downs. In addition, the cancellation or reduction of orders by our customers may also result in excess inventory. On the other hand, if actual orders exceed our expectations, we may need to incur additional costs, such as higher shipping costs for air freight or other expedited delivery or higher product costs for expedited manufacturing, in order to deliver sufficient quantities of products to meet customer orders on a timely basis or we may be unable to fill some orders altogether. In addition, many of the types of gear we sell have short product life cycles, so a failure to accurately predict and meet demand for products can result in lost sales that we may be unable to recover in subsequent periods. These short life cycles also make it more likely that slow moving or excess inventory may become obsolete, requiring us to sell our gear at significant discounts or write off entirely excess or obsolete inventory. Any failure to deliver gear in quantities sufficient to satisfy demand can also seriously harm our reputation with both our retailer customers and end-consumers.

Over the past few years, we have expanded the number and type of gear we sell, and the geographic markets in which we sell them, and we will endeavor to further expand our product portfolio and sales reach. The growth of our product portfolio and the markets in which we sell our gear has increased the difficulty of accurately forecasting product demand. We have in the past experienced significant differences between our forecasts and actual demand for our gear and expect similar differences in the future. If we do not accurately predict product demand, our business may be seriously harmed.

Order cancellations, product returns, price erosion, product obsolescence and rebates may result in substantial inventory and/or receivables write-downs and seriously harm our business.

The gear we sell is characterized by rapid technological change and short product life cycles. As a result, the gear that we hold in inventory may be subject to significant price erosion or may become obsolete, requiring inventory write-downs. We may experience excess or unsold inventory for a number of reasons, including demand for our gear being lower than our forecasts, order cancellations by our customers and product returns.

In that regard, rights to return products vary by customer and range from the right to return defective products to limited stock rotation rights allowing the exchange of a limited percentage of the customer's inventory for new product purchases. If the estimated market values of products held in our finished goods and work in process inventories at the end of any fiscal quarter are below our cost of these products, we will recognize charges to write down the carrying value of our inventories to net realizable value.

In addition, we provide a variety of rebates to both retailer and distributor customers, as well as gamers that purchase gear directly from us, including instant rebates, volume incentive rebates, back end rebates and mail-in rebates. We also have contractual agreements and cooperative marketing, promotional and other arrangements that provide rebates and other financial incentives to our retailer customers and gamers. To a limited extent, we also offer financial incentives related to retailer customer inventory of specific products. The aggregate amount of charges incurred as a result of all of these rebates and other financial incentives is offset from our gross revenue. For the nine months ended September 30, 2022 and 2021, our gross revenue was reduced approximately by 9.2% and 7.9%, respectively, as a result of these rebates. In the future, we also may be required to write down inventory or receivables due to product obsolescence or because of declines in market prices of our gear. Any write-downs or offsets could seriously harm our business.

Our indemnification obligations to our customers and suppliers for intellectual property infringement claims could require us to pay substantial amounts and may seriously harm our business.

We indemnify a limited number of retailer customers for damages and costs which may arise if our gear infringe third-party patents or other proprietary rights. We may periodically have to respond to claims and litigate these types of indemnification obligations. Any such indemnification claims could require us to make substantial settlement, damages or royalty payments or result in our incurring substantial legal costs. Our insurance does not cover intellectual property infringement. The potential amount of future payments to defend lawsuits or settle or otherwise satisfy indemnified claims under any of these indemnification provisions may be unlimited. We also have replacement obligations for product warranty claims relating to our gear. Our insurance does not cover such claims. Claims for intellectual property infringement and product warranty claims may seriously harm our business.

From time to time, we pay licensing fees in settlement of certain intellectual property infringement claims made by third parties. There can be no assurance that licensing fees paid under these circumstances will not seriously harm our business.

If we are unable to integrate our gear and proprietary software with third-party hardware, operating system software and other products, the functionality of our gear would be adversely affected, which may seriously harm our business.

The functionality of some of our gear depends on our ability to integrate that gear with the hardware, operating system software and related products of providers such as Intel, AMD, NVIDIA, Microsoft, Sony and Asus, among others. We rely to a certain extent on the relationships we have with those companies in developing our gear and resolving issues. There can be no assurance that those relationships will be maintained or that those or other companies will continue to provide the necessary information and support to allow us to develop gear that integrates with their products or that third party developers will continue to develop plugins for and integrations with our proprietary software. If integration with the products of those or other companies becomes more difficult, our gear would likely be more difficult to use or may not be compatible with key hardware, operating systems or other products, which would seriously harm our reputation and the utility and desirability of our gear, and, as a result, would seriously harm our business.

One of our strategies is to grow through acquisitions, which could result in operating difficulties, dilution to our stockholders and other seriously harmful consequences.

One of our strategies is to grow through acquisitions and we may also seek to grow through other strategic transactions such as alliances and joint ventures. In particular, we believe that our future growth depends in part on our ability to enhance our existing product lines and introduce new gear and categories of gear through acquisitions and other strategic transactions. There is substantial competition for attractive acquisitions and other strategic transactions, and we may not be successful in completing any such acquisitions or other strategic transactions in the future. If we are successful in making any acquisition or strategic transaction, we may be unable to integrate the acquired business effectively or may incur unanticipated expenditures, which could seriously harm our business. The COVID-19 pandemic may make integration of these businesses even more difficult. Acquisitions and strategic transactions can involve a wide variety of risks depending upon, among other things, the specific business or assets being acquired or the specific terms of any transaction.

In addition, we may finance acquisitions or investments, strategic partnerships or joint ventures by issuing common stock, which may be dilutive to our stockholders, or by incurring indebtedness, which could increase our interest expense and leverage, perhaps substantially. Acquisitions and other investments may also result in charges for the impairment of goodwill or other acquired assets. Acquisitions of, or alliances with, technology companies are inherently risky, and any acquisitions or investments we make, or alliances we enter into, may not perform in accordance with our expectations. Accordingly, any of these transactions, if completed, may not be successful and may seriously harm our business.

In addition, foreign acquisitions or strategic transactions with foreign partners involve additional risks, including those related to integration of operations across different geographies, cultures and languages, as well as risks related to fluctuation in currency exchange rates and risks associated with the particular economic, political and regulatory environment in specific countries.

We need substantial working capital to operate our business, and we rely to a significant degree upon credit extended by our manufacturers and suppliers and borrowings under our revolving credit facility to meet our working capital needs. If we are unable to meet our working capital needs, we may be required to reduce expenses or product purchases, or delay the development, commercialization and marketing of our gear, which would seriously harm our business.

We need substantial working capital to operate our business. We rely to a significant degree upon credit extended by many of our manufacturers and suppliers in order to meet our working capital needs. Credit terms vary from vendor to vendor but typically allow us zero to 120 days to pay for the products. However, notwithstanding the foregoing, there are instances when we are required to pay for gear in advance of it being manufactured and delivered to us. We may also utilize borrowings under our revolving credit facility to provide working capital, and access to external debt financing has historically been and will likely continue to be very important to us. As a result of any downturn in general economic conditions or conditions in the credit markets or other factors, manufacturers and suppliers may be reluctant to provide us with the same credit that they have in the past, which would require that we increase the level of borrowing under our revolving credit facility or obtain other external financing to provide for our substantial working capital needs. Additional financing may not be available on terms acceptable to us or at all. In particular, our access to other debt financing is limited by the negative covenant in our credit agreement restricting our ability to incur other indebtedness, as well as the financial covenants therein prohibiting our Consolidated Total Net Leverage Ratio from exceeding 3.5 to 1.0 from the quarter ending September 30, 2022 through and including March 31, 2023 and not exceeding 3.0 to 1.0 from the quarter ended June 30, 2023 and each quarter thereafter (provided that upon the occurrence of a Qualified Acquisition, as defined in the credit agreement, such ratio can be increased to 3.5 to 1.0 temporarily provided all the requirements defined in the credit agreement are met) or our Consolidated Interest Coverage Ratio being less than 3.0 to 1.0 (both tested quarterly on a trailing four fiscal quarter basis). As a result, such restrictions could limit, perhaps substantially, the amount of indebtedness we are permitted to borrow under other debt arrangements.

To the extent we are required to use additional borrowings under our revolving credit facility or from other sources (if available and if permitted by the credit facility) to provide working capital, it could increase our interest expense and expose us to other risks of leverage. Any inability to meet our working capital or other cash needs as and when required would likely seriously harm our business, results of operations and financial condition and adversely affect our growth prospects and stock price and could require, among other things, that we reduce expenses, which might require us to reduce shipments of our gear or our inventory levels substantially or to delay or curtail the development, commercialization and marketing of our gear.

Indebtedness and the terms of our credit facilities may impair our ability to respond to changing business and economic conditions and may seriously harm our business.

We had $243.7 million of indebtedness as of September 30, 2022. We have incurred significant indebtedness under our credit facilities to fund working capital and other cash needs and we expect to incur additional indebtedness in the future, particularly if we use borrowings or other debt financing to finance all or a portion of any future acquisitions. In addition, the terms of our credit facilities require, and any debt instruments we enter into in the future may require, that we comply with certain restrictions and covenants. These covenants and restrictions, as well as any significant increase in our indebtedness, could adversely impact us for a number of reasons, including the following:

Cash flow required to pay debt service. We may be required to dedicate a substantial portion of our available cash flow to debt service. This risk is increased by the fact that borrowings under our credit facilities bear interest at a variable rate. This exposes us to the risk that the amount of cash required to pay interest under our credit facilities will increase to the extent that market interest increases. Our indebtedness and debt service obligations may also increase our vulnerability to economic downturns and adverse competitive and industry conditions.

Adverse effect of financial and other covenants. The covenants and other restrictions in our credit facilities and any debt instruments we may enter into in the future may limit our ability to raise funds for working capital, capital expenditures, acquisitions, product development and other general corporate requirements, which may adversely affect our ability to finance our operations, any acquisitions or investments or other capital needs or engage in other business activities that would be in our interests. Restrictive covenants may also limit our ability to plan for or react to market conditions or otherwise limit our activities or business plans and place us at a disadvantage compared to our competitors.

Risks of default. If we breach or are unable to comply with a covenant or other agreement contained in a debt instrument, the lender generally has the right to declare all borrowings outstanding under that debt instrument, together with accrued interest, to be immediately due and payable and may have the right to raise the interest rate. Upon an event of default under our credit facilities, the lender may require the immediate repayment of all outstanding loans and accrued interest. In addition, during the continuance of certain events of default under our credit facilities (subject to a cure period for some events of default), interest may accrue at a rate that is 200 basis points above the otherwise applicable rate. As a result, any breach or failure to comply with covenants contained in our debt instruments could seriously harm our business. Moreover, our credit facilities are secured by substantially all of our assets (including capital stock of our subsidiaries), except assets of our foreign subsidiaries and shares of some of our foreign subsidiaries, and if we are unable to pay indebtedness secured by collateral when due, whether at maturity or if declared due and payable by the lender following a default, the lender generally has the right to seize and sell the collateral securing that indebtedness. There can be no assurance that we will not breach the covenants or other terms of our credit facilities or any other debt instruments in the future and, if a breach occurs, there can be no assurance that we will be able to obtain necessary waivers or amendments from the lender or to refinance the related indebtedness on terms we find acceptable, or at all. As a result, any breach or default of this nature may seriously harm our business.

Restrictions under our credit facilities. We must comply with covenants under our current credit facilities, which require the maintenance of a maximum Consolidated Total Net Leverage Ratio of 3.5 to 1.0 from the quarter ending September 30, 2022 through and including March 31, 2023 and not exceeding 3.0 to 1.0 from the quarter ended June 30, 2023 and each quarter thereafter (provided that upon the occurrence of a Qualified Acquisition, as defined in the credit agreement, such ratio can be increased to 3.5 to 1.0 temporarily provided all the requirements defined in the credit agreement are met) and a minimum Consolidated Interest Coverage Ratio of 3.0 to 1.0 (as defined in our credit facilities). While we were in compliance with all applicable financial covenants under our credit facilities as of September 30, 2022, there can be no assurance that we will not breach these financial covenants in our credit facilities in the future or other covenants in our future credit facilities.

Our credit facilities also include covenants that limit or restrict our ability to, among other things, incur liens on our properties, make acquisitions and other investments and sell assets, in each case, subject to specified exceptions. In addition to the covenants described in the preceding sentence, we are also prohibited from incurring indebtedness other than debt owed to the lenders under our credit facilities, debt associated with certain liens permitted by our credit facilities, certain subordinated debt and other specified exceptions. Our credit facilities also contain restrictions on our ability to pay dividends or make distributions in respect of our common stock or redemptions or repurchases of our common stock.

We conduct our operations and sell our gear internationally and the effect of business, legal and political risks associated with international operations may seriously harm our business.

Sales to customers outside the United States accounted for 55.6% and 62.7% our net revenue for nine months ended September 30, 2022 and 2021, respectively. In addition, substantially all of the gear that we sell is manufactured at facilities in Asia. Our international sales and operations are subject to a wide range of risks, which may vary from country to country or region to region. These risks include the following:

- export and import duties, changes to import and export regulations, and restrictions on the transfer of funds;
- fluctuating exchange rates;
- political and economic instability;
- problems with the transportation or delivery of our gear;
- issues arising from cultural or language differences and labor unrest;
- longer payment cycles and greater difficulty in collecting accounts receivable;
- compliance with trade and technical standards in a variety of jurisdictions;
- difficulties in staffing and managing international operations, including the risks associated with fraud, theft and other illegal conduct;

- compliance with laws and regulations, including environmental, employment and tax laws, which vary from country to country and over time, increasing the costs of compliance and potential risks of non-compliance;
- difficulties enforcing our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as the United States and European countries;
- the risk that trade to or from some foreign countries, or companies in foreign countries that manufacture our gear or supply components that are used in our gear, may be affected by political tensions, trade disputes and similar matters, particularly between China and Taiwan, China and the United States, Russia and Ukraine, and the United States and Russia;
- United States and foreign trade restrictions, including those that may limit the importation of technology or components to or from various countries or impose tariffs or quotas;
- difficulties or increased costs in establishing sales and distribution channels in unfamiliar markets, with their own market characteristics and competition; and
- imposition of currency exchange controls or taxes that make it impracticable or costly to repatriate funds from foreign countries.

To the extent we successfully execute our strategy of expanding into new geographic areas, these and similar risks will increase. There can be no assurance that the risks relating to our international operations will not seriously harm our business.

System security and data protection breaches, as well as cyber-attacks, could disrupt our operations, reduce our expected revenue and increase our expenses, which may seriously harm our business.

Security breaches, computer malware and cyber-attacks have become more prevalent and sophisticated in recent years. These threats are constantly evolving, making it increasingly difficult to successfully defend against them or implement adequate preventative measures. These malicious attempts have occurred on our systems in the past and are expected to occur in the future. Experienced computer programmers, hackers and employees may penetrate our security controls and misappropriate or compromise our confidential information or that of our employees or third parties. These attacks may create system disruptions or cause shutdowns. These hackers may also develop and deploy viruses, worms and other malicious software programs that attack or otherwise exploit security vulnerabilities in our systems. For example, in early 2021, we discovered the exploitation by hackers of our subsidiary SCUF's servers, which may have enabled such hackers to collect information provided by our customers, including payment card information, which is handled by our third-party ecommerce service provider. Such hackers utilized the credentials we had provided to another third-party to inject a script, which was active for a limited amount of time, that collected this information provided by customers. Additionally, for portions of our information technology infrastructure, including business management and communication software products, we rely on products and services provided by third parties. These providers may also experience breaches and attacks to their products which may impact our systems. Data security breaches may also result from non-technical means, such as actions by an employee with access to our systems. To defend against security threats, both to our internal systems and those of our customers, we must continuously engineer more secure products and enhance security and reliability features, which may result in increased expenses.

Actual or perceived breaches of our security measures, those of third-parties or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, our partners, our customers or third parties have exposed, and may in the future could expose us and the parties affected to a risk of loss or misuse of this information, resulting in litigation and potential liability, paying damages, regulatory inquiries or actions, damage to our brand and reputation or other serious harm to our business. Our efforts to prevent and overcome these challenges could increase our expenses and may not be successful. We may experience interruptions, delays, cessation of service and loss of existing or potential customers. Such disruptions could adversely impact our ability to fulfill orders and interrupt other critical functions. Delayed sales, lower margins or lost customers as a result of these disruptions may seriously harm our business.

We may not be able to maintain compliance with all current and potentially applicable U.S. federal and state or foreign laws and regulations relating to privacy and cybersecurity, and actions by regulatory authorities or changes in legislation and regulation in the jurisdictions in which we operate could have a material adverse effect on our business.

We are subject to a variety of laws, regulations, and industry standards that relate to the collection, processing, storing, disclosing, using, transfer and protecting of personal data and other data and the privacy of individuals. These laws and regulations constantly evolve and remain subject to significant change. In addition, the application and interpretation of these laws and regulations are often uncertain. Because we store, process and use data, some of which contain personal data, we are subject to complex and evolving federal, state and local laws and regulations regarding privacy, data protection and other matters. Many of these laws and regulations are subject to change and uncertain interpretation. The U.S. federal and state governments and agencies may in the future enact new legislation and promulgate new regulations governing collection, use, disclosure, storage, processing, transmission and destruction of personal data and other information. New privacy laws add additional complexity, requirements, restrictions and potential legal risk, require additional investment in resources to compliance programs, and could impact trading strategies and availability of previously useful data.

In addition, California enacted the California Consumer Privacy Act of 2018, or the CCPA, which came into force in 2020 (and is discussed in further detail below), which has encouraged “copycat” legislative proposals in other states across the country such as Nevada, Virginia, New Hampshire, Illinois and Nebraska. These legislative proposals may add additional complexity, variation in requirements, restrictions and potential legal risk, require additional investment in resources to compliance programs, and could impact strategies and availability of previously useful data.

We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, including the Payment Card Industry Data Security Standard, or PCI DSS, a security standard applicable to companies that collect, store or transmit certain data regarding credit and debit cards, holders and transactions. Any data security incidents, such as those described above, and/or other issues involving payment card information, can constitute a failure to comply with PCI DSS, which may therefore violate payment card association operating rules and the terms of our contracts with payment networks, processors and merchant banks. Such failure to comply may result in the loss of our ability to accept credit and debit card payments, subject us to fines, penalties, and damages. In addition, there is no guarantee that PCI DSS compliance will prevent illegal or improper use of our payment systems or the theft, loss or misuse of data pertaining to credit and debit cards, credit and debit card holders and credit and debit card transactions.

Compliance with existing and emerging privacy and cybersecurity laws, regulations and industry standards could result in increased compliance costs and/or lead to changes in business practices and policies, and any failure to protect the confidentiality of client information could adversely affect our reputation, lead to private litigation against us, and require additional investment in resources, impact strategies and availability of previously useful data any of which could materially and adversely affect our business, operating results and financial condition.

The collection, storage, transmission, use and distribution of user data could give rise to liabilities and additional costs of operation as a result of laws, governmental regulation and risks of security breaches.

In connection with certain of our gear, we collect data related to our gamers and streamers. This data is increasingly subject to legislation and regulations in numerous jurisdictions around the world. Government actions are typically intended to protect the privacy and security of personal information and its collection, storage, transmission, use and distribution in or from the governing jurisdiction. In addition, because various jurisdictions have different laws and regulations concerning the use, storage and transmission of such information, we may face requirements that pose compliance challenges in existing markets as well as new international markets that we seek to enter.

Existing privacy-related laws and regulations in the United States and other countries are evolving and are subject to potentially differing interpretations, and various U.S. federal and state or other international legislative and regulatory bodies may expand or enact laws regarding privacy and data security-related matters. For example, the European Union General Data Protection Regulation, or GDPR, which came into effect on May 25, 2018, has led to more stringent operational requirements for processors and controllers of personal data, including, for example, requiring expanded disclosures about how personal information is to be used, limitations on retention of information, mandatory data breach notification requirements, and higher standards for data controllers to demonstrate that they have obtained valid consent or have another legal basis in place to justify their data processing activities. The GDPR provides that European Union member states may make their own additional laws and regulations in relation to certain data processing activities, which could limit our ability to use and share personal data or could require localized changes to our operating model. Under the GDPR, fines of up to €20 million or up to 4% of the total worldwide annual revenue of the preceding financial year, whichever is higher, may be assessed for non-compliance. These new laws also could cause our costs to increase and result in further administrative costs.

Further, the United Kingdom’s decision to leave the European Union, often referred to as Brexit, means that from January 1, 2021, we are subject to the GDPR and also the UK GDPR, which, together with the amended UK Data Protection Act 2018, retains the GDPR in UK national law. The UK GDPR mirrors the fines under the GDPR, e.g. fines up to the greater of €20 million / £17.5 million or 4% of global turnover.

Although there are legal mechanisms to allow for the transfer of personal data from the United Kingdom, EEA and Switzerland to the United States, uncertainty about compliance with such data protection laws remains, and such mechanisms may not be available or applicable with respect to the personal data processing activities necessary to research, develop and market our products and services. For example, legal challenges in Europe to the mechanisms allowing companies to transfer personal data from the EEA or the United Kingdom to the United States could result in further limitations on the ability to transfer personal data across borders, particularly if governments are unable or unwilling to reach new or maintain existing agreements that support cross-border data transfers. Specifically, on July 16, 2020, the Court of Justice of the European Union invalidated Decision 2016/1250 on the adequacy of the protection provided by the EU-U.S. Privacy Shield Framework and guidance following the Decision requires risk assessments to be conducted and, in many cases additional safeguards to be implemented to transfer data under the standard contractual clauses. These recent developments will require us to review and amend the legal mechanisms by which we make and/ or receive personal data transfers to/ in the U.S. At present, there are few if any viable alternatives to the Standard Contractual Clauses. As supervisory authorities issue further guidance on personal data export mechanisms, including circumstances where the standard contractual clauses cannot be used, and/or start taking enforcement action, we could suffer additional costs, complaints and/or regulatory investigations or fines, and/or if we are otherwise unable to transfer personal data between and among countries and regions in which we operate, it could affect the manner in which we provide our services, the geographical location or segregation of our relevant systems and operations, and could adversely affect our financial results.

We are also subject to evolving European Union and United Kingdom privacy laws on cookies, tracking technologies and e-marketing. In the European Union and the United Kingdom under national laws derived from the ePrivacy Directive, informed consent is required for the placement of a cookie or similar technologies on a user’s device and for direct electronic marketing. The GDPR also imposes conditions on obtaining valid consent for cookies, such as a prohibition on pre-checked consents and a requirement to ensure separate consents are sought for each type of cookie or similar technology. The current national laws that implement the ePrivacy Directive are highly likely to be replaced across the European Union (but not directly in the United Kingdom) by an European Union regulation known as the ePrivacy Regulation which will significantly increase fines for non-compliance. While the text of the ePrivacy Regulation is still under development, recent European court decisions and regulators’ recent guidance are driving increased attention to cookies and tracking technologies. If the trend of increasing enforcement by regulators of the strict approach in recent guidance and decisions continues, this could lead to substantial costs, require significant systems changes, limit the effectiveness of our marketing activities, divert the attention of our technology personnel, adversely affect our margins, increase costs and subject us to additional liabilities. Regulation of cookies and similar technologies, and any decline of cookies or similar online tracking technologies as a means to identify and potentially target users, may lead to broader restrictions and impairments on our marketing and personalization activities and may negatively impact our efforts to understand users.

In addition, the CCPA, which came into force in 2020, creates individual privacy rights for California consumers and increases the privacy and security obligations of entities handling certain personal data. For example, the CCPA gives California residents expanded rights to access and require deletion of their personal data, opt out of certain personal data sharing and receive detailed information about how their personal data is used. Failure to comply with the CCPA creates additional risks including enforcement by the California attorney general, private rights of actions for certain data breaches, and damage to reputation. The CCPA may increase our compliance costs and potential liability. Additionally, the Consumer Personal Information Law and Agency Initiative (California Proposition 24), the California Privacy Rights Act was approved by California voters on November 3, 2020. California Proposition 24 would impose additional data protection obligations on companies doing business in California. It will also create a new California data protection agency specifically tasked to enforce the law, which could likely result in increased regulatory scrutiny of California businesses in the areas of data protection and security. The new California Privacy Rights Act takes effect on January 1, 2023 and will apply to information collected on or after January 1, 2022.

Further, information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. Hackers and data thieves are increasingly sophisticated and operating large-scale and complex automated attacks. As cyber threats continue to evolve, we may be required to expend additional resources to further enhance our information security measures, develop additional protocols and/or to investigate and remediate any information security vulnerabilities. We cannot guarantee that our facilities and systems will be free of security breaches, cyber-attacks, acts of vandalism, computer viruses, malware, ransomware, denial-of-service attacks, misplaced or lost data, programming and/or human errors or other similar events. Any compromise or perceived compromise of the security of our systems could damage our reputation, result in disruption or interruption to our business operations, reduce demand for our products and subject us to significant liability and expense as well as regulatory action and lawsuits, which would harm our business, operating results and financial condition.

In addition, any failure or perceived failure by us to comply with privacy or security laws, policies, legal obligations or industry standards, or any security incident that results in the actual or alleged unauthorized release or transfer of personal data, may result in governmental enforcement actions and investigations, including fines and penalties, enforcement orders requiring us to cease processing or operating in a certain way, litigation and/or adverse publicity, including by consumer advocacy groups, and could cause our customers to lose trust in us, which could have material impacts on our revenue and operations and could seriously harm our business. We may also face civil claims including representative actions and other class action type litigation (where individuals have suffered harm), potentially amounting to significant compensation or damages liabilities, as well as associated costs, diversion of internal resources, and reputational harm.

We may be adversely affected by the financial condition of retailers and distributors to whom we sell our gear and may also be adversely affected by the financial condition of our competitors.

Retailers and distributors of consumer electronics products have, from time to time, experienced significant fluctuations in their businesses and some of them have become insolvent. A retailer or distributor experiencing such difficulties will generally not purchase and sell as much of our gear as it would under normal circumstances and may cancel orders. In addition, a retailer or distributor experiencing financial difficulties generally increases our exposure to uncollectible receivables. Moreover, if one of our distributor or retailer customers experiences financial distress or bankruptcy, they may be required to liquidate their inventory of our gear, or similar products that compete with our gear, at reduced prices, which can result in substantial over-supply and reduced demand for our gear over the short term. If any of these circumstances were to occur, it could seriously harm our business.

Likewise, our competitors may from time to time experience similar financial difficulties or may elect to terminate their sales of certain products. If one of our competitors experiences financial distress or bankruptcy and is forced to liquidate inventory or exits a product line and disposes of inventory at reduced prices, this may also result in over-supply of and reduced demand for our gear and could have a short-term adverse effect on our results of operations and financial condition.

Our online operations are subject to numerous risks that may seriously harm our business.

Our online operations, where we sell a number of products through our online stores, subject us to certain risks that could seriously harm our business, financial condition and results of operations. For example, the operation and expansion of our online stores may seriously harm our relationships with our retailers and distributors. Further, existing and future regulations and laws could impede the growth of our online operations. These regulations and laws may involve taxes, tariffs, privacy and data security, anti-spam, content protection, electronic contracts and communications, consumer protection and social media marketing. We cannot be sure that our practices have complied, comply or will comply fully with all such laws and regulations. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs of doing business and decrease the use of our sites by gamers, streamers and suppliers and may result in the imposition of monetary liability.

In addition, our online stores are partially handled by a third-party ecommerce service provider. We rely on this service provider to handle, among other things, payment and processing of online sales. If the service provider does not perform these functions satisfactorily, we may find another third-party service provider or undertake such operations ourselves, but we may not be able to successfully do either. In either case, our online sales and our customer service reputation could be adversely affected which, in turn, may seriously harm our business.

We may recognize restructuring and impairment charges in future periods, which will adversely affect our operating results and could seriously harm our business.

Depending on market and economic conditions in future periods, we may implement restructuring initiatives. As a result of these initiatives, we could incur restructuring charges, lose key personnel and experience disruptions in our operations and difficulties in delivering our gear.

We are required to test goodwill, intangible assets and other long-lived assets for recoverability and may be required to record charges if there are indicators of impairment, and we have in the past recognized impairment charges. As of September 30, 2022, we had approximately $346.3 million of goodwill, $224.3 million of intangible assets and $74.5 million of other long-lived assets. One of our strategies is to grow through acquisitions of other businesses or technologies and, if we are successful in doing so, these acquisitions may result in goodwill and other long-lived assets. The risk that we will be required to recognize impairment charges is also heightened by the fact that the life cycles of much of the gear we sell are relatively short, which increases the possibility that we may be required to recognize impairment charges for obsolete inventory. Impairment charges will adversely affect our operating results and could seriously harm our business.

Our future success depends to a large degree on our ability to defend the Corsair brand and product family brands such as SCUF, Vengeance, K70, Elgato and iCUE from infringement and, if we are unable to protect our brand and other intellectual property, our business may be seriously harmed.

We consider the Corsair brand to be one of our most valuable assets. We also consider the Elgato, Origin, and SCUF brands, proprietary technology brands such as iCUE and Slipstream, and major product family brands such as Corsair ONE, Dark Core, Dominator, Glaive, Harpoon, Ironclaw, K70, K100, Nightsword, Scimitar, Vengeance, Virtuoso and Void to be important to our business. Our future success depends to a large degree upon our ability to defend the Corsair brand, proprietary technology brands and product family brands from infringement and to protect our other intellectual property. We rely on a combination of copyright, trademark, patent and other intellectual property laws and confidentiality procedures and contractual provisions such as nondisclosure terms to protect our intellectual property. Although we hold a trademark registration on the Corsair name in the United States and a number of other countries, the Corsair name does not have trademark protection in other parts of the world, including some major markets, and we may be unable to register the Corsair name as a trademark in some countries. Likewise, we hold a trademark registration on certain brands such as K70 only in the United States, Australia and New Zealand and therefore such brands do not have trademark protection in other parts of the world. If third parties misappropriate or infringe on our brands or we are unable to protect our brands, or if third parties use the Corsair, Corsair ONE, Dark Core, Dominator, Elgato, Glaive, Harpoon, iCUE, Ironclaw, K70, K100, Nightsword, Origin, SCUF, Slipstream, Scimitar, Vengeance, Virtuoso and Void brand names, or other brand names we maintain, to sell their products in countries where we do not have trademark protection, it may seriously harm our business.

We hold a limited number of patents and pending patent applications. It is possible that any patent owned by us will be invalidated, deemed unenforceable, circumvented or challenged and that our pending or any future patent applications will not be granted. In addition, other intellectual property laws or our confidentiality procedures and contractual provisions may not adequately protect our intellectual property and others may independently develop similar technology, duplicate our gear, or design around any intellectual property rights we may have. Any of these events may seriously harm our business.

Certain of the licenses pursuant to which we are permitted to use the intellectual property of third parties can be terminated at any time by us or the other party. If we are unable to negotiate and maintain licenses on acceptable terms, we will be required to develop alternative technology internally or license it from other third parties, which may be difficult and costly or impossible.

The expansion of our business will require us to protect our trademarks, domain names, copyrights, patents and other intellectual property rights in an increasing number of jurisdictions, a process that is expensive and sometimes requires litigation. If we are unable to protect and enforce our trademarks, domain names, copyrights, patents and other intellectual property rights, or prevent third parties from infringing upon them, our business may be seriously harmed.

We have taken steps in the past to enforce our intellectual property rights and expect to continue to do so in the future. However, it may not be practical or cost-effective for us to enforce our rights with respect to certain items of intellectual property rights fully, or at all, particularly in developing countries where the enforcement of intellectual property rights may be more difficult than in the United States. It is also possible that, given the costs of obtaining patent protection, we may choose not to seek patent protection for certain items of intellectual property that may later turn out to be important.

Some of our products contain open source software, which may pose particular risks to our proprietary software and products.

Our products rely on software licensed by third parties under open source licenses, including as incorporated into software we receive from third-party commercial software vendors, and will continue to rely on such open source software in the future. Use of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide support, updates, warranties or other contractual protections regarding infringement claims or the quality of the code, and the wide availability of source code to components used in our products could expose us to security vulnerabilities. Further, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market or commercialize our products. As a result, we may face claims from third parties claiming ownership of what we believe to be open source software. In addition, by the terms of some open source licenses, under certain conditions, we could be required to release our proprietary source code, and to make our proprietary software available under open source licenses, including authorizing further modification and redistribution. These claims or requirements could result in litigation and could require us to purchase a costly license or cease offering the implicated products unless and until we can re-engineer them to avoid infringement or release of our proprietary source code. This re-engineering process could require significant additional research and development resources. In addition, we have intentionally made certain software we have developed available on an open source basis, both by contributing modifications back to existing open source projects, and by making certain internally developed tools available pursuant to open source licenses, and we plan to continue to do so in the future.

While we engage in a review process for any such contributions, which is designed to protect any code that may be competitively sensitive, it is still possible that our competitors or others could use this code for competitive purposes, or for commercial or other purposes beyond what we intended. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could seriously harm our business.

We are, have in the past been, and may in the future be, subject to intellectual property infringement claims, which are costly to defend, could require us to pay damages or royalties and could limit our ability to use certain technologies in the future.

Companies in the technology industry are frequently subject to litigation or disputes based on allegations of infringement or other violations of intellectual property rights. We have faced claims that we have infringed, or that our use of components or products supplied to us by third parties have infringed, patents or other intellectual property rights of others in the past and may in the future face similar claims. While we are currently involved in an intellectual property infringement claim, we do not believe such claim will have a material adverse effect on our business.

Any intellectual property claims, with or without merit, can be time-consuming, expensive to litigate or settle and can divert management resources and attention. For example, in the past we have settled claims relating to infringement allegations and agreed to make royalty or license payments in connection with such settlements. An adverse determination could require that we pay damages, which could be substantial, or stop using technologies found to be in violation of a third-party's rights and could prevent us from selling some of our gear. In order to avoid these restrictions, we may have to seek a license for the technology. Any such license may not be available on reasonable terms or at all, could require us to pay significant royalties and may significantly increase our operating expenses or otherwise seriously harm our business or operating results. As a result, we may be required to develop alternative non-infringing technologies, which could require significant effort and expense and might not be successful or, if alternative non-infringing technologies already exist, we may be required to license those technologies from third parties, which may be expensive or impossible. If we cannot license or develop technologies for any infringing aspects of our business, we may be forced to halt sales of our gear incorporating the infringing technologies and may be unable to compete effectively. Any of these results may seriously harm our business.

We and our contract manufacturers may be adversely affected by seismic activity or other natural disasters, and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.

Our corporate headquarters are located in the San Francisco Bay Area and the testing and packaging of most of our DRAM modules take place in our facility in Taiwan. Both locations are known to experience earthquakes from time to time, some of which have been severe. In addition, typhoons and other severe weather systems frequently affect Taiwan. Most of the third-party facilities where our gear and some of the components used in our gear is manufactured are located in China, Taiwan, Southeast Asia and other areas that are known for seismic activity and other natural disasters. Earthquakes in any of the foregoing areas may also result in tsunamis. We do not carry earthquake insurance. As a result, earthquakes or other natural disasters could severely disrupt our operations, either directly or as a result of their effect on third-party manufacturers and suppliers upon whom we rely and their respective supply chains and may negatively impact the ordering patterns of our customers and may seriously harm our business.

We are subject to various environmental laws, conflict mineral-related provisions of the Dodd-Frank Act and other regulations that could impose substantial costs upon us and may seriously harm our business.

Our operations, properties and the gear we sell are subject to a variety of U.S. and foreign environmental laws and regulations governing, among other things, air emissions, wastewater discharges, management and disposal of hazardous and non-hazardous materials and waste, and remediation of releases of hazardous materials. Our failure to comply with present and future requirements under these laws and regulations, or environmental contamination or releases of hazardous materials on our leased premises, as well as through disposal of our gear, could cause us to incur substantial costs, including clean-up costs, personal injury and property damage claims, fines and penalties, costs to redesign our gear or upgrade our facilities and legal costs, or require us to curtail our operations. Environmental contamination or releases of hazardous materials may also subject us to claims of property damage or personal injury, which could result in litigation and require us to make substantial payments to satisfy adverse judgments or pay settlements. Liability under environmental laws can be joint and several and without regard to comparative fault. We also expect that our operations will be affected by new environmental laws and regulations on an ongoing basis, which will likely result in additional costs. Environmental laws and regulations could also require that we redesign our gear or change how our gear is made, any of which could seriously harm our business. The costs of complying with environmental laws and regulations or the effect of any claims or liability concerning or resulting from noncompliance or environmental contamination could also seriously harm our business.

Under the Dodd-Frank Act, the SEC adopted disclosure and reporting requirements for companies that use “conflict” minerals originating from the Democratic Republic of Congo or adjoining countries. We continue to incur costs associated with complying with these requirements, such as costs related to developing internal controls for the due diligence process, determining the source of any conflict minerals used in our gear, auditing the process and reporting to our customers and the SEC. In addition to the SEC regulation, the European Union, China and other jurisdictions are developing new policies focused on conflict minerals that may impact and increase the cost of our compliance program. Also, since our supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins of the subject minerals. Moreover, we are likely to encounter challenges to satisfy those customers who require that all of the components of our gear are certified as “conflict free.” If we cannot satisfy these customers, they may choose a competitor’s products.

The U.S. federal government has issued new policies for federal procurement focused on eradicating the practice of forced labor and human trafficking. In addition, the United Kingdom and the State of California have issued laws that require us to disclose our policy and practices for identifying and eliminating forced labor and human trafficking in our supply chain. While we have a policy and management systems to identify and avoid these practices in our supply chain, we cannot guarantee that our suppliers will always be in conformance to these laws and expectations. We may face enforcement liability and reputational challenges if we are unable to sufficiently meet these expectations.

Risks Related to Our Common Stock

We are controlled by EagleTree, whose interests in our business may be different than yours.

As of September 30, 2022, EagleTree beneficially owned approximately 56.5% of our common stock and is able to control our affairs in all cases. Further, pursuant to the terms of an Investor Rights Agreement between us and EagleTree, EagleTree has the right, among other things, to designate the chairman of our board of directors, as well as the right to nominate up to five out of eight directors to our board of directors as long as affiliates of EagleTree beneficially own at least 50% of our common stock, four directors as long as affiliates of EagleTree beneficially own at least 40% and less than 50% of our common stock, three directors as long as affiliates of EagleTree beneficially own at least 30% and less than 40% of our common stock, two directors as long as affiliates of EagleTree beneficially own at least 20% and less than 30% of our common stock and one director as long as affiliates of EagleTree beneficially own at least 10% and less than 20% of our common stock.

As a result of the foregoing, EagleTree or its respective designees to our board of directors will have the ability to control the appointment of our management, the entering into of mergers, sales of substantially all or all of our assets and other extraordinary transactions and influence amendments to our amended and restated certificate of incorporation and bylaws. So long as EagleTree continues to beneficially own a majority of our common stock, they will have the ability to control the vote in any election of directors and will have the ability to prevent any transaction that requires stockholder approval regardless of whether other stockholders believe the transaction is in our best interests. In any of these matters, the interests of EagleTree may differ from or conflict with your interests. Moreover, this concentration of stock ownership may also adversely affect the trading price for our common stock to the extent investors perceive disadvantages in owning stock of a company with a controlling stockholder. In addition, EagleTree is in the business of making investments in companies and may, from time to time, acquire interests in businesses that directly or indirectly compete with our business, as well as businesses that are our significant existing or potential suppliers or customers. EagleTree may acquire or seek to acquire assets that we seek to acquire and, as a result, those acquisition opportunities may not be available to us or may be more expensive for us to pursue.

We are a “controlled company” within the meaning of the Nasdaq rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.

EagleTree controls a majority of the voting power of our outstanding common stock. As a result, we are a “controlled company” within the meaning of the corporate governance standards of the Nasdaq Global Select Market, or Nasdaq. Under these rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements, including requirements that:

- a majority of our board of directors consist of “independent directors” as defined under the rules of Nasdaq;
- our board of directors have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee purpose and responsibilities; and

- our director nominations be made, or recommended to the full board of directors, by our independent directors or by a nominations committee that is composed entirely of independent directors and that we adopt a written charter or board resolution addressing the nominations process.

We currently utilize certain of these exemptions. As a result, pursuant to an agreement with EagleTree, nominations for certain of our directors will be made by EagleTree based on its ownership of our outstanding voting stock. Accordingly, for so long as we are a “controlled company,” you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of Nasdaq. In the event that we cease to be a “controlled company” and our shares continue to be listed on Nasdaq, we will be required to comply with these provisions within the applicable transition periods.

The market price of our common stock may be volatile and may decline.

The stock market in general, and the market for stocks of technology companies in particular, has been highly volatile. As a result, the market price of our common stock is likely to be volatile, and investors in our common stock may experience a decrease, which could be substantial, in the value of their common stock or the loss of their entire investment for a number of reasons, including reasons unrelated to our operating performance or prospects. The market price of our common stock could be subject to wide fluctuations in response to a broad and diverse range of factors, including those described elsewhere in this “Risk Factors” section and the following:

- variations in our operating performance and the performance of our competitors;
- actual or anticipated fluctuations in our quarterly or annual operating results;
- changes in estimates or recommendations by securities analysts concerning us or our competitors;
- publication of research reports by securities analysts about us or our competitors or our industry;
- our failure or the failure of our competitors to meet analysts’ estimates or guidance that we or our competitors may give to the market;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- developments of new technologies or other innovations;
- the passage of legislation or other regulatory developments affecting us or our industry;
- speculation in the press or investment community;
- changes in accounting principles;
- the outbreak of epidemics or pandemics, such as the coronavirus pandemic;
- natural disasters, terrorist acts, acts of war or periods of widespread civil unrest, such as any military actions taken as a result of the war between Russia and Ukraine; and
- changes in general market and economic conditions.

In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management’s attention and resources and could also require us to make substantial payments to satisfy judgments or to settle litigation.

An active, liquid and orderly market for our common stock may not be maintained.

Our stock only recently began trading on Nasdaq, but we can provide no assurance that we will be able to maintain an active trading market on Nasdaq or any other exchange in the future. If an active market for our common stock is not maintained, it may be difficult for our stockholders to sell shares without depressing the market price for the shares or at all. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other businesses, applications, or technologies using our shares as consideration.

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

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public, the trading price of our common stock could decline. Based upon the number of shares outstanding as of September 30, 2022, we had outstanding a total of 96.0 million shares of common stock. Of these shares, all of the shares of our common stock sold in the initial public offering and in the secondary offering in January 2021, are freely tradable, without restriction, in the public market.

As of September 30, 2022, the holders of approximately 54.2 million shares of our common stock, or approximately 56.5% of our total outstanding common stock based upon the number of shares outstanding as of September 30, 2022, will be entitled to rights with respect to the registration of their shares under the Securities Act. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

If we sell shares of our common stock in future financings, stockholders may experience immediate dilution and, as a result, our stock price may decline.

We may from time to time issue additional shares of common stock at a discount from the current trading price of our common stock. As a result, our stockholders would experience immediate dilution upon the purchase of any shares of our common stock sold at such discount. In addition, as opportunities present themselves, we may enter into financing or similar arrangements in the future, including the issuance of debt securities, preferred stock or common stock. If we issue common stock or securities convertible into common stock, our common stockholders would experience additional dilution and, as a result, our stock price may decline.

Our amended and restated certificate of incorporation and amended and restated bylaws contain antitakeover provisions that could delay, deter or prevent takeover attempts that stockholders may consider favorable or attempts to replace or remove our management that would be beneficial to our stockholders.

Certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws could delay, deter or prevent a change in control or other takeover of our company that our stockholders might consider to be in their best interests, including transactions that might result in a premium being paid over the market price of our common stock and also may limit the price that investors are willing to pay in the future for our common stock. These provisions may also have the effect of preventing changes in our management. For example, our amended and restated certificate of incorporation and amended and restated bylaws include anti-takeover provisions that:

- authorize our board of directors, without further action by the stockholders, to issue preferred stock in one or more series and, with respect to each series, to fix the number of shares constituting that series and to establish the rights and other terms of that series, which may include dividend and liquidation rights and preferences, conversion rights and voting rights;
- require that actions to be taken by our stockholders may only be taken at an annual or special meeting of our stockholders and not be taken by majority written consent when EagleTree owns less than a majority of our outstanding common stock;
- specify that special meetings of our stockholders can be called only by the Secretary at the direction of our board of directors or the Chairman of our board of directors and not by our stockholders or any other persons when EagleTree owns less than a majority of our outstanding common stock;
- establish advance notice procedures for stockholders to submit nominations of candidates for election to our board of directors and other proposals to be brought before a stockholders meeting;
- provide that directors may be removed only for cause and only by the affirmative vote of at least 66-2/3% in voting power of the then-outstanding shares of capital stock of our company when EagleTree owns less than 50% in voting power of our stock entitled to vote at an election of directors;
- provide for the sole power of the board of directors, or EagleTree in the case of a vacancy of one of their respective board designees, to fill any vacancy on the board of directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- divide our board of directors into three classes, serving staggered terms of three years each;
- do not give the holders of our common stock cumulative voting rights with respect to the election of directors, which means that the holders of a majority of our outstanding shares of common stock can elect all directors standing for election;

- require the affirmative vote by the holders of at least two-thirds of the combined voting power of all shares of our outstanding capital stock entitled to vote generally in the election of our directors (voting as a single class) in order to amend certain provisions of our certificate of incorporation or bylaws, including those provisions changing the size of the
- board of directors, the removal of certain directors, the availability of action by majority written consent of the stockholders or the restriction on business combinations with interested stockholders, among others; and
- when EagleTree owns less than a majority of our outstanding common stock, require the affirmative vote by the holders of at least two-thirds of the combined voting power of all shares of our outstanding capital stock entitled to vote generally in the election of our directors (voting as a single class) for any amendment, alteration, change, addition, rescission or repeal of our amended and restated certificate of incorporation.

We have opted out of Section 203 of the Delaware General Corporation Law, or DGCL, which prevents stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations involving us unless certain conditions are satisfied. However, our amended and restated certificate of incorporation will include similar provisions that we may not engage in certain business combinations with interested stockholders for a period of three years following the time that the stockholder became an interested stockholder, subject to certain conditions. Pursuant to the terms of our amended and restated certificate of incorporation, EagleTree will not be considered an interested stockholder for purposes of this provision.

Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.

Our amended and restated certificate of incorporation and amended and restated bylaws provide that we will indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law.

In addition, as permitted by Section 145 of the DGCL, our amended and restated bylaws and our indemnification agreements that we have entered into with our directors and officers provide that:

- we will indemnify our directors and officers for serving us in those capacities or for serving other business enterprises at our request, to the fullest extent permitted by Delaware law. Delaware law provides that a corporation may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the registrant and, with respect to any criminal proceeding, had no reasonable cause to believe such person’s conduct was unlawful;
- we may, in our discretion, indemnify employees and agents in those circumstances where indemnification is permitted by applicable law;
- we are required to advance expenses, as incurred, to our directors and officers in connection with defending a proceeding, except that such directors or officers shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification;
- we will not be obligated pursuant to our amended and restated bylaws to indemnify a person with respect to proceedings initiated by that person against us or our other indemnitees, except with respect to proceedings authorized by our board of directors or brought to enforce a right to indemnification;
- the rights conferred in our amended and restated bylaws are not exclusive, and we are authorized to enter into indemnification agreements with our directors, officers, employees and agents and to obtain insurance to indemnify such persons; and
- we may not retroactively amend our amended and restated bylaw provisions to reduce our indemnification obligations to directors, officers, employees and agents.

We do not currently intend to pay dividends on our common stock, and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not currently intend to pay any cash dividends on our common stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future. Since we do not intend to pay dividends, your ability to receive a return on your investment will depend on any future appreciation in the market value of our common stock. There is no guarantee that our common stock will appreciate or even maintain the price at which our holders have purchased it.

If securities or industry analysts do not publish or cease publishing research or reports about our business, if they adversely change their recommendations regarding our shares or if our operating results do not meet their expectations, the market price of our common stock could decline.

The market price of our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume of our common stock to decline. Moreover, if one or more of the analysts who cover our company downgrade our common stock or if our operating results or prospects do not meet their expectations, the market price of our common stock could decline.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for: (a) any derivative action or proceeding brought on our behalf; (b) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, employees or agents to us or our stockholders; (c) any action asserting a claim arising pursuant to any provision of the DGCL or of our amended and restated certificate of incorporation or our amended and restated bylaws; or (d) any action asserting a claim related to or involving our company that is governed by the internal affairs doctrine. Our amended and restated certificate of incorporation also provides that the federal district courts of the Unites States will be the exclusive forum for the resolution of any complaint asserting a cause of action against us or any of our directors, officers, employees or agents and arising under the Securities Act. The choice of forum provision 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, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could seriously harm our business. The choice of forum provision requiring that the Court of Chancery of the State of Delaware be the exclusive forum for certain actions would not apply to suits brought to enforce any liability or duty created by the Exchange Act.

Our amended and restated certificate of incorporation contains a provision renouncing our interest and expectancy in certain corporate opportunities.

Under our amended and restated certificate of incorporation, none of EagleTree or any of its respective portfolio companies, funds or other affiliates, or any of their officers, directors, agents, stockholders, members or partners will have any duty to refrain from engaging, directly or indirectly, in the same business activities, similar business activities or lines of business in which we operate. In addition, our amended and restated certificate of incorporation provides that, to the fullest extent permitted by law, no officer or director of ours who is also an officer, director, employee, managing director or other affiliate of EagleTree will be liable to us or our stockholders for breach of any fiduciary duty by reason of the fact that any such individual was presented with a corporate opportunity, other than specifically in their capacity as one of our officers or directors, and ultimately directs such corporate opportunity to EagleTree instead of us, or does not communicate information regarding a corporate opportunity to us that the officer, director, employee, managing director or other affiliate has directed to EagleTree. For instance, a director of our company who also serves as a director, officer or employee of EagleTree, or any of its respective portfolio companies, funds or other affiliates may pursue certain acquisitions or other opportunities that may be complementary to our business and, as a result, such acquisition or other opportunities may not be available to us. As of September 30, 2022, this provision of our amended and restated certificate of incorporation relates only to the EagleTree director designees. These potential conflicts of interest could seriously harm our business if attractive corporate opportunities are allocated by EagleTree to itself or its respective portfolio companies, funds or other affiliates instead of to us.

General Risk Factors

We may be subject to future tax audits in various jurisdictions, which may seriously harm our business.

We operate in multiple jurisdictions, are taxed pursuant to the tax laws of each of these jurisdictions and may be subject to future tax audits in each of these jurisdictions. Because we have substantial operations in a number of locations worldwide, tax authorities in various jurisdictions may raise questions concerning matters such as transfer pricing, whether revenues or expenses should be attributed to particular countries, the presence or absence of permanent establishments in particular countries and similar matters. In addition, we have engaged in a number of material restructuring transactions in various jurisdictions, and the tax positions we have adopted in connection with these restructuring transactions may be subject to challenge. Accordingly, a material assessment by a tax authority in any jurisdiction could require that we make significant cash payments without reimbursement. If this were to occur, our business may be seriously harmed.

Failure to comply with other laws and governmental regulations may seriously harm our business.

Our business is subject to regulation by various federal and state governmental agencies. Such regulation includes the consumer protection laws of the Federal Trade Commission, the import/export regulatory activities of the Department of Commerce, the product safety regulatory activities of the Consumer Products Safety Commission, the regulatory activities of the Occupational Safety and Health Administration, the environmental regulatory activities of the Environmental Protection Agency, the labor regulatory activities of the Equal Employment Opportunity Commission and tax and other regulations by a variety of regulatory authorities in each of the areas in which we conduct business. We are also subject to regulation in other countries where we conduct business. In certain jurisdictions, such regulatory requirements may be more stringent than in the United States. We are also subject to a variety of federal, state and foreign employment and labor laws and regulations, including the Americans with Disabilities Act, the Federal Fair Labor Standards Act and other laws and regulations related to working conditions, wage-hour pay, overtime pay, employee benefits, anti-discrimination and termination of employment.

Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, fines, damages, civil and criminal penalties or injunctions. In certain of these instances the former employee has brought legal proceedings against us, and we expect that we will encounter similar actions against us in the future. An adverse outcome in any such litigation could require us to pay damages, which may include punitive damages, attorneys' fees and costs.

As a result, noncompliance or any related enforcement or civil actions could result in governmental sanctions and possible civil or criminal litigation, which could seriously harm our business and result in a significant diversion of management's attention and resources.

Failure to comply with the U.S. Foreign Corrupt Practices Act, other applicable anti-corruption and anti-bribery laws, and applicable trade control laws could subject us to penalties and other adverse consequences that may seriously harm our business.

Our gear is manufactured and/or assembled in China, Taiwan, where we maintain a manufacturing facility, countries in Southeast Asia and the United Kingdom and we sell our gear in many countries outside of the United States. Our operations are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, as well as the anti-corruption and anti-bribery laws in the countries where we do business. The FCPA prohibits covered parties from offering, promising, authorizing or giving anything of value, directly or indirectly, to a "foreign government official" with the intent of improperly influencing the official's act or decision, inducing the official to act or refrain from acting in violation of lawful duty, or obtaining or retaining an improper business advantage. The FCPA also requires publicly traded companies to maintain records that accurately and fairly represent their transactions and to have an adequate system of internal accounting controls. In addition, other applicable anti-corruption laws prohibit bribery of domestic government officials, and some laws that may apply to our operations prohibit commercial bribery, including giving or receiving improper payments to or from non-government parties, as well as so-called "facilitation" payments. In addition, we are subject to U.S. and other applicable trade control regulations that restrict with whom we may transact business, including the trade sanctions enforced by the U.S. Treasury, Office of Foreign Assets Control, or OFAC.

While we have implemented policies, internal controls and other measures reasonably designed to promote compliance with applicable anti-corruption and anti-bribery laws and regulations, and certain safeguards designed to ensure compliance with U.S. trade control laws, our employees or agents may engage in improper conduct for which we might be held responsible. Any violations of these anti-corruption or trade controls laws, or even allegations of such violations, can lead to an investigation and/or enforcement action, which could disrupt our operations, involve significant management distraction, and lead to significant costs and expenses, including legal fees. If we, or our employees or agents acting on our behalf, are found to have engaged in practices that violate these laws and regulations, we could suffer severe fines and penalties, profit disgorgement, injunctions on future conduct, securities litigation, bans on transacting government business, delisting from securities exchanges and other consequences that may seriously harm our business, financial condition and results of operations. In addition, our brand and reputation, our sales activities or our stock price could be adversely affected if we become the subject of any negative publicity related to actual or potential violations of anti-corruption, anti-bribery or trade control laws and regulations.

As a public reporting company, we are subject to rules and regulations established from time to time by the SEC and Nasdaq regarding our internal controls over financial reporting. We may not complete needed improvements to our internal controls over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock and your investment.

We are subject to the rules and regulations established from time to time by the Securities and Exchange Commission, or SEC, and Nasdaq. These rules and regulations require, among other things, that we establish and periodically evaluate procedures with respect to our internal controls over financial reporting. As part of these evaluations, material weaknesses in our internal controls over financial reporting may be identified. A material weakness is a deficiency, or a combination of deficiencies, in internal controls over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. While we were able to remediate previously identified material weaknesses in our internal controls over financial reporting, there can be no guarantee we will not identify similar or other material weaknesses in the future and if such material weaknesses are identified, there can be no guarantee we would be able to remediate such material weaknesses. Any material weaknesses in our internal controls may adversely affect our ability to record, process, summarize and accurately report timely financial information and, as a result, our consolidated financial statements may contain material misstatements or omissions.

Reporting obligations as a public company place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, as a public company we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act so that our management can certify as to the effectiveness of our internal controls over financial reporting. Likewise, our independent registered public accounting firm is required to provide an attestation report on the effectiveness of our internal controls over financial reporting in our Annual Reports on Form 10-K. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot deliver a report attesting to the effectiveness of our internal controls over financial reporting, or if we identify or fail to remediate material weaknesses in our internal controls, we could be subject to regulatory scrutiny and a loss of public confidence, which could seriously harm our reputation and the market price of our common stock. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to manage our business effectively or accurately report our financial performance on a timely basis, which could cause a decline in our common stock price and may seriously harm our business.

We have and will continue to incur significant expenses as a result of being a public company, which have and will continue to negatively impact our financial performance.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the U.S. Exchange Act of 1934, as amended, or the Exchange Act, which will require, among other things, that we file with the SEC annual, quarterly and current reports with respect to our business and financial condition. In addition, the Sarbanes-Oxley Act, as well as rules subsequently adopted by the SEC and the stock exchange on which our securities are listed to implement provisions of the Sarbanes-Oxley Act, impose significant requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Further, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, the SEC has adopted additional rules and regulations in these areas, such as mandatory "say-on-pay" voting requirements. Stockholder activism, the current political environment and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations, which may lead to additional compliance costs and impact the manner in which we operate our business in ways we cannot currently anticipate.

The rules and regulations applicable to public companies have substantially increased our legal and financial compliance costs. If these requirements divert the attention of our management and personnel from other business concerns, they could seriously harm our business, financial condition and results of operations. The increased costs will decrease our net income or increase our net loss, and may require us to reduce costs in other areas of our business or increase the prices of our gear. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantial costs to maintain the same or similar coverage. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. Further, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

Our business could be negatively impacted by corporate citizenship and ESG matters and/or our reporting of such matters.

Institutional, individual, and other investors, proxy advisory services, regulatory authorities, consumers and other stakeholders are increasingly focused on environmental, social and governance, or ESG, practices of companies. As we look to respond to evolving standards for identifying, measuring, and reporting ESG metrics, our efforts may result in a significant increase in costs and may nevertheless not meet investor or other stakeholder expectations and evolving standards or regulatory requirements, which may negatively impact our financial results, our reputation, our ability to attract or retain employees, our attractiveness as a service provider, investment, or business partner, or expose us to government enforcement actions, private litigation, and actions by stockholders or stakeholders.

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

None.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Date Filed	
3.1	Second Amended and Restated Certificate of Incorporation.	8-K	3.1	09/25/2020	
3.2	Amended and Restated Bylaws.	8-K	3.2	09/25/2020	
4.1	Form of common stock certificate of Registrant.	S-1/A	4.2	09/18/2020	
4.2	Investor Rights Agreement, by and between Corsair Gaming, Inc. and Corsair Group (Cayman), LP.	10-Q	4.2	11/10/2020	
4.3	Description of Corsair's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.	10-K	4.3	03/11/2021	
4.4	Registration Rights Agreement, by and between Corsair Gaming, Inc. and Corsair Group (Cayman), LP.	S-1/A	4.4	09/14/2020	
10.1	Second Amendment, dated as of September 29, 2022, to Credit Agreement, dated as of September 3, 2021, by and among Corsair Gaming, Inc., as borrower, and certain of its subsidiaries, as guarantors, the lender parties named therein, and Bank of America, N.A. as administrative agent.				X
31.1	Certification of Principal Executive Officer under Securities Exchange Act Rule 13a-14(a) and 15d-14(a).				X
31.2	Certification of Principal Financial Officer under Securities Exchange Act Rule 13a-14(a) and 15d-14(a).				X
32.1*	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. 1350 and Securities Exchange Act Rule 13a-14(b).				X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				X

* The certification attached as Exhibit 32.1 that accompanies this Quarterly Report on Form 10-Q is not deemed filed with the SEC and is not to be incorporated by reference into any filing of Corsair Gaming, 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 this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURE

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

Corsair Gaming, Inc.

Date: November 3, 2022

By: /s/ Michael G. Potter

Michael G. Potter

Chief Financial Officer, Treasurer

(Principal Financial Officer and Principal Accounting Officer)

Exhibit 10.1

SECOND AMENDMENT

THIS SECOND AMENDMENT (this "Amendment") dated as of September 29, 2022 to the Credit Agreement referenced below is by and among CORSAIR GAMING, INC., a Delaware corporation (the "Borrower"), the Guarantors party hereto, the Lenders party hereto and BANK OF AMERICA, N.A., as Agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H

WHEREAS, credit facilities have been extended to the Borrower pursuant to that certain Credit Agreement (as amended, modified, supplemented and extended from time to time, the "Credit Agreement"), dated as of September 3, 2021, among the Borrower, the Guarantors party thereto, the Lenders party thereto and the Administrative Agent;

WHEREAS, the Borrower has requested certain modifications to the Credit Agreement, and the Administrative Agent and the Lenders have agreed to make such requested modifications on the terms and conditions set forth herein.

NOW, THEREFORE, IN CONSIDERATION of the premises and the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Capitalized terms used herein but not otherwise defined herein shall have the meanings provided to such terms in the Credit Agreement.

2. Amendments to the Credit Agreement.

(a) The following definitions are hereby added to Section 1.01 of the Credit Agreement in appropriate alphabetical order to read as follows:

"*Corsair Memory*" means Corsair Memory, Inc., a Delaware corporation.

"*Permitted Factor*" means CIT Group/Commercial Services, Inc.

"*Permitted Factoring Agreement*" means the Factoring Agreement, dated as of the Second Amendment Effective Date, among Corsair Memory and the Permitted Factor, as from time to time amended or otherwise modified with the consent of the Administrative Agent.

"*Permitted Factoring Customer*" means each of Amazon.com, Inc., Best Buy Co. Inc., and their respective Subsidiaries and Affiliates.

"*Permitted Factoring Intercreditor Agreement*" means the Assignment of Factoring Proceeds and Intercreditor Agreement, dated as of the Second Amendment Effective Date, among Corsair Memory, the Permitted Factor and the Administrative Agent.

"*Permitted Factoring Program*" means the sale by Corsair Memory of accounts receivable from the Permitted Factoring Customers and related assets (as described in the Permitted Factoring Agreement) to the Permitted Factor, pursuant to the Permitted Factoring Agreement; provided that (i) with respect to Factor Risk

Accounts (as defined in the Permitted Factoring Agreement) a true sale opinion has been obtained (if then required by applicable accounting rules or by the Borrower) and the Borrower is accounting for such as a true sale, (ii) such sale occurs on or before September 30, 2023 (or such later date as the Administrative Agent may permit in its sole discretion); and (iii) the Permitted Factoring Intercreditor Agreement shall at the time of any such sale be in full force and effect.

"*Second Amendment Effective Date*" means September 29, 2022.

(b) The definition of "Consolidated Funded Indebtedness" set forth in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"*Consolidated Funded Indebtedness*" means, as of any date of determination, for the Borrower and its Subsidiaries on a Consolidated basis, the *sum of*: (a) the outstanding principal amount of all obligations, whether current or long-term, for borrowed money (including Obligations hereunder) and all obligations evidenced by bonds, debentures, notes, loan agreements or other similar instruments; (b) all purchase money Indebtedness; (c) all obligations in respect of unreimbursed drawings under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments; (d) all obligations in respect of the deferred purchase price of property or services (other than (i) trade accounts and other accounts payable in the ordinary course of business, (ii) deferred compensation accruals for payroll and accrued expenses in the ordinary course of business, and (iii) Earn Out Obligations to the extent not then due and payable and unpaid); (e) all Attributable Indebtedness; (f) all obligations to purchase, redeem, retire, defease or otherwise make any payment prior to the Maturity Date in respect of any Equity Interests or any warrant, right or option to acquire such Equity Interest, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference *plus* accrued and unpaid dividends; (g) without duplication, all Guarantees with respect to outstanding Indebtedness of the types specified in clauses (a) through (f) above of Persons other than the Borrower or any Subsidiary; and (h) all Indebtedness of the types referred to in clauses (a) through (g) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company or other limited liability legal entity) in which the Borrower or a Subsidiary is a general partner or joint venturer, unless such Indebtedness is expressly made non-recourse to the Borrower or such Subsidiary. For the avoidance of doubt, amounts advanced to Corsair Memory by the Permitted Factor in respect of Factor Risk Accounts (as defined in the Permitted Factoring Agreement) factored pursuant to the Permitted Factoring Program shall not be considered Consolidated Funded Indebtedness.

(c) The proviso at the end of the definition of "Indebtedness" set forth in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

provided, however, that notwithstanding anything to the contrary, (x) amounts owing under any Permitted Convertible Indebtedness shall not be considered Indebtedness to the extent cash collateralized on terms at the time of such pledge, to the extent material to the interests of the Lenders, reasonably satisfactory to the Administrative Agent (it being understood that such pledge shall be in part for the benefit of the Lenders and shall not be released prior to payment in full of all amounts owing under the applicable Permitted Convertible Indebtedness without the consent of the Required Lenders other than to pay amounts owing under such Permitted Convertible Indebtedness to the extent such payments are permitted under this Agreement and any applicable subordination terms), (y) obligations arising under notes or similar instruments issued in connection with customary commercial arrangements in China shall not be considered Indebtedness to the extent considered accounts payable of such Person in accordance with GAAP, and (z) amounts advanced to Corsair Memory by the Permitted Factor in respect of Factor Risk Accounts (as defined in the Permitted Factoring Agreement) factored pursuant to the Permitted Factoring Program shall not be considered Indebtedness.

(d) The definition of "Loan Documents" set forth in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"*Loan Documents*" means, collectively, this Agreement, the Notes, the Guaranty, the Collateral Documents, the Engagement Letter, the Permitted Factoring Intercreditor Agreement, each Issuer Document, each Incremental Term Facility Amendment, each Joinder Agreement, any agreement creating or perfecting rights in Cash Collateral pursuant to the provisions of Section 2.14, any subordination agreement entered into by the Administrative Agent and a Loan Party in respect of Permitted Subordinated Debt and all other certificates, agreements, documents and instruments executed and delivered, in each case, by or on behalf of any Loan Party pursuant to the foregoing (but specifically excluding any Secured Hedge Agreement or any Secured Cash Management Agreement) and any amendments, modifications or supplements thereto or to any other Loan Document or waivers hereof or to any other Loan Document; *provided*, *however*, that for purposes of Section 11.01, "Loan Documents" shall mean this Agreement, the Guaranty and the Collateral Documents.

(e) The definition of "Permitted Transfer" set forth in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"*Permitted Transfer*" means (a) any Disposition by the Borrower or any Subsidiary; *provided*, *that*, (i) at the time of such Disposition, no Event of Default shall exist or would result from such Disposition, (ii) such Disposition shall be for fair market value (as determined by the Borrower in good faith), (iii) the aggregate amount of all Permitted Transfers made in any fiscal year shall not exceed $15,000,000 (with fifty percent (50%) of the unused amounts in any fiscal year being carried over to the immediately succeeding fiscal year (but to no further succeeding fiscal year after the immediately succeeding fiscal year); provided that the aggregate amount of Permitted Transfers in any fiscal year shall be applied first to the aggregate amount for such fiscal year, until utilized in full, and then to any amount carried over from the prior fiscal year) and (iv) the purchase price with respect thereto shall be paid to the Borrower or such Subsidiary, as applicable, for not less than seventy-five percent (75%) cash and Cash Equivalent consideration; *provided*, *however*, that for the purposes of this clause (iv), the following shall be deemed to be cash: (A) any liabilities (as shown on the Borrower's most recent balance sheet provided hereunder) of the Borrower or such Subsidiary (other than liabilities that are by their terms subordinated to the Secured Obligations) that are assumed by the transferee with respect to the applicable Disposition and for which the Borrower and its Subsidiaries shall have been validly released by all applicable creditors in writing, (B) any securities, notes or other obligations received by the Borrower or such Subsidiary from such transferee that are converted by the Borrower or such Subsidiary into cash or Cash Equivalents (to the extent of the cash or Cash Equivalents received in the conversion) within one hundred eighty (180) days following the closing of the applicable Disposition; and (C) any Designated Non-Cash Consideration in respect of such Disposition having an aggregate fair market value (as determined in good faith by the Borrower), taken together with the Designated Non-Cash Consideration in respect of all other Dispositions, not in excess of $5,000,000 (with the fair market value of each item of Designated Non-Cash Consideration being measured as of the time received (and without giving effect to subsequent changes in value)); provided further that, at any time the Permitted Factoring Program is in effect, the foregoing basket for permitted Dispositions in this clause (a) may not be utilized in connection with any factoring program of the Borrower or any of its Subsidiaries, (b) Dispositions of non-core assets acquired in connection with Permitted Acquisitions or similar Investments so long as (i) the aggregate fair market value (as determined in good faith by the Borrower) of the asset(s) subject to such Disposition (or series of related Dispositions) shall not exceed ten percent (10%) of the purchase price of the applicable acquired entity, assets or business, (ii) each such Disposition is an arm's-length transaction, and (iii) the Net Cash Proceeds received by the Borrower or the applicable Subsidiary in connection with any such Disposition (or series of related Dispositions) shall be in an amount at least equal to the fair market value of the asset(s) subject to such Disposition (as determined in good faith by the Borrower), (c) Permitted Sale and Leaseback Transactions, (d) the Disposition by Corsair Memory of accounts receivable from the Permitted Factoring Customers and related assets (as described in the Permitted Factoring Agreement) in connection with the Permitted Factoring Program, and (e) other Dispositions, so long as the Net Cash Proceeds received by the Borrower and its Subsidiaries in connection therewith, when aggregated with the Net Cash Proceeds of all other Dispositions made by the Borrower or any Subsidiary in reliance on this clause (d), in any fiscal year do not exceed $5,000,000; provided further that, at any time the Permitted Factoring Program is in effect, the foregoing basket for permitted Dispositions in this clause (e) may not be utilized in connection with any factoring program of the Borrower or any of its Subsidiaries.

(f) Section 7.01 of the Credit Agreement is hereby amended by (i) deleting the "and" from the end of clause (t) thereof, and (ii) deleting clause (u) thereof and replacing it with the following new clauses (u) and (v):

(u) Liens on accounts receivable of Corsair Memory owed from the Permitted Factoring Customers and related assets (as described in the Permitted Factoring Agreement) securing obligations incurred in connection with the Permitted Factoring Program; and

(v) other Liens not permitted by the foregoing clauses of this Section 7.01 securing Indebtedness or other obligations permitted pursuant to this Agreement in an aggregate principal amount not to exceed $10,000,000 at any one time outstanding; provided that, at any time the Permitted Factoring Program is in effect, the foregoing basket for Liens may not be utilized in connection with any factoring program of the Borrower or any of its Subsidiaries.

(g) Section 7.09 of the Credit Agreement is hereby amended to read as follows:

7.09 **Burdensome Agreements**.

Enter into, or permit to exist, any Contractual Obligation that encumbers or restricts the ability of any such Person to (a) make Restricted Payments to any Loan Party, (b) pay any Indebtedness or other obligations owed to any Loan Party, (c) make loans or advances to any Loan Party, (d) transfer any of its property to any Loan Party, (e) pledge its property pursuant to the Loan Documents or any renewals, refinancings, exchanges, refundings or extension thereof or (f) act as a Loan Party pursuant to the Loan Documents or any renewals, refinancings, exchanges, refundings or extension thereof, except (in respect of any of the matters referred to in clauses (a) through (e) above) for (1) this Agreement and the other Loan Documents, (2) customary provisions restricting subletting or assignment of any lease governing a leasehold interest of a Subsidiary, (3) customary restrictions and conditions contained in any agreement relating to the sale of any property permitted under Section 7.05 pending the consummation of such sale, (4) any agreement in effect at the time a Subsidiary becomes a Subsidiary, so long as such agreement was not entered into in connection with or in contemplation of such person becoming a Subsidiary, (5) without affecting the Loan Parties' obligations under Section 6.12 and Section 6.13, customary provisions in Organization Documents, joint venture agreements, other similar agreements applicable to joint ventures and other non-Wholly Owned Subsidiaries permitted under Section 7.03 and applicable solely to such joint venture or non-Wholly Owned subsidiary and its equity, asset sale and stock sale agreements and other similar agreements entered into in the ordinary course of business, in each case, that restrict the transfer of ownership interests in or other rights in respect of such Person, (6) restrictions on cash or other deposits or net worth imposed by suppliers, landlords, customers, insurance and surety or bonding companies under contracts entered into in the ordinary course of business, (7) any instrument governing Indebtedness assumed in connection with any Permitted Acquisition, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired, (8) any agreement relating to Indebtedness incurred pursuant to Section 7.02(c) to the extent that such restrictions apply only to the property or assets securing such Indebtedness, (9) customary restrictions regarding licensing or sublicensing by the Borrower and its Subsidiaries of intellectual property in the ordinary course of business, (10) restrictions on cash earnest money deposits in favor of sellers in connection with acquisitions not prohibited hereunder, (11) restrictions in any agreement relating to Indebtedness of a Foreign Subsidiary that is not a Loan Party that is permitted by Section 7.02 and which does not apply to any Loan Party or any Domestic Subsidiary, so long as such restrictions do not impair the ability of the Loan Parties to perform their obligations under this Agreement, (12) any agreement relating to the Permitted Factoring Program to the extent that such restrictions apply only to the property or assets sold pursuant thereto and related assets (as described in the Permitted Factoring Agreement) and (13) solely in respect of the matters referenced in clauses (a) through (d) above and, to the extent such restrictions and conditions apply only to Subsidiaries constituting Excluded Subsidiaries (other than a Subsidiary constituting an Excluded Subsidiary solely by virtue of clause (a) of the definition thereof), clause (e) above, restrictions and conditions arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be incurred after the Closing Date to the extent such restrictions and conditions are not materially more restrictive, taken as a whole, to the Borrower and its Subsidiaries, than the restrictions and conditions in the Loan Documents (except for (A) covenants and events of default applicable only to periods after the then Latest Maturity Date or (B) unless the Borrower enters into an amendment to this Agreement with the Administrative Agent (which amendment shall not require the consent of any other Lender) to add such more restrictive terms for the benefit of the Lenders).

(h) Section 7.12(d) of the Credit Agreement is hereby amended to read as follows:

7.12. **Amendments of Organization Documents; Fiscal Year; Legal Name, State of Formation; Form of Entity; Permitted Factoring Documents and Accounting Changes.**

(a) Amend any of its Organization Documents in a manner materially adverse to the Lenders;

(b) without the consent of the Administrative Agent (such consent not to be unreasonably withheld, conditioned or delayed), change its fiscal year (it being understood that if such fiscal year is so changed, the Borrower and the Administrative Agent shall, and are hereby authorized by the Lenders to, make any amendments to this Agreement that are necessary, in the judgment of the Administrative Agent and the Borrower to reflect such change in fiscal year);

(c) without giving written notice thereof to the Administrative Agent within fifteen (15) days after the occurrence thereof (or such extended period of time as agreed to by the Administrative Agent), change its name, state of formation, form of organization or principal place of business;

(d) without the consent of the Administrative Agent (such consent not to be unreasonably withheld, conditioned or delayed), amend, in a manner materially adverse to the interests of the Administrative Agent or the Lenders, the Permitted Factoring Agreement or any other documentation entered into in connection with the Permitted Factoring Program; or

(e) make any change in accounting policies or reporting practices, in each case, except as required by GAAP or in a manner not materially adverse to the Lenders.

(i) Clause (e) of Section 8.01 of the Credit Agreement is hereby amended to read as follows:

(e) Cross-Default. (i) Any Loan Party or any Subsidiary thereof (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Indebtedness or Guarantee (other than Indebtedness hereunder and Indebtedness under Swap Contracts) having an aggregate principal amount (including amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount, or (B) fails to observe or perform any other agreement or condition relating to any such Indebtedness or Guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs (excluding, in the case of any Permitted Convertible Indebtedness, any event or condition that would permit the holder or beneficiary of such Permitted Convertible Indebtedness to convert such Permitted Convertible Indebtedness into cash, Equity Interests of the Borrower or a combination thereof, in each case to the extent permitted hereunder, in any case, other than as a result of any default or event of default by the Borrower or any Subsidiary thereunder and other than as a result of a "change of control", "fundamental change" or similar occurrence), the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such Guarantee to become payable or Cash Collateral in respect thereof to be demanded; (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which a Loan Party or any Subsidiary thereof is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which a Loan Party or any Subsidiary thereof is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by such Loan Party or such Subsidiary as a result thereof is greater than the Threshold Amount; or (iii) an "Event of Default" (as defined in the Permitted Factoring Agreement) occurs under the Permitted Factoring Agreement; or

3. Conditions Precedent. This Amendment shall be effective on the first date each of the following conditions precedent has been satisfied:

(a) receipt by the Administrative Agent of counterparts of this Amendment duly executed by the Borrower, the Guarantors, the Required Lenders and the Administrative Agent;

(b) receipt by the Administrative Agent of duly executed copies of the Permitted Factoring Agreement and, to the extent requested by the Administrative Agent prior to the date hereof, other documentation entered into in connection with the Permitted Factoring Program, each in form and substance reasonably satisfactory to the Administrative Agent;

(c) receipt by the Administrative Agreement of a duly executed copy of the Permitted Factoring Intercreditor Agreement; and

(d) the Borrower shall have paid all reasonable and documented out-of-pocket expenses of the Administrative Agent (including reasonable and documented fees and expenses of counsel to the Administrative Agent in respect of this Amendment) required to be paid on the date hereof to the extent invoiced in writing to the Borrower at least two (2) Business Days prior to the date hereof.

4. Amendment is a "Loan Document". This Amendment is a Loan Document and all references to a "Loan Document" in the Credit Agreement and the other Loan Documents (including, without limitation, all such references in the representations and warranties in the Credit Agreement and the other Loan Documents) shall be deemed to include this Amendment.

5. Representations and Warranties; No Default. Each Loan Party represents and warrants to the Administrative Agent and each Lender that, on and as of the date hereof, immediately after giving effect to this Amendment, (a) the representations and warranties of each Loan Party set forth in the Loan Documents to which it is a party are true and correct in all material respects (and in all respects if any such representation or warranty is already qualified by materiality) on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects (and in all respects if any such representation or warranty is already qualified by materiality) as of such earlier date, and (b) no Default exists.

6. Reaffirmation of Obligations. Each Loan Party (a) acknowledges and consents to all of the terms and conditions of this Amendment, (b) affirms all of its obligations under the Loan Documents (in the case of the Credit Agreement, as amended hereby), and (c) agrees that, except as expressly set forth herein, this Amendment and all documents, agreements and instruments executed in connection with this Amendment do not operate to reduce or discharge such Loan Party's obligations under the Loan Documents.

7. Reaffirmation of Security Interests. Each Loan Party (a) affirms that each of the Liens granted in or pursuant to the Loan Documents are valid and subsisting, and (b) agrees that this Amendment and all documents, agreements and instruments executed in connection with this Amendment do not in any manner impair or otherwise adversely affect any of the Liens granted in or pursuant to the Loan Documents.

8. No Other Changes. Except as modified hereby, all of the terms and provisions of the Loan Documents shall remain in full force and effect.

9. Counterparts; Delivery. This Amendment may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Amendment, or any certificate delivered hereunder, by fax transmission or e-mail transmission (e.g., "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this Amendment or certificate. Without limiting the foregoing, to the extent a manually executed counterpart is not specifically required to be delivered under the terms of any Loan Document, upon the request of any party, such fax transmission or e-mail transmission shall be promptly followed by such manually executed counterpart.

10. Governing Law. This Amendment shall be deemed to be a contract made under, and for all purposes shall be construed in accordance with, the laws of the State of New York.

[SIGNATURE PAGES FOLLOW]

Each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWER:

CORSAIR GAMING, INC.

By: /s/ Michael G. Potter
Name: Michael G Potter
Title: Chief Financial Officer

GUARANTORS:

CORSAIR MEMORY, INC.

By: /s/ Michael G. Potter
Name: Michael G Potter
Title: Chief Financial Officer

ORIGIN PC, LLC

By: /s/ Andrew J. Paul
Name: Andrew J. Paul
Title: President

SCUF GAMING INTERNATIONAL LLC

By: /s/ Michael G. Potter
Name: Michael G Potter
Title: Chief Financial Officer

[SIGNATURE PAGES CONTINUE]

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/ Jason Eshler
Name: Jason Eshler
Title: Vice President

BANK OF AMERICA, N.A.,
as a Lender, L/C Issuer and Swingline Lender

By: /s/ Jason Eshler
Name: Jason Eshler
Title: Vice President

Exhibit 31.1

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

I, Andrew J. Paul, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Corsair Gaming, 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 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 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 3, 2022

By: /s/ Andrew J. Paul
Andrew J. Paul
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Michael G. Potter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Corsair Gaming, 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 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 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 3, 2022

By: /s/ Michael G. Potter
Michael G. Potter
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Corsair Gaming, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022 (the "Report"), Andrew J. Paul, Chief Executive Officer of the Company, and Michael G. Potter, Chief Financial Officer of the Company, each certify, to the best of his knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 3, 2022

By: /s/ Andrew J. Paul
Andrew J. Paul
Chief Executive Officer
(Principal Executive Officer)

Date: November 3, 2022

By: /s/ Michael G. Potter
Michael G. Potter
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)