

**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 March 31, 2021

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: 001-35465



**TURTLE BEACH CORPORATION**  
(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**44 South Broadway, 4th Floor**  
**White Plains, New York**  
(Address of principal executive offices)

**27-2767540**  
(I.R.S. Employer  
Identification Number)

**10601**  
(Zip Code)

**(888) 496-8001**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbols	Name of each exchange on which registered
<b>Common Stock, par value \$0.001</b>	<b>HEAR</b>	<b>Nasdaq</b>

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

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

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

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

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

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

The number of shares of the registrant's Common Stock, par value \$0.001 per share, outstanding on April 30, 2021 was 15,820,573

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

**Turtle Beach Corporation**  
**Condensed Consolidated Statements of Operations**  
**(unaudited)**

	Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands, except per-share data)	
Net revenue	\$ 93,053	\$ 35,007
Cost of revenue	58,198	24,222
Gross profit	34,855	10,785
Operating expenses:		
Selling and marketing	11,545	7,648
Research and development	3,993	2,427
General and administrative	7,037	5,723
Total operating expenses	22,575	15,798
Operating income (loss)	12,280	(5,013)
Interest expense	97	169
Other non-operating expense, net	579	197
Income (loss) before income tax	11,604	(5,379)
Income tax expense (benefit)	2,766	(1,824)
Net income (loss)	\$ 8,838	\$ (3,555)
Net income (loss) per share		
Basic	\$ 0.57	\$ (0.25)
Diluted	\$ 0.49	\$ (0.25)
Weighted average number of shares:		
Basic	15,551	14,495
Diluted	18,076	14,495

*See accompanying Notes to the Condensed Consolidated Financial Statements (unaudited)*

**Turtle Beach Corporation**  
**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
**(unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
	(in thousands)	
Net income (loss)	\$ 8,838	\$ (3,555)
Other comprehensive income (loss):		
Foreign currency translation adjustment	(711)	(819)
Other comprehensive income (loss)	(711)	(819)
Comprehensive income (loss)	<u>\$ 8,127</u>	<u>\$ (4,374)</u>

*See accompanying Notes to the Condensed Consolidated Financial Statements (unaudited)*

**Turtle Beach Corporation**  
**Condensed Consolidated Balance Sheets**

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>	(in thousands, except par value and share amounts)	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 62,965	\$ 46,681
Accounts receivable, net	32,370	43,867
Inventories	59,136	71,301
Prepaid expenses and other current assets	14,685	8,127
Total Current Assets	169,156	169,976
Property and equipment, net	7,089	6,575
Deferred income taxes	7,334	6,946
Goodwill	10,686	8,178
Intangible assets, net	6,760	5,138
Other assets	6,380	6,640
Total Assets	<u>\$ 207,405</u>	<u>\$ 203,453</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Revolving credit facility	\$ —	\$ —
Accounts payable	27,761	42,529
Other current liabilities	44,011	36,122
Total Current Liabilities	71,772	78,651
Income tax payable	3,432	3,146
Other liabilities	5,079	5,257
Total Liabilities	<u>80,283</u>	<u>87,054</u>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Common stock, \$0.001 par value - 25,000,000 shares authorized; 15,653,644 and 15,475,504 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	16	15
Additional paid-in capital	193,163	190,568
Accumulated deficit	(65,935)	(74,773)
Accumulated other comprehensive income (loss)	(122)	589
Total Stockholders' Equity	127,122	116,399
Total Liabilities and Stockholders' Equity	<u>\$ 207,405</u>	<u>\$ 203,453</u>

*See accompanying Notes to the Condensed Consolidated Financial Statements (unaudited)*

**Turtle Beach Corporation**  
**Condensed Consolidated Statements of Cash Flows**  
(unaudited)

	Three Months Ended	
	March 31, 2021	March 31, 2020
	(in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 8,838	\$ (3,555)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	739	1,033
Amortization of intangible assets	303	222
Amortization of debt financing costs	47	47
Stock-based compensation	1,786	999
Deferred income taxes	(388)	(1,891)
Change in sales returns reserve	678	(2,553)
Provision for obsolete inventory	57	439
Increase in fair value of contingent consideration	—	21
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	10,819	34,681
Inventories	12,108	5,981
Accounts payable	(15,669)	(11,192)
Prepaid expenses and other assets	(6,568)	(1,091)
Income taxes payable	3,086	(132)
Other liabilities	5,251	(5,483)
Net cash provided by operating activities	<u>21,087</u>	<u>17,526</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(2,280)	(890)
Acquisition of a business, net of cash acquired	(2,500)	—
Net cash used for investing activities	<u>(4,780)</u>	<u>(890)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings on revolving credit facilities	97,032	48,426
Repayment of revolving credit facilities	(97,032)	(63,780)
Proceeds from exercise of stock options and warrants	911	18
Repurchase of common stock to satisfy employee tax withholding obligations	(215)	(48)
Net cash provided by (cash used for) financing activities	<u>696</u>	<u>(15,384)</u>
Effect of exchange rate changes on cash and cash equivalents	(719)	(768)
Net increase in cash and cash equivalents	16,284	484
Cash and cash equivalents - beginning of period	46,681	8,249
Cash and cash equivalents - end of period	<u>\$ 62,965</u>	<u>\$ 8,733</u>
<b>SUPPLEMENTAL DISCLOSURE OF INFORMATION</b>		
Cash paid for interest	\$ 64	\$ 161
Cash paid for income taxes	\$ 5	\$ 175

*See accompanying Notes to the Condensed Consolidated Financial Statements (unaudited)*

**Turtle Beach Corporation**  
**Condensed Consolidated Statement of Stockholders' Equity (Deficit)**  
(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
(in thousands)						
Balance at December 31, 2020	15,476	\$ 15	\$ 190,568	\$ (74,773)	\$ 589	\$ 116,399
Net income	—	—	—	8,838	—	8,838
Other comprehensive loss, net of tax	—	—	—	—	(711)	(711)
Issuance of restricted stock	26	—	113	—	—	113
Repurchase of common stock and retirement of related treasury shares	(6)	—	(215)	—	—	(215)
Stock options exercised	159	1	911	—	—	912
Stock-based compensation	—	—	1,786	—	—	1,786
Balance at March 31, 2021	15,655	\$ 16	\$ 193,163	\$ (65,935)	\$ (122)	\$ 127,122

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
(in thousands)						
Balance at December 31, 2019	14,488	\$ 14	\$ 176,776	\$ (113,519)	\$ 116	\$ 63,387
Net loss	—	—	—	(3,555)	—	(3,555)
Other comprehensive loss, net of tax	—	—	—	—	(819)	(819)
Issuance of restricted stock	19	1	—	—	—	1
Repurchase of common stock and retirement of related treasury shares	(7)	—	(48)	—	—	(48)
Stock options exercised	6	—	18	—	—	18
Stock-based compensation	—	—	999	—	—	999
Balance at March 31, 2020	14,506	\$ 15	\$ 177,745	\$ (117,074)	\$ (703)	\$ 59,983

*See accompanying Notes to the Condensed Consolidated Financial Statements (unaudited)*

**Turtle Beach Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

**Note 1. Background and Basis of Presentation**

**Organization**

Turtle Beach Corporation (“Turtle Beach” or the “Company”), headquartered in White Plains, New York and incorporated in the state of Nevada in 2010, is a premier audio and gaming technology company with expertise and experience in developing, commercializing and marketing innovative products across a range of large addressable markets under the Turtle Beach® and ROCCAT®. Turtle Beach is a worldwide leader of feature-rich headset solutions for use across multiple platforms, including video game and entertainment consoles, handheld consoles, personal computers (“PC”), tablets and mobile devices. Under the ROCCAT brand, the Company creates award-winning keyboards, mice, headsets, mousepads, and other computer accessories. The recently acquired, Neat Microphones® brand creates high-quality USB and analog microphones for gamers, streamers, and professionals that embrace cutting-edge technology and design.

VTB Holdings, Inc. (“VTBH”), a wholly-owned subsidiary of Turtle Beach and the owner of Voyetra Turtle Beach, Inc. (“VTB”), was incorporated in the state of Delaware in 2010. VTB, the owner of TBC Holding Company LLC and Turtle Beach Europe Limited (“TB Europe”), was incorporated in the state of Delaware in 1975 with operations principally located in White Plains, New York. TB Europe, the owner of TB Germany GmbH, was incorporated in the United Kingdom in 1999.

**Basis of Presentation**

The accompanying interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. All intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire fiscal year.

The December 31, 2020 Condensed Consolidated Balance Sheet has been derived from the Company’s audited financial statements included in its Annual Report on Form 10-K filed with the SEC on March 4, 2021 (“Annual Report”).

These financial statements should be read in conjunction with the annual financial statements and the notes thereto included in the Annual Report that contains information useful to understanding the Company’s businesses and financial statement presentations.

*Use of estimates:* The preparation of accompanying unaudited consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited consolidated financial statements and reported amounts of revenues and expenses during the reporting period. These estimates may change, as new events occur and additional information is obtained, and will be recognized in the consolidated financial statements in the period in which such changes occur. Future actual results could differ materially from these estimates.

The novel coronavirus (“COVID-19”) pandemic has disrupted worldwide economic markets and the extent to which COVID-19 continues to affect the Company’s business, results of operations and financial condition will depend on future developments, which are highly uncertain and difficult to predict. We continue to actively monitor and assess the impact of the pandemic on our business, operations, and financial condition.

**Note 2. Summary of Significant Accounting Policies**

The preparation of consolidated annual and quarterly financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Company’s consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. The Company can give no assurance that actual results will not differ from those estimates.

There have been no material changes to the critical accounting policies and estimates from the information provided in Note 1 of the notes to our consolidated financial statements in our Annual Report.



### Note 3. Acquisitions

#### Neat Microphones

On January 12, 2021, the Company acquired certain assets related to the Neat Microphones business of Stray Electrons LLC, a California limited liability company (“Neat Microphones”) for a purchase price of \$2.5 million and up to \$2.3 million in potential earn-outs based on revenues and earnings targets for the year ended December 31, 2021, as provided in the asset purchase agreement. The closing payment was funded from cash on the Company’s balance sheet. In addition, business transaction costs incurred in connection with the acquisition of \$0.2 million for the three months ended March 31, 2021, were recorded as a component of “General and administrative” expenses in the Condensed Consolidated Statements of Operations. Neat Microphones creates, manufactures, and sells high-quality digital USB and analog microphones that embrace cutting-edge technology and design.

The fair values of Neat Microphone’s assets and liabilities are provisional and were determined based on preliminary estimates and assumptions that management believes are reasonable. The preliminary purchase price allocation is subject to further refinement and may require significant adjustments to arrive at the final purchase price allocation. These adjustments will primarily relate to certain intangible assets and certain liabilities including contingent consideration. The final determination of the fair value of certain assets and liabilities will be completed as soon as the necessary information is available, including the completion of a valuation of the intangible assets and the contingent consideration, but no later than one year from the acquisition date.

The goodwill from the acquisition of Neat Microphones, which is fully deductible for tax purposes, consists largely of synergies and economies of scale expected from adding the operations of Neat Microphones’ and the Company’s existing business and supply channels.

The preliminary estimate of fair value of Neat Microphone’s identifiable intangible assets was determined primarily using the “income approach,” which requires a forecast of all expected future cash flows either through the use of the multi-period excess earnings method or the relief-from-royalty method. Some of the more significant assumptions inherent in the development of intangible asset values include: the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows, the assessment of the intangible asset’s life cycle, as well as other factors. The following table summarizes key information underlying intangible assets related to the Neat Microphones acquisition:

(In thousands)	<u>Life</u>	<u>Amount</u>
Developed technology	7 Years	\$ 1,100
Customer relationships	2 Years	440
Tradenames	10 Years	380
Total		<u>\$ 1,920</u>

In addition, the Company recorded \$1.9 million fair value of contingent consideration associated with the potential \$2.3 million earn-outs as a component of “Other Current Liabilities” within the Condensed Consolidated Balance Sheet.

### Note 4. Fair Value Measurement

The Company follows a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, debt instruments and certain warrants. As of March 31, 2021 and December 31, 2020, the Company had not elected the fair value option for any financial assets and liabilities for which such an election would have been permitted. The following is a summary of the carrying amounts and estimated fair values of our financial instruments at March 31, 2021 and December 31, 2020.

	March 31, 2021		December 31, 2020	
	Reported	Fair Value	Reported	Fair Value
(in thousands)				
<b>Financial Assets and Liabilities:</b>				
Cash and cash equivalents	\$ 62,965	\$ 62,965	\$ 46,681	\$ 46,681
Contingent consideration liabilities	\$ 1,928	\$ 1,928	\$ -	\$ -

Cash equivalents are stated at amortized cost, which approximates fair value as of the consolidated balance sheet dates, due to the short period of time to maturity; and accounts receivable and accounts payable are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment. The Company values contingent consideration related to business combinations using a weighted probability calculation of potential payment scenarios discounted at rates reflective of the risks associated with the expected future cash flows.

#### Note 5. Allowance for Sales Returns

The following table provides the changes in our sales return reserve, which is classified as a reduction of accounts receivable:

	Three Months Ended March 31,	
	2021	2020
(in thousands)		
Balance, beginning of period	\$ 11,233	\$ 8,815
Reserve accrual	6,551	2,651
Recoveries and deductions, net	(5,873)	(5,204)
Balance, end of period	<u>\$ 11,911</u>	<u>\$ 6,262</u>

#### Note 6. Composition of Certain Financial Statement Items

##### Inventories

Inventories consist of the following:

	March 31, 2021	December 31, 2020
(in thousands)		
Finished goods	\$ 57,965	\$ 69,939
Raw materials	1,171	1,362
Total inventories	<u>\$ 59,136</u>	<u>\$ 71,301</u>

##### Property and Equipment, net

Property and equipment, net, consists of the following:

	March 31, 2021	December 31, 2020
(in thousands)		
Machinery and equipment	\$ 2,194	\$ 2,223
Software and software development	2,240	1,629
Furniture and fixtures	1,094	1,123
Tooling	6,855	6,548
Leasehold improvements	1,848	1,833
Demonstration units and convention booths	14,283	14,439
Total property and equipment, gross	28,514	27,795
Less: accumulated depreciation and amortization	(21,425)	(21,220)
Total property and equipment, net	<u>\$ 7,089</u>	<u>\$ 6,575</u>

## Other Current Liabilities

Other current liabilities consist of the following:

	March 31, 2021	December 31, 2020
	(in thousands)	
Accrued tax-related payables	9,126	5,670
Accrued royalty	9,001	5,166
Accrued employee expenses	7,709	7,138
Accrued freight	2,282	3,401
Accrued marketing	5,332	5,487
Contingent consideration	1,928	-
Accrued expenses	8,633	9,260
Total other current liabilities	<u>\$ 44,011</u>	<u>\$ 36,122</u>

## Note 7. Goodwill and Other Intangible Assets

### Acquired Intangible Assets

Acquired identifiable intangible assets, and related accumulated amortization, as of March 31, 2021 and December 31, 2020 consist of:

	March 31, 2021		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
	(in thousands)		
Customer relationships	\$ 8,355	\$ 5,760	\$ 2,595
Tradenames	3,066	500	2,566
Developed technology	1,884	238	1,646
Foreign currency	(804)	(757)	(47)
Total Intangible Assets	<u>\$ 12,501</u>	<u>\$ 5,741</u>	<u>\$ 6,760</u>

  

	December 31, 2020		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
	(in thousands)		
Customer relationships	\$ 7,915	\$ 5,584	\$ 2,331
Tradenames	2,686	425	2,261
Developed technology	784	177	607
Foreign currency	(845)	(784)	(61)
Total Intangible Assets	<u>\$ 10,540</u>	<u>\$ 5,402</u>	<u>\$ 5,138</u>

In connection with the October 2012 acquisition of TB Europe, the acquired intangible assets related to customer relationships is being amortized over an estimated useful life of thirteen years with the amortization being included within sales and marketing expense.

In May 2019, the Company acquired the business and assets of ROCCAT. The acquired intangible assets of ROCCAT relating to developed technology, customer relationships and trade name are subject to amortization. In January 2021, the Company acquired the business and assets of Neat Microphones. The acquired intangible assets of Neat Microphones related to developed technology, customer relationships and trade name are subject to amortization. Refer to Note 3, "Acquisitions" for additional information related to Neat Microphone's identifiable intangible assets.

Amortization expense related to definite lived intangible assets of \$0.3 million was recognized for the three months ended March 31, 2021, and \$0.2 million for the three months ended March 31, 2020.

As of March 31, 2021, estimated annual amortization expense related to definite lived intangible assets in future periods is as follows:

	(in thousands)
2021	\$ 988
2022	1,281
2023	1,041
2024	1,008
2025	889
Thereafter	1,600
Total	<u>\$ 6,807</u>

Changes in the carrying values of goodwill for the three months ended March 31, 2021 are as follows:

	(in thousands)
Balance as of January 1, 2021	\$ 8,178
Neat Microphones acquisition	2,508
Balance as of March 31, 2021	<u>\$ 10,686</u>

#### **Note 8. Revolving Credit Facility and Long-Term Debt**

The Company had no outstanding balance related to its revolving credit facility as of March 31, 2021 and December 31, 2020.

Total interest expense, inclusive of amortization of deferred financing costs, on long-term debt obligations was \$0.1 million for the three months ended March 31, 2021, and \$0.2 million for the three months ended March 31, 2020.

Amortization of deferred financing costs was \$47,000 for the three months ended March 31, 2021 and 2020.

#### **Revolving Credit Facility**

On December 17, 2018, Turtle Beach and certain of its subsidiaries entered into an amended and restated loan, guaranty and security agreement (“Credit Facility”) with Bank of America, N.A. (“Bank of America”), as Agent, Sole Lead Arranger and Sole Bookrunner, which replaced the then existing asset-based revolving loan agreement. The Credit Facility, which expires on March 5, 2024, provides for a line of credit of up to \$80 million inclusive of a sub-facility limit of \$12 million for TB Europe, a wholly-owned subsidiary of Turtle Beach. In addition, the Credit Facility provides for a \$40 million accordion feature and the ability to increase the borrowing base with a FILO Loan of up to \$6.8 million.

On May 31, 2019, the Company amended the Credit Facility to provide for, amongst other items, (i) the addition of TBC Holding Company LLC, a wholly-owned subsidiary of VTB, as an obligor and (ii) the ability to make investments in TB Germany GmbH, a wholly-owned subsidiary of TB Europe, of up to \$4 million in connection with the acquisition of the business of ROCCAT and up to an additional \$4 million annually.

The maximum credit availability for loans and letters of credit under the Credit Facility is governed by a borrowing base determined by the application of specified percentages to certain eligible assets, primarily eligible trade accounts receivable and inventories, and is subject to discretionary reserves and revaluation adjustments. The Credit Facility may be used for working capital, the issuance of bank guarantees, letters of credit and other corporate purposes.

Amounts outstanding under the Credit Facility bear interest at a rate equal to either a rate published by Bank of America or the LIBOR rate, plus in each case, an applicable margin, which is between 0.50% to 1.25% for base rate loans and between 1.25% to 2.00% for U.S. LIBOR loans and U.K. loans, and between 2.00% to 2.75% for the FILO loan. In addition, Turtle Beach is required to pay a commitment fee on the unused revolving loan commitment at a rate ranging from 0.25% to 0.50% and letter of credit fees and agent fees. As of March 31, 2021, interest rates for outstanding borrowings were 3.75% for base rate loans and 3.00% for LIBOR rate loans. As of March 31, 2021, there were no outstanding borrowings under the Credit Facility.

The Company is subject to quarterly financial covenant testing if certain availability thresholds are not met or certain other events occur (as defined in the Credit Facility). At such times, the Credit Facility requires the Company and its restricted subsidiaries to maintain a fixed charge coverage ratio of at least 1.00 to 1.00 as of the last day of each fiscal quarter.

The Credit Facility also contains affirmative and negative covenants that, subject to certain exceptions, limit our ability to take certain actions, including the Company’s ability to incur debt, pay dividends and repurchase stock, make certain investments and other payments, enter into certain mergers and consolidations, engage in sale leaseback transactions and transactions with affiliates, and encumber and dispose of assets. Obligations under the Credit Facility are secured by a security interest and lien upon substantially all of the Company’s assets.

As of March 31, 2021, the Company was in compliance with all financial covenants under the Credit Facility, as amended, and excess borrowing availability was approximately \$49.7 million.

#### Note 9. Income Taxes

In order to determine the quarterly provision for income taxes, the Company uses an estimated annual effective tax rate (“ETR”), which is based on expected annual income and statutory tax rates in the various jurisdictions. However, to the extent that application of the estimated annual effective tax rate is not representative of the quarterly portion of actual tax expense expected to be recorded for the year, the Company determines the provision for income taxes based on actual year-to-date income (loss). Certain significant or unusual items are separately recognized as discrete items in the period during which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

The following table presents the Company’s income tax expense and effective income tax rate:

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Income tax expense (benefit)	\$ 2,766	\$ (1,824)
Effective income tax rate	23.8%	33.9%

Income tax expense for the three months ended March 31, 2021 was \$2.8 million at an effective tax rate of 23.8%. Income tax benefit for the three months ended March 31, 2020 was \$1.8 million at an effective tax rate of 33.9%. The effective tax rate for the three months ended March 31, 2021 was primarily impacted by the tax effect of disallowed compensation and state income tax expense, offset by benefits on stock option exercises.

The Company is subject to income taxes domestically and in various foreign jurisdictions. Significant judgment is required in evaluating uncertain tax positions and determining the provision for income taxes.

The Company recognizes only those tax positions that meet the more-likely-than-not recognition threshold and establishes tax reserves for uncertain tax positions that do not meet this threshold. Interest and penalties associated with income tax matters are included in the provision for income taxes in the condensed consolidated statements of operations. As of March 31, 2021, the Company had uncertain tax positions of \$3.9 million, inclusive of \$0.8 million of interest and penalties.

The Company files U.S., state and foreign income tax returns in jurisdictions with various statutes of limitations. The federal tax years open under the statute of limitations are 2017 through 2019, and the state tax years open under the statute of limitations are 2016 through 2019.

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted in March 2020. The CARES Act includes several U.S. income tax provisions related to, among other things, net operating loss carrybacks, alternative minimum tax credits, modifications to the net interest deduction limitations, and technical amendments regarding the income tax depreciation of qualified improvement property placed in service after December 31, 2017. The CARES Act is not expected to have a material impact on the Company’s financial results.

#### Note 10. Stock-Based Compensation

Total estimated stock-based compensation expense for employees and non-employees, related to all of the Company’s stock-based awards, was as follows:

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Cost of revenue	\$ 397	\$ 58
Selling and marketing	331	199
Research and development	249	125
General and administrative	809	617
Total stock-based compensation	<u>\$ 1,786</u>	<u>\$ 999</u>

The following table presents the stock activity and the total number of shares available for grant as of March 31, 2021:

	(in thousands)
Balance at December 31, 2020	501
Options granted	(12)
Options cancelled	6
Restricted stock granted	(88)
Forfeited/Expired restricted stock added back	2
Balance at March 31, 2021	<u>409</u>

#### Stock Option Activity

	Options Outstanding			
	Number of Shares Underlying Outstanding Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2020	2,383,427	\$ 7.85	\$ 7.78	\$ 33,064,942
Granted	11,550	27.20		
Exercised	(158,544)	5.75		
Forfeited	(5,884)	12.04		
Outstanding at March 31, 2021	<u>2,230,549</u>	<u>\$ 8.09</u>	<u>7.76</u>	<u>\$ 41,454,353</u>
Vested and expected to vest at March 31, 2021	<u>2,174,246</u>	<u>\$ 8.11</u>	<u>7.74</u>	<u>\$ 40,498,749</u>
Exercisable at March 31, 2021	<u>855,796</u>	<u>\$ 7.74</u>	<u>6.44</u>	<u>\$ 16,289,457</u>

Stock options are time-based and the majority are exercisable within 10 years of the date of grant, but only to the extent they have vested. The options generally vest as specified in the option agreements subject to acceleration in certain circumstances. In the event participants in the plan cease to be employed or engaged by the Company, all vested options would be forfeited if they are not exercised within 90 days. Forfeitures on option grants are estimated at 10% for non-executives and 0% for executives based on evaluation of historical and expected future turnover. Stock-based compensation expense was recorded net of estimated forfeitures, such that expense was recorded only for those stock-based awards expected to vest. The Company reviews this assumption periodically and will adjust it if it is not representative of future forfeiture data and trends within employee types (executive vs. non-executive).

Aggregate intrinsic value represents the difference between the estimated fair value of the underlying common stock and the exercise price of outstanding, in-the-money options. The aggregate intrinsic value of options exercised was \$4.2 million for the three months ended March 31, 2021.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of options granted as of the grant date. The following are the assumptions for options granted during the three months ended March 31, 2021:

Expected term (in years)	6.1
Risk-free interest rate	0.5%- 1.1%
Expected volatility	59.6%- 59.8%
Dividend rate	0%

Each of these inputs is subjective and generally requires significant judgment to determine.

The weighted average grant date fair value of options granted during the three months ended March 31, 2021 was \$14.89. The total estimated fair value of employee options vested during the three months ended March 31, 2021 was \$0.3 million. As of March 31, 2021, there was no unrecognized compensation cost related to nonvested stock options granted to employees.

	Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested restricted stock at December 31, 2020	677,590	\$ 9.71
Granted	87,746	21.60
Vested	(20,143)	22.90
Shares forfeited	(2,139)	12.14
Nonvested restricted stock at March 31, 2021	<u>743,054</u>	<u>\$ 10.75</u>

As of March 31, 2021, total unrecognized compensation costs related to the nonvested restricted stock awards was \$6.3 million, which will be recognized over a remaining weighted average vesting period of 2.5 years.

#### Note 11. Stockholder's Equity

##### At-the-Market Common Stock Issuance

On August 7, 2020, the Company entered into an ATM Equity Offering Sales Agreement (the "Sales Agreement") with BofA Securities, Inc. (the "Sales Agent"). Pursuant to the terms of the Sales Agreement, the Company may sell from time to time through the Sales Agent shares of the Company's common stock, par value \$0.001 per share, having an aggregate offering price of up to \$30 million. The Company intends to use the net proceeds from the offering, after deducting the Sales Agent's commissions and the Company's offering expenses, to support its strategic growth plans, as well as for general corporate purposes.

During the year ended December 31, 2020, the Company sold a total of 237,813 shares of its common stock under the Sales Agreement in the open market at an average gross selling price of \$18.39 per share for net proceeds of \$4.4 million. During the three months ended March 31, 2021, the Company had no sales of its common stock under the Sales Agreement.

#### Note 12. Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net income (loss) per share of common stock attributable to common stockholders:

	Three Months Ended March 31,	
	2021	2020
	(in thousands, except per-share data)	
Net income (loss)	<u>\$ 8,838</u>	<u>\$ (3,555)</u>
Weighted average common shares outstanding — Basic	15,551	14,495
Plus incremental shares from assumed conversions:		
Dilutive effect of restricted stock	517	—
Dilutive effect of stock options	1,458	—
Dilutive effect of warrants	550	—
Weighted average common shares outstanding — Diluted	<u>18,076</u>	<u>14,495</u>
Net income (loss) per share:		
Basic	\$ 0.57	\$ (0.25)
Diluted	\$ 0.49	\$ (0.25)

Incremental shares from stock options and restricted stock awards are computed using the treasury stock method. The weighted average shares listed below were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented or were otherwise excluded under the treasury stock method. The treasury stock method calculates dilution assuming the exercise of all in-the-money options and vesting of restricted stock, reduced by the repurchase of shares with the proceeds from the assumed exercises and unrecognized compensation expense for outstanding awards.

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Stock options	97	2,147
Warrants	—	550
Unvested restricted stock awards	3	406
Total	<u>100</u>	<u>3,103</u>

### Note 13. Segment Information

The following table represents total net revenues based on where customers are physically located:

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
North America	\$ 63,777	\$ 27,020
United Kingdom	13,418	1,447
Europe	12,709	4,550
Other	3,149	1,990
Total net revenues	<u>\$ 93,053</u>	<u>\$ 35,007</u>

### Note 14. Commitments and Contingencies

#### Litigation

The Company is subject to various legal proceedings and claims that arise in the ordinary course of its business. Although the amount of any liability that could arise with respect to these actions cannot be determined with certainty, in the Company's opinion, any such liability will not have a material adverse effect on its consolidated financial position, consolidated results of operations or liquidity.

*Shareholders Class Action:* On August 5, 2013, VTBH and the Company (f/k/a Parametric Sound Corporation) announced that they had entered into the Merger Agreement pursuant to which VTBH would acquire an approximately 80% ownership interest and existing shareholders would maintain an approximately 20% ownership interest in the combined company (the "Merger"). Following the announcement, several shareholders filed class action lawsuits in California and Nevada seeking to enjoin the Merger. The plaintiffs in each case alleged that members of the Company's Board of Directors breached their fiduciary duties to the shareholders by agreeing to a merger that allegedly undervalued the Company. VTBH and the Company were named as defendants in these lawsuits under the theory that they had aided and abetted the Company's Board of Directors in allegedly violating their fiduciary duties. The plaintiffs in both cases sought a preliminary injunction seeking to enjoin closing of the Merger, which, by agreement, was heard by the Nevada court with the California plaintiffs invited to participate. On December 26, 2013, the court in the Nevada case denied the plaintiffs' motion for a preliminary injunction. Following the closing of the Merger, the Nevada plaintiffs filed a second amended complaint, which made essentially the same allegations and sought monetary damages as well as an order rescinding the Merger. The California plaintiffs dismissed their action without prejudice, and sought to intervene in the Nevada action, which was granted. Subsequent to the intervention, the plaintiffs filed a third amended complaint, which made essentially the same allegations as prior complaints and sought monetary damages. On June 20, 2014, VTBH and the Company moved to dismiss the action, but that motion was denied on August 28, 2014. On September 14, 2017, a unanimous en banc panel of the Nevada Supreme Court granted defendants' petition for writ of mandamus and ordered the trial court to dismiss the complaint but provided a limited basis upon which plaintiffs could seek to amend their complaint. Plaintiffs amended their complaint on December 1, 2017 to assert the same claims in a derivative capacity on behalf of the Company, as well as in a direct capacity, against VTBH, Stripes Group, LLC, SG VTB Holdings, LLC, and the former members of the Company's Board of Directors. All defendants moved to dismiss this amended complaint on January 2, 2018, and those motions were denied on March 13, 2018. Defendants petitioned the Nevada Supreme Court to reverse this ruling on April 18, 2018. On June 15, 2018, the Nevada Supreme Court denied defendants' writ petition without prejudice. The district court subsequently entered a pretrial schedule and set trial for November 2019. On January 18, 2019, the district court certified a class of shareholders of the Company as of January 15, 2014. On October 11, 2019, the parties notified the district court that they had reached a settlement that would resolve the pending action if ultimately approved by the Court. On January 13, 2020, the district court preliminarily



approved the settlement between the plaintiffs and all defendants. A final hearing was held on May 18, 2020, wherein the Court approved the settlement and entered final judgment.

On May 22, 2020, PAMTP LLC, which purports to hold the claims of eight shareholders who opted out of the class settlement described above, brought suit against the Company, the Company's CEO, Juergen Stark, Stripes Group, LLC, SG VTB Holdings, LLC, Kenneth Fox, and former members of the Company's Board of Directors in Nevada state court. This opt-out action asserts the same direct claims that were asserted by the class of shareholders described above. The defendants filed two motions to dismiss this complaint, which were heard on August 10, 2020. The Court denied those motions by order of August 20, 2020. Discovery is ongoing and the case is scheduled for trial in August 2021.

*Commercial Dispute:* On July 20, 2016, BigBen Interactive S.A. ("BigBen") filed a statement of claim against VTB before the Regional Court of Berlin, Germany. The statement of claim alleged that VTB's termination of a distribution agreement by and between BigBen and VTB breached the terms thereof and was invalid, and that BigBen was entitled to damages as a result. On September 30, 2020, the Company and BigBen mutually agreed to resolve this claim.

*Employment Litigation:* On April 20, 2017, a former employee filed an action in the Superior Court for the County of San Diego, State of California. The complaint alleges claims including wrongful termination, retaliation and various other provisions of the California Labor Code. The complaint seeks unspecified economic and non-economic losses, as well as allegedly unpaid wages, unreimbursed business expenses statutory penalties, interest, punitive damages and attorneys' fees. The Company filed a cross-complaint against the former employee on May 25, 2017 for certain activities related to his employment with the Company. Discovery is closed and the case was set for trial on April 6, 2020 in San Diego County Superior Court. Due to the continued closure of the Court, the April 6, 2020 trial date was vacated and the current trial date is July 9, 2021.

*Settlement of Disputes:* On May 5, 2020, Jöllenbeck GmbH and First Wise Media GmbH, two of our distributors and affiliates of the sellers of the ROCCAT business, filed for insolvency in Germany. On June 30, 2020, the Company entered into a Settlement Agreement with those companies and the sellers of the ROCCAT business pursuant to which, among other things, the Company received a payment for certain outstanding claims and accounts receivable. On July 1, 2020, the insolvency proceedings for the two companies formally commenced. The Company has filed a claim in those proceedings for approximately €130,000 with respect to the remaining outstanding accounts receivable.

*Intellectual Property dispute:* On November 24, 2020, ABP Technology Limited (ABP) issued a claim for trade mark infringement in the High Court of England and Wales against Voyetra Turtle Beach, Inc. ("VTB") and Turtle Beach Europe Limited ("TBEU") relating to the use by VTB and TBEU of the sign STEALTH on and in relation to gaming headsets in the UK. VTB and TBEU filed and served a Defense to the claim on February 2, 2021. On March 31, 2021, ABP filed an application for summary judgement. If the application is unsuccessful, the next stage in the proceedings will be a Case Management Conference (date to be set) at which the Court will give directions for each stage to trial. The trial is expected to be set for late-2022.

The Company will continue to vigorously defend itself in the foregoing matters. However, litigation and investigations are inherently uncertain. Accordingly, the Company cannot predict the outcome of these matters. The Company has not recorded any accrual at March 31, 2021 for contingent losses associated with these matters based on its belief that losses, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time. The unfavorable resolution of these matters could have a material adverse effect on the Company's business, results of operations, financial condition, or cash flows. The Company is engaged in other legal actions, not described above, arising in the ordinary course of its business and, while there can be no assurance, believes that the ultimate outcome of these other legal actions will not have a material adverse effect on its business, results of operations, financial condition, or cash flows.

## Warranties

The Company warrants its products against certain manufacturing and other defects. These product warranties are provided for specific periods of time depending on the nature of the product. Warranties are generally fulfilled by replacing defective products with new products. The following table provides the changes in our product warranty reserve, which are included in accrued liabilities:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2021</b>	<b>2020</b>
	(in thousands)	
Warranty, beginning of period	\$ 1,039	\$ 743
Warranty costs accrued	334	146
Settlements of warranty claims	(255)	(177)
Warranty, end of period	<u>\$ 1,118</u>	<u>\$ 712</u>

## Operating Leases - Right of Use Assets

The Company adopted ASU 2016-02, *Leases*, on January 1, 2019. The Company determines whether an arrangement is a lease at inception. The Company leases office spaces that provide for future minimum rental lease payments under non-cancelable operating leases that have remaining lease terms of one year to nine years, and do not contain any material residual value guarantees or material restrictive covenants.

The components of the right-of-use assets and lease liabilities were as follows:

	<u>Balance Sheet Classification</u>	<u>March 31, 2021</u>
		(in thousands)
Right-of-use assets	Other assets	<u>\$ 4,771</u>
Lease liability obligations, current	Other current liabilities	\$ 840
Lease liability obligations, noncurrent	Other liabilities	4,951
<b>Total lease liability obligations</b>		<u>\$ 5,791</u>
Weighted-average remaining lease term (in years)		5.2
Weighted-average discount rate		3.75%

During the three months ended March 31, 2021, the Company recognized approximately \$0.3 million of lease costs in operating expenses and approximately \$0.2 million of operating cash flows from operating leases.

Approximate future minimum lease payments for the Company's right of use assets over the remaining lease periods as of March 31, 2021, are as follows:

	(in thousands)
2021	\$ 874
2022	846
2023	728
2024	737
2025	708
Thereafter	2,967
<b>Total minimum payments</b>	<u>6,860</u>
Less: Imputed interest	(1,069)
<b>Total</b>	<u>\$ 5,791</u>

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

*The following discussion and analysis of our operations should be read together with our unaudited condensed consolidated financial statements and the related notes included in Part I of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 4, 2021 (the "Annual Report.")*

*This Report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this Report are indicated by words such as "anticipates," "expects," "believes," "intends," "plans," "estimates," "projects," "strategies" and similar expressions or negatives thereof. Caution should be taken not to place undue reliance on any such forward-looking statements because they involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such statements. Forward-looking statements are based on the beliefs, as well as assumptions made by, and information currently available to, the Company's management and are made only as of the date hereof. The Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by the federal securities laws. In addition, forward-looking statements are subject to certain risks and uncertainties, including those described elsewhere in this Quarterly Report on Form 10-Q (including the effects related to the coronavirus ("COVID-19") pandemic) that could cause actual results to differ materially from the Company's historical experience and its present expectations or projections.*

### Business Overview

Turtle Beach Corporation ("Turtle Beach" or the "Company"), headquartered in White Plains, New York and incorporated in the state of Nevada in 2010, is a premier audio and gaming technology company with expertise and experience in developing, commercializing and marketing innovative products across a range of large addressable markets under the Turtle Beach® and ROCCAT®. Turtle Beach is a worldwide leader of feature-rich headset solutions for use across multiple platforms, including video game and entertainment consoles, handheld consoles, personal computers ("PC"), tablets and mobile devices. Under the ROCCAT brand, the Company creates award-winning keyboards, mice, headsets, mousepads, and other computer accessories. The recently acquired, Neat Microphones® brand creates high-quality USB and analog microphones for gamers, streamers, and professionals that embrace cutting-edge technology and design.

### Business Trends

#### Gaming Headset Market

Gaming headsets are part of a global software and accessories gaming market which is expected to grow to \$196 billion by the end of 2021, a roughly 7% year-over-year increase. The global gaming audience now exceeds global cinema and music markets with over 2.9 billion active gamers worldwide. Gaming peripherals, such as headsets, keyboards, mice and controllers are estimated to be a \$7.9 billion business globally with over 75% of that market in the Americas and Europe where the Company's business is focused. Gaming headsets are expected to represent more than a \$2.9 billion global market in 2021, or more than 35% of the total gaming peripherals market.

Competitive esports is a global phenomenon where professional gamers train and compete to win prize money, partner with major brands, and attract/gain dedicated fans—similar to traditional professional sports. There were approximately 398 million esports viewers in 2019, and that was expected to surge to roughly 436 million viewers by 2020 (9.6% YOY), according to a report from Newzoo. This is expected to go up to 474 million viewers (YoY increase of 8.7%). Of those 474 million projected viewers, 240 million are expected to identify as "occasional viewers" and 234 million are expected to consider themselves "esports enthusiasts".

Many gamers play online where a gaming headset (which typically includes a microphone allowing players to communicate in real-time) provides a more immersive experience and a competitive advantage in the industry's most popular games and franchises.

PlayStation® and Xbox consoles continue to be dominant gaming platforms in North America and Europe for games that drive headset usage. Consistent with a historical pattern of major new console launches every 7-8 years, Microsoft and Sony released their next generation consoles, Xbox and PlayStation®5 platforms just ahead of holiday 2020. Demand for the new consoles has been very strong and exceeded supply which is a good indicator of the enthusiasm for the latest consoles. Further, industry guidance suggests that with the launch of the new systems, and continued sales of the current consoles, combined console hardware sales will set records in 2021 and 2022.

In 2020, the Nintendo Switch™ completed its third full year in the market with more than 70 million units sold through the end of December 2020, during which there has been an expanding library of games and an increased number of multiplayer chat-enabled games. In addition, Nintendo launched a follow-on product, the Nintendo Switch™ Lite, which is the handheld-only version of their popular gaming console.

While gaming on mobile/tablet devices represents about 50% of the global gaming market and headsets can be used for mobile gaming, console and PC gaming are by-far the largest drivers of gaming headset use.

## ***PC Accessories Market***

PC gaming in the U.S. has seen a resurgence in popularity the past few years and continues to be a main gaming platform internationally, driven by big AAA game launches, PC-specific esports leagues, teams and players, content creators and influencers, cross-platform play, and more. While most games are available on multiple platforms, gaming on PC offers advantages that include improved graphics, increased speed and precision of mouse/keyboard controls, and the ability for customization. Gaming mice and keyboards are engineered to provide gamers with higher-end performance and a superior gaming experience through benefits including faster response times, improved materials and build quality, programmable buttons and keys, and software suites to customize and control devices and settings.

PC gaming mice come in a variety of different ergonomic shapes and sizes, are available in both wired and wireless models, offer options for different sensors (optical and laser) and responsiveness, and often feature integrated RGB lighting and software to unify with the lighting on other devices for a visually pleasing PC gaming appearance. Similarly, PC gaming keyboards deliver a competitive advantage by registering keystrokes faster than others, offer options for mechanical key switches that feel and sound different, and utilize customizable lighting.

The \$3.6 billion market for PC gaming headsets, mice and keyboards grew at 42% in 2020 and is forecasted to drop by 9% in 2021 to almost \$3.3 billion. The same gaming, work-from-home, and school/learn-from-home factors benefitted the accessories market where headsets, keyboards, mice and other accessories developed for PC gaming have seen an increase in consumer demand. In 2021, the numbers are likely to fall off since the same COVID-19 related surges as 2020 are not expected.

PC and console gaming markets are also driven by major game launches and franchises that encourage players to buy equipment and accessories. On Xbox, PlayStation®, and PC flagship games like Call of Duty®, Destiny, Star Wars: Battlefront, Battlefield, Grand Theft Auto, and battle royale games like Fortnite, Call of Duty Warzone, Apex Legends and PlayerUnknown's Battlegrounds, are examples of major franchises that prominently feature online multiplayer modes which encourage communication and tend to drive increased gaming headset sales. Many of these established franchises launch new titles annually leading into the holidays and as a result which can cause an additional boost to the normally strong holiday sales of gaming accessories.

## ***Microphone Market***

The microphone market is estimated to be \$2.3 billion in size with roughly \$700 million of that estimated to be for digital USB microphones. The market for high-quality microphones, specifically digital microphones is experiencing significant growth as consumers on YouTube, Twitch and other popular platforms are gravitating toward using high-quality professional equipment for their workstations. Additionally, with the increasing trend to remote work furthered by stay-at-home orders, the need for a great sounding desktop microphone has become an important tool when it comes to working from home, as well as learning from home and staying connected with family and friends. The 2021 acquisition of Neat Microphones expands Turtle Beach's reach into the global microphone market, including, in particular, the market for digital/USB microphones which are often used by gamers, streamers, and influencers who also use other PC accessories.

## ***COVID-19 Outlook***

During 2020, as the pandemic created stay-at-home guidance, the gaming accessory market experienced a significant surge in demand as existing gamers began gaming more and new gamers entered the market. In addition, the increase in working from home and learning from home created additional demand for accessories, particularly gaming headsets which work well for video and audio calls. As a result, the Company's 2020 revenues exceeded historical levels as the overall gaming and headset markets experienced an unprecedented surge in demand. Going forward, the effects of the global pandemic and the measures being taken in response are uncertain and difficult to predict. While there were likely certain one-time purchases caused by the stay-at-home orders, we believe millions of new gamers have joined the market which should create an ongoing, larger installed base of players.

## **Key Performance Indicators and Non-GAAP Measures**

Management routinely reviews key performance indicators including revenue, operating income and margins, and earnings per share, among others. In addition, we believe certain other measures provide useful information to management and investors about us and, our financial condition and results of operations for the following reasons: (i) they are measures used by our board of directors and management team to evaluate our operating performance; (ii) they are measures used by our management team to make day-to-day operating decisions; (iii) the adjustments made are often viewed as either non-recurring or not reflective of ongoing financial performance or have no cash impact on operations; and (iv) they are used by securities analysts, investors and other interested parties as a common operating performance measure to compare results across companies in our industry by adjusting for potential differences caused by variations in capital structures (affecting relative interest expense), and the age and book value of facilities and equipment (affecting relative depreciation and amortization expense). These metrics, however, are not measures of financial performance under accounting principles generally accepted in the United States of America ("GAAP") and, given the limitations of these metrics as analytical tools, should not be considered a substitute for gross profit, gross margins, net income (loss) or other consolidated income statement data as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

- *Adjusted EBITDA* is defined as net income (loss) before interest, taxes, depreciation and amortization, stock-based compensation (non-cash) and certain special items that we believe are not representative of core operations.
- *Cash Margin* is defined as gross margin excluding depreciation and amortization, and stock-based compensation.

Adjusted EBITDA (and a reconciliation to Net income, the nearest GAAP financial measure) for the three months ended March 31, 2021 and 2020, are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	(in thousands)	
Net income (loss)	\$ 8,838	\$ (3,555)
Interest expense	97	169
Depreciation and amortization	1,042	1,255
Stock-based compensation	1,786	999
Income tax expense (benefit)	2,766	(1,824)
Change in fair value of contingent consideration	-	21
Business transaction expense	162	281
Non-recurring business costs	639	-
Adjusted EBITDA	<u>\$ 15,330</u>	<u>\$ (2,654)</u>

*Comparison of the Three Months Ended March 31, 2021 to the Three Months Ended March 31, 2020*

Net income for the three months ended March 31, 2021 was \$8.8 million with Adjusted EBITDA of \$15.3 million, compared to net loss of \$3.6 million with Adjusted EBITDA of (\$2.7) million for the prior year, due to higher revenue and favorable business mix as consumer demand for gaming accessories has remained above pre-pandemic levels.

**Results of Operations**

The following table sets forth the Company's statements of operations for the periods presented:

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	(in thousands)	
Net revenue	\$ 93,053	\$ 35,007
Cost of revenue	58,198	24,222
Gross profit	34,855	10,785
Operating expenses	22,575	15,798
Operating income (loss)	12,280	(5,013)
Interest expense	97	169
Other non-operating expense, net	579	197
Income (loss) before income tax	11,604	(5,379)
Income tax expense (benefit)	2,766	(1,824)
Net income (loss)	<u>\$ 8,838</u>	<u>\$ (3,555)</u>

## Net Revenue and Gross Profit

The following table summarizes net revenue and gross profit for the periods presented:

	Three Months Ended	
	March 31,	
	2021	2020
	(in thousands)	
Net Revenue	\$ 93,053	\$ 35,007
Gross Profit	\$ 34,855	\$ 10,785
Gross Margin	37.5%	30.8%
Cash Margin (1)	38.1%	32.7%

(1) Excludes depreciation and amortization, and stock-based compensation

### Comparison of the Three Months Ended March 31, 2021 to the Three Months Ended March 31, 2020

Net revenue for the three months ended March 31, 2021 was \$93.1 million, a \$58.0 million increase from \$35.0 million in the comparable prior year period due to increased demand as our GEN 2 models continued as top-selling models and encouraging growth in our expanding PC product line.

For the three months ended March 31, 2021, gross profit as a percentage of net revenue increased to 37.5% from 30.8% in the comparable prior year period. The increase was primarily due to margins that were positively impacted by volume-driven fixed cost leverage and lower than normal promotional activity.

### Operating Expenses

	Three Months Ended	
	March 31,	
	2021	2020
	(in thousands)	
Selling and marketing	\$ 11,545	\$ 7,648
Research and development	3,993	2,427
General and administrative	7,037	5,723
Total operating expenses	\$ 22,575	\$ 15,798

#### Selling and Marketing

Selling and marketing expenses for the three months ended March 31, 2021 totaled \$11.5 million compared to \$7.6 million for the three months ended March 31, 2020. This increase was primarily due to volume-based direct sales related fees and commissions, and certain ROCCAT brand marketing initiatives.

#### Research and Development

Research and development costs for the three months ended March 31, 2021 were \$4.0 million compared to \$2.4 million for the three months ended March 31, 2020. The year-over-year increases were primarily due to the expansion of PC accessories development capabilities.

#### General and Administrative

General and administrative expenses for the three months ended March 31, 2021 totaled \$7.0 million compared to \$5.7 million for the three months ended March 31, 2020. The year-over-year increase was primarily due to increased legal defense costs, higher variable compensation costs and incremental Neat Microphones-acquisition related expense, offset by reduced professional fees.

### Income Taxes

Income tax expense for the three months ended March 31, 2021 was \$2.8 million at an effective rate of 23.8%. Income tax benefit for the three months ended March 31, 2020 was \$1.8 million at an effective tax rate of 33.9%. The effective tax rate for the three months ended March 31, 2021 was primarily impacted by the tax effect of disallowed compensation and state income tax expense, offset by benefits on stock option exercises.

## Liquidity and Capital Resources

Our primary sources of working capital are cash flows from operations and availability under our revolving credit facility. We have funded operations and acquisitions in recent periods with operating cash flows.

The following table summarizes our sources and uses of cash:

	Three Months Ended	
	March 31,	
	2021	2020
	(in thousands)	
Cash and cash equivalents at beginning of period	\$ 46,681	\$ 8,249
Net cash provided by operating activities	21,087	17,526
Net cash used for investing activities	(4,780)	(890)
Net cash provided by (used for) financing activities	696	(15,384)
Effect of foreign exchange on cash	(719)	(768)
Cash and cash equivalents at end of period	<u>\$ 62,965</u>	<u>\$ 8,733</u>

### Operating activities

Cash provided by operating activities for the three months ended March 31, 2021 was \$21.1 million, an increase of \$3.6 million as compared to \$17.5 million for the three months ended March 31, 2020. The increase is primarily the result of higher gross receipts, partially offset by increased raw material procurements and product purchases to maintain inventory levels with elevated consumer demand.

### Investing activities

Cash used for investing activities was \$4.8 million for the three months ended March 31, 2021 related to certain capital investments, including \$2.5 million related to the Neat Microphones acquisition, compared to \$0.9 million for the three months ended March 31, 2020.

### Financing activities

Net cash provided by financing activities was \$0.7 million during the three months ended March 31, 2021 compared to \$15.4 million during the three months ended March 31, 2020. Financing activities during the three months ended March 31, 2021 primarily included stock option exercise proceeds of \$0.9 million. Financing activities during the three months ended March 31, 2020 consisted of net repayments on our revolving credit facility of \$15.4 million.

### Management assessment of liquidity

Management believes that our current cash and cash equivalents, the amounts available under our revolving credit facility and cash flows derived from operations will be sufficient to meet anticipated cash needs for working capital and capital expenditures for at least the next twelve months. In addition, the Company monitors the capital markets on an ongoing basis and may consider raising capital if favorable market conditions develop. Significant assumptions underlie this belief, including, among other things, that there will be no material adverse developments in our business, liquidity or capital requirements.

Foreign cash balances at March 31, 2021 and December 31, 2020 were \$6.8 million and \$5.9 million, respectively.

### At-the-Market Common Stock Issuance

On August 7, 2020, the Company entered into an ATM Equity Offering Sales Agreement (the "Sales Agreement") with BofA Securities, Inc. (the "Sales Agent"). Pursuant to the terms of the Sales Agreement, the Company may sell from time to time through the Sales Agent shares of the Company's common stock, par value \$0.001 per share, having an aggregate offering price of up to \$30 million. The Company intends to use the net proceeds from the offering, after deducting the Sales Agent's commissions and the Company's offering expenses, to support its strategic growth plans, as well as for general corporate purposes.

There was no activity under this agreement during the three months ended March 31, 2021.

### Revolving Credit Facility

On December 17, 2018, Turtle Beach and certain of its subsidiaries entered into an amended and restated loan, guaranty and security agreement ("Credit Facility") with Bank of America, N.A. ("Bank of America"), as Agent, Sole Lead Arranger and Sole Bookrunner, which replaced the then existing asset-based revolving loan agreement. The Credit Facility, which expires on March 5, 2024, provides for a line of credit of up to \$80 million inclusive of a sub-facility limit of \$12 million for TB Europe, a wholly-owned subsidiary of Turtle Beach. In addition, the Credit Facility provides for a \$40 million accordion feature and the ability to increase the borrowing base with a FILO Loan of up to \$6.8 million.

On May 31, 2019, the Company amended the Credit Facility to provide for, amongst other items, (i) the addition of TBC Holding Company LLC, a wholly-owned subsidiary of VTB, as an obligor and (ii) the ability to make investments in TB Germany GmbH, a wholly-owned subsidiary of TB Europe, of up to \$4 million in connection with the acquisition of ROCCAT and up to an additional \$4 million annually.

The maximum credit availability for loans and letters of credit under the Credit Facility is governed by a borrowing base determined by the application of specified percentages to certain eligible assets, primarily eligible trade accounts receivable and inventories, and is subject to discretionary reserves and revaluation adjustments. The Credit Facility may be used for working capital, the issuance of bank guarantees, letters of credit and other corporate purposes.

Amounts outstanding under the Credit Facility bear interest at a rate equal to either a rate published by Bank of America or the LIBOR rate, plus in each case, an applicable margin, which is between 0.50% to 1.25% for base rate loans and between 1.25% to 2.00% for U.S. LIBOR loans and U.K. loans, and between 2.00% to 2.75% for the FILO loan. In addition, Turtle Beach is required to pay a commitment fee on the unused revolving loan commitment at a rate ranging from 0.25% to 0.50% and letter of credit fees and agent fees. As of March 31, 2021, interest rates for outstanding borrowings were 3.75% for base rate loans and 3.00% for LIBOR rate loans. As of March 31, 2021, there were no outstanding borrowings under the Credit Facility.

The Company is subject to quarterly financial covenant testing if certain availability thresholds are not met or certain other events occur (as defined in the Credit Facility). At such times, the Credit Facility requires the Company and its restricted subsidiaries to maintain a fixed charge coverage ratio of at least 1.00 to 1.00 as of the last day of each fiscal quarter.

The Credit Facility also contains affirmative and negative covenants that, subject to certain exceptions, limit our ability to take certain actions, including the Company's ability to incur debt, pay dividends and repurchase stock, make certain investments and other payments, enter into certain mergers and consolidations, engage in sale leaseback transactions and transactions with affiliates, and encumber and dispose of assets. Obligations under the Credit Facility are secured by a security interest and lien upon substantially all of the Company's assets.

As of March 31, 2021, the Company was in compliance with all financial covenants under the Credit Facility, as amended, and excess borrowing availability was approximately \$49.7 million.

### **Critical Accounting Estimates**

Our discussion and analysis of our results of operations and capital resources are based on our consolidated financial statements, which have been prepared in conformity with U.S. GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. Management bases its estimates, assumptions and judgments on historical experience and on various other factors that it believes to be reasonable under the circumstances.

Different assumptions and judgments would change the estimates used in the preparation of the condensed consolidated financial statements, which, in turn, could change the results from those reported. Management evaluates its estimates, assumptions and judgments on an ongoing basis.

See Note 2, "Summary of Significant Accounting Policies," to the unaudited condensed consolidated financial statements contained herein for a complete discussion of recent accounting pronouncements. We are currently evaluating the impact of certain recently issued guidance on our financial condition and results of operations in future periods.

### **Item 3 - Qualitative and Quantitative Disclosures about Market Risk**

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. The Company's market risk exposure is primarily a result of fluctuations in interest rates, foreign currency exchange rates and inflation.

The Company has used derivative financial instruments, specifically foreign currency forward and option contracts, to manage exposure to foreign currency risks, by hedging a portion of its forecasted expenses denominated in British Pounds expected to occur within a year. The effect of exchange rate changes on foreign currency forward and option contracts is expected to offset the effect of exchange rate changes on the underlying hedged item. The Company does not use derivative financial instruments for speculative or trading purposes. As of March 31, 2021 and December 31, 2020, we did not have any derivative financial instruments.



### ***Foreign Currency Exchange Risk***

The Company has exchange rate exposure primarily with respect to the British Pound and Euro. As of March 31, 2021 and December 31, 2020, our monetary assets and liabilities that are subject to this exposure are immaterial, therefore the potential immediate loss to us that would result from a hypothetical 10% change in foreign currency exchange rates would not be expected to have a material impact on our earnings or cash flows. This sensitivity analysis assumes an unfavorable 10% fluctuation in the exchange rates affecting the foreign currencies in which monetary assets and liabilities are denominated and does not take into account the offsetting effect of such a change on our foreign currency denominated revenues.

### ***Inflation Risk***

The Company is exposed to market risk due to the possibility of inflation, such as increases in the cost of its products. Although the Company does not believe that inflation has had a material impact on its financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on the Company's ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenue if the selling prices of products do not increase with these increased costs.

## **Item 4 - Controls and Procedures**

### **Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), are designed to ensure that (1) information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (2) that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosures.

At the conclusion of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision of our Chief Executive Officer (our principal executive officer, or PEO) and our Chief Financial Officer (our principal financial officer, or PFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our PEO and PFO concluded that our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, were effective as of March 31, 2021.

### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the period covered that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies, which may be identified during this process.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Item 1 - Legal Proceedings**

Please refer to Note 14, “Commitments and Contingencies” in the notes to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Report on Form 10-Q, which is incorporated into this item by reference.

**Item 1A - Risk Factors**

*The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding any statement in this Form 10-Q or elsewhere. The following information should be read in conjunction with our financial statements and related notes in Part I, Item 1, “Financial Statements” and Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-Q.*

*Because of the following factors, as well as other factors affecting the Company’s financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.*

**Risks Related to COVID-19**

***The effects of the COVID-19 pandemic could adversely affect our business, results of operations, and financial condition.***

The effects of the public health crisis caused by the COVID-19 pandemic and the measures being taken in response are uncertain and difficult to predict, but may include:

- A decrease in the long-term demand and/or pricing for our products, and a global economic recession that could reduce demand and/or pricing for our products, resulting from actions taken by governments, businesses, and/or the general public in an effort to limit exposure to and spreading of such infectious diseases, such as travel restrictions, quarantines, and business shutdowns or slowdowns;
- Disruptions to our supply chain in connection with the sourcing, manufacturing and transportation of finished goods and materials, in particular, the negative impact to lead-times and availability of semiconductor components which could lead to shortages preventing us from manufacturing products in the required quantities to support demand;
- Disruptions in foot traffic to brick-and-mortar retail locations of our retailers resulting from stay-at-home orders and government restrictions on retailing operations could disrupt retail customer awareness and demand for our products;
- Negative impacts to our operations, including reductions in efficiency and productivity and increased costs resulting from efforts to mitigate the impact of COVID-19;
- Deterioration of worldwide credit and financial markets that could limit our ability to obtain financing, result in losses due to failures of financial institutions and other parties, and cause a higher rate of losses on our accounts receivables due to defaults and bankruptcies; and
- Deterioration of the financial condition or liquidity, or interruptions to the operations, of our suppliers and customers, including retailers and distributors, could adversely affect the distribution, availability and sales of our products.

Additionally, as a result of stay-at-home orders and government restrictions on retailing operations due to COVID-19, retailers have experienced, and may continue to experience, liquidity constraints or other financial difficulties, which could lead to a reduction in the amount of merchandise purchased from us, an increase in order cancellations or the need to extend payment terms. Any or all of these measures could substantially reduce revenue or have a material adverse effect on our results of operations.

The resumption of normal business operations after such interruptions may be delayed or constrained by lingering effects of COVID-19 on our employees, suppliers, manufacturers, distributors, retailers, third-party service providers, and/or customers. We have seen an increase in demand for our products during the COVID-19 pandemic and may see a decrease in demand for our products as restrictions imposed for the pandemic are lifted and social functions and activities start returning to pre-pandemic levels.

These effects, alone or taken together, could have a material adverse effect on our business, results of operations or financial condition. An extended period of global supply chain and economic disruption resulting from the COVID-19 pandemic and the government measures adopted in response thereto could exacerbate the foregoing effects. In addition, the potential impacts of COVID-19 also could affect many of our risk factors included in Item 1A. of this Quarterly Report on Form 10-Q. However, as the COVID-19 situation is unprecedented and continuously evolving, the potential impacts to such risk factors remain uncertain.

## Risks Related to Our Operations

***We depend upon the success and availability of third-party gaming platforms and release of certain game titles to drive sales of our headset products.***

The performance of our headset business is affected by the continued success of third-party gaming platforms, such as Microsoft's Xbox consoles and Sony's PlayStation® consoles, as well as video games developed by such manufacturers and other third-party publishers. Our business could suffer if any of these parties fail to continue to drive the success of these platforms, develop new or enhanced videogame platforms, develop popular game and entertainment titles for current or future generation platforms or produce and timely release sufficient quantities of such consoles. Further, if a platform is withdrawn from the market or fails to sell, we may be forced to liquidate inventories relating to that platform or accept returns resulting in significant losses.

***The manufacture, supply and shipment of our products are dependent upon a limited number of third parties, and our success is dependent upon the ability of these parties to manufacture, supply and ship sufficient quantities of our products to us in a timely fashion, as well as the continued viability and financial stability of these third-parties. In addition, many of our products use components with long order lead times and constrained supply. Any disruption in supply of these components could materially impact the ability of our 3rd party manufacturing partners to produce our products.***

Our manufacturers' and suppliers' ability to supply products to us is also subject to a number of risks, including the availability of raw materials or components, their financial instability, the destruction of their facilities, epidemics or work stoppages. Any shortage of raw materials or components or an inability to control costs associated with manufacturing could increase our costs or impair our ability to ship orders in a timely and cost-efficient manner. As a result, we could experience cancellations of orders, refusal to accept deliveries or a reduction in our prices and margins, any of which could harm our financial performance and results of operations.

The outbreak of COVID-19 has led to work and travel restrictions globally which in turn has led to factory closures, interruptions in supply chains, increased regulation and workforce shortages. These issues and others may make it difficult for our suppliers and manufacturers to source raw materials or components, manufacture finished goods and export our products. There may be significant and material disruptions to our supply chain and operations, and delays in the manufacture and shipment of our products, which may then have a material adverse effect on our business or results of operations.

Moreover, there can be no assurance that such manufacturers and suppliers will not refuse to supply us at prices we deem acceptable, independently market their own competing products in the future, or otherwise discontinue their relationships with us. Our failure to maintain these existing manufacturing and supplier relationships, or to establish new relationships on similar terms in the future, could have a material adverse effect on our business, results of operations, financial condition and liquidity.

In particular, certain of our products have a number of components and subassemblies produced by outside suppliers. In addition, for certain of these items, we qualify only a single source of supply with long lead times, which can magnify the risk of shortages or result in excess supply and also decreases our ability to negotiate price with our suppliers. Also, if we experience quality problems with suppliers, then our production schedules could be significantly delayed or costs significantly increased, which could have an adverse effect on our business, liquidity, results of operation and financial position.

In addition, the ongoing effectiveness of our supply chain is dependent on the timely performance of services by third parties shipping products and materials to and from our warehouse facilities and other locations. If we encounter problems with these shipments, our ability to meet retailer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies could be materially adversely affected and we may be required to incur material additional costs for expedited shipping, including air freight. We have experienced some of these problems in the past and we cannot assure you that we will not experience similar problems in the future.

***Our brands face significant competition from other consumer electronics companies and this competition could have a material adverse effect on our financial condition and results of operations.***

We compete with other producers of gaming accessories, including the video game console manufacturers. Our competitors may undertake more extensive marketing campaigns, adopt more aggressive pricing policies, or develop more commercially successful products for the personal computer or video game platforms than we do. In addition, competitors with large product lines and popular products, in particular the video game console manufacturers, typically have greater leverage with retailers, distributors and other customers, who may be willing to promote products with less consumer appeal in return for access to those competitors' more popular products.

In the event that a competitor reduces prices, we could be forced to respond by lowering our prices to remain competitive. If we are forced to lower prices, we may be required to "price protect" products that remain unsold in our customers' inventories at the time of the price reduction. Price protection results in our issuing a credit to our customers in the amount of the price reduction for each unsold unit in that customer's inventory. Our price protection policies, which are customary in the industry, can have a major impact on our profitability.

***The industries in which we operate are subject to competition in an environment of rapid technological change, and if we do not adapt to, and appropriately allocate our resources among, emerging technologies, our revenues could be negatively affected.***

We must make substantial product development and other investments to align our product portfolio and development efforts in response to market changes in the gaming industry. We must anticipate and adapt our products to emerging technologies in order to keep those products competitive. When we choose to incorporate a new technology into our products or to develop a product for a new platform or operating system, we are often required to make a substantial investment prior to the introduction of the product. If we invest in the development of a new technology or for a new platform that does not achieve significant commercial success, our revenues from those products likely will be lower than anticipated and may not cover our costs. Further, our competitors may develop or adapt to an emerging technology more quickly or effectively than we do, creating products that are technologically superior to ours, more appealing to consumers, or both.

New and emerging technologies and alternate platforms for gaming, such as mobile devices and virtual reality devices, could make the consoles for which our headsets are designed less attractive or, in time, obsolete, which could require us to transition our business model such as develop products for other gaming platforms.

There are numerous steps required to develop a product from conception to commercial introduction and to ensure timely shipment to retail customers, including designing, sourcing and testing the electronic components, receiving approval of hardware and other third-party licensors, factory availability and manufacturing and designing the graphics and packaging. Any difficulties or delays in the product development process will likely result in delays in the contemplated product introduction schedule. It is common in new product introductions or product updates to encounter technical and other difficulties affecting manufacturing efficiency and, at times, the ability to manufacture the product at all. Although these difficulties can be corrected or improved over time with continued manufacturing experience and engineering efforts, if one or more aspects necessary for the introduction of products are not completed as scheduled, or if technical difficulties take longer than anticipated to overcome, the product introductions will be delayed, or in some cases may be terminated. No assurances can be given that our products will be introduced in a timely fashion, and if new products are delayed, our sales and revenue growth may be limited or impaired.

***A significant portion of our revenue is derived from a few large customers, and the loss of any such customer, or a significant reduction in purchases by such customer, could have a material adverse effect on our business, financial condition and results of operations.***

During 2020, our three largest individual customers accounted for approximately 47% of our gross sales in the aggregate. The loss of, or financial difficulties experienced by, any of these or any of our other significant customers, including as a result of the bankruptcy of a customer, could have a material adverse effect on our business, results of operations, financial condition and liquidity. We do not have long-term agreements with these or other significant customers and our agreements with these customers do not require them to purchase any specific amount of products. All of our customers generally purchase from us on a purchase order basis. As a result, agreements with respect to pricing, returns, cooperative advertising or special promotions, among other things, are subject to periodic negotiation with each customer. No assurance can be given that these or other customers will continue to do business with us or that they will maintain their historical levels of business. In addition, the uncertainty of product orders can make it difficult to forecast our sales and allocate our resources in a manner consistent with actual sales, and our expense levels are based in part on our expectations of future sales. If our expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls. In addition, financial difficulties experienced by a significant customer could increase our exposure to uncollectible receivables and the risk that losses from uncollected receivables exceed the reserves we have set aside in anticipation of this risk or limit our ability to continue to do business with such customers.

***Turtle Beach relies on its partnerships with influencers, athletes and esports teams to expand our market and promote our products, which may not perform to our expectations. If our marketing efforts do not effectively raise the recognition and reputation of our brands, we may not be able to successfully implement our gaming accessory growth strategy.***

We believe that our ability to extend the recognition and favorable perception of our Turtle Beach brand, and the recently acquired ROCCAT and Neat Microphones brands, is critical to implement our gaming accessory growth strategy, which includes maintaining our strong position in console gaming headsets and building our brand recognition and product appeal in PC gaming headsets, keyboards, and mice as well as in additional new categories over time. These efforts incur significant costs in marketing and these expenditures, however, may not result in a sufficient increase in net sales to cover such costs.

Relationships with new and established influencers, athletes and esports teams have been, and will continue to be important to our future success. We rely on these partners to assist us in generating increased acceptance and use of our product offerings. We have established a number of these relationships, and our growth depends in part on establishing new relationships and maintaining existing ones. Certain partners may not view their relationships with us as significant to their own businesses, and they may reassess their commitment to us or decide to partner with our competitors in the future. We cannot guarantee that any partner will perform their obligations as agreed or that we would be able to specifically enforce any agreement with them. If any partner does not perform consistent with our agreements, we may be subject to reputational or social media risks. Additionally, our failure to maintain and expand these relationships may adversely impact our future revenue.

***Our net sales and operating income fluctuate on a seasonal basis and decreases in sales or margins during peak seasons could have a disproportionate effect on our overall financial condition and results of operations.***

Historically, a significant portion of our annual revenues have been generated during the holiday season of September to December. If we do not accurately forecast demand for particular products, we could incur additional costs or experience manufacturing delays. Any shortfall in net sales during this period would cause our annual results of operations to suffer significantly.

Demand for our products depends on many factors such as consumer preferences and the introduction or adoption of game platforms and related content and can be difficult to forecast. If we misjudge the demand for our products, we could face the following problems in our operations, each of which could harm our operating results:

- If our forecasts of demand for products are too high, we may accumulate excess inventories of products, which could lead to markdown allowances or write-offs affecting some or all of such excess inventories. We may also have to adjust the prices of our existing products to reduce such excess inventories;
- If demand for specific products increases beyond what we forecast, our suppliers and third-party manufacturers may not be able to increase production or obtain required components quickly enough to meet the demand. Our failure to meet market demand may lead to missed opportunities to increase our base of gamers, damage our relationships with retailers or harm our business; and
- The on-going transition to new console platforms increases the likelihood that we could fail to accurately forecast demand for headsets and other accessories for these platforms.

***Our results of operations and financial condition may be adversely affected by global business, political, operational, financial and economic conditions.***

We face business, political, operational, financial and economic risks inherent in international business, many of which are beyond our control, including:

- trade restrictions, higher tariffs, currency fluctuations or the imposition of additional regulations relating to import or export of our products, especially in China, where many of our Turtle Beach products are manufactured, which could force us to seek alternate manufacturing sources or increase our costs;
- difficulties obtaining domestic and foreign export, import and other governmental approvals, permits and licenses, and compliance with foreign laws, which could halt, interrupt or delay our operations if we cannot obtain such approvals, permits and licenses;
- compliance with anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977, the U.K. Bribery Act 2010, the European Union Anti-Corruption Act and other similar laws, or non-compliance that could subject us to trade sanctions administered by the Office of Foreign Assets Control, the U.S. Department of Commerce and equivalent foreign entities;
- difficulties encountered by our international distributors or us in staffing and managing foreign operations or international sales, including higher labor costs;
- transportation delays and difficulties of managing international distribution channels;
- longer payment cycles for, and greater difficulty collecting, accounts receivable;
- political and economic instability, including wars, terrorism, political unrest, boycotts, curtailment of trade and other business restrictions, any of which could materially and adversely affect our net sales and results of operations;
- public health issues (for example, an outbreak of a contagious disease such as COVID-19); and
- natural disasters.

Any of these factors could reduce our net sales, decrease our gross margins, increase our expenses or reduce our profitability. Should we establish our own operations in international territories where we currently utilize a distributor, we will become subject to greater risks associated with operating outside of the United States.

The electronics industry in general has historically been characterized by a high degree of volatility and is subject to substantial and unpredictable variations resulting from changing business cycles. Our operating results will be subject to fluctuations based on general economic conditions, and in particular conditions that impact discretionary consumer spending. Downturns in the worldwide economy could adversely affect our business. For example, the health crisis caused by COVID-19 has caused a downturn in the worldwide economy and resulted in adverse economic conditions across the world. If these conditions continue, we could experience a reduction in demand for our products or a lengthening of consumer replacement schedules for our products. Reduced demand for these products could result in decreases in our average selling prices and product sales. A deterioration of current conditions in worldwide credit markets could limit our ability to obtain financing. A lack of available credit in financial markets may adversely affect the ability of our commercial customers to finance purchases and operations and could result in an absence of orders or spending for our products as well as create supplier disruptions. We are unable to predict the likely duration and severity of any adverse economic conditions and disruptions in financial markets and the effects they will have on our business and its financial condition. Difficult economic conditions may also result in a higher rate of losses on our accounts receivables due to defaults or bankruptcies. As a result, a downturn in the worldwide economy could have a material adverse effect on our business, results of operations or financial condition.

***If we fail to maintain an effective system of internal controls, we may not be able to accurately report financial results or prevent fraud, which could have an adverse effect on our business and financial condition.***

Effective internal controls are necessary to provide reliable financial reports and to assist in the effective prevention of fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. The Sarbanes-Oxley Act of 2002 requires, among other things, that we evaluate our systems and processes and test our internal controls over financial reporting to allow management and our independent registered public accounting firm, as applicable, to report on the effectiveness of our internal control over financial reporting. We have reported the remediation of a material weakness related to the review of material non-routine transactions or events disclosed in our 2018 Annual Report on Form 10-K. In the future, if we are not able to remediate any identified material weakness or otherwise comply with the requirements of Section 404 of the Sarbanes-Oxley Act, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, investors could lose confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline and we could be subject to sanctions, investigations by the Nasdaq Stock Market, LLC, the SEC or other regulatory authorities, or shareholder litigation.

In addition, failure to maintain effective internal controls could result in financial statements that do not accurately reflect our financial condition or results of operations. There can be no assurance that we will be able to maintain a system of internal controls that fully complies with the requirements of the Sarbanes-Oxley Act of 2002 or that our management and independent registered public accounting firm will continue to conclude that our internal controls are effective.

#### **Risks Related to our Intellectual Property and other Legal Matters**

***Our competitive position will be adversely damaged if our products are found to infringe on the intellectual property rights of others.***

Other companies and our competitors may currently own or obtain patents or other proprietary rights that might prevent, limit or interfere with our ability to make, use or sell our products. Although we do not believe that our products infringe the proprietary rights of any third parties, we have received notices of alleged infringement in the past and there can be no assurance that infringement or other legal claims will not be asserted against us in the future or that we will not be found to infringe the intellectual property rights of others. The electronics industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, resulting in significant and often protracted and expensive litigation. In the event of a successful claim of infringement against us and our failure or inability to license the infringed technology, our business and operating results could be adversely affected. Any litigation or claims, whether or not valid, could result in substantial costs and diversion of our resources. An adverse result from intellectual property litigation could cause us to do one or more of the following:

- cease selling, incorporating or using products or services that incorporate the challenged intellectual property;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms, if at all; and/or
- redesign products or services that incorporate the disputed technology.

If we take any of the foregoing actions, we could face substantial costs and shipment delays and our business could be seriously harmed. Although we carry general liability insurance, our insurance may not cover claims of this type or may be inadequate to insure us for all liability that may be imposed.

In addition, it is possible that our customers or end users may seek indemnity from us in the event that our products are found or alleged to infringe the intellectual property rights of others. Any such claim for indemnity could result in substantial costs to us that could adversely impact our operating results.

***If we are unable to obtain and maintain intellectual property rights and/or enforce those rights against third parties who are violating those rights, our business could suffer.***

We rely on various intellectual property rights, including patents, trademarks, trade secrets and trade dress to protect our Turtle Beach brand name, reputation, product appearance, and technology. Although we have entered into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements with selected parties with whom we conduct business to limit access to and disclosure of our proprietary information, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent misappropriation of that intellectual property or deter independent third-party development of similar technologies. Monitoring the unauthorized use of proprietary technology and trademarks is costly, and any dispute or other litigation, regardless of outcome, may be costly and time consuming and may divert the attention of management and key personnel from our business operations. The steps taken by us may not prevent unauthorized use of proprietary technology or trademarks. Many features of our products are not protected by patents; we may not have the legal right to prevent others from reverse engineering or otherwise copying and using these features in competitive products. If we fail to protect or to enforce our intellectual property rights successfully, our competitive position could suffer, which could adversely affect our financial results.

We are susceptible to counterfeiting of our products, which may harm our reputation for producing high-quality products and force us to

incur expenses in enforcing our intellectual property rights. Such claims and lawsuits can be expensive to resolve, require substantial management time and resources, and may not provide a satisfactory or timely result, any of which may harm our results of operations. As some of our products are sold internationally, we are also dependent on the laws of many countries to protect and enforce our intellectual property rights. These laws may not protect intellectual property rights to the same extent or in the same manner as the laws of the United States.

Further, we are party to licenses that grant us rights to intellectual property, including trademarks, which are necessary or useful to our Turtle Beach business. One or more of our licensors may allege that we have breached our license agreement with them, and seek to terminate our license. If successful, this could result in our loss of the right to use the licensed intellectual property, which could adversely affect our ability to commercialize our technologies or products, as well as harm our competitive business position and our business prospects.

Our success also depends in part on our ability to obtain and enforce intellectual property protection of our technology, particularly our patents. There is no guarantee any patent be granted on any patent application that we have filed or may file. Claims allowed from existing or pending patents may not be of sufficient scope or strength to protect the economic value of our technologies. Further, any patent that we may obtain will expire at some point, and it is possible that it may be challenged, invalidated or circumvented even prior to expiration.

We may initiate claims or litigation against third parties in the future for infringement of our proprietary rights or to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors. These claims could result in costly litigation and divert the efforts of our technical and management personnel. As a result, our operating results could be adversely affected and our financial condition could be negatively impacted.

***We are dependent upon third-party intellectual property to manufacture some of our products.***

The performance of certain technology used in new generation consoles, such as integrated voice and chat audio from the Xbox platforms is improved by a licensed component to ensure compatibility with our products.

While we currently believe that we have the necessary licenses, or can obtain the necessary licenses, in order to produce compatible products, there is no guarantee that our licenses will be renewed or granted in the first instance in the future. Moreover, if these first parties enter into license agreements with companies other than us for their “closed systems” or if we are unable to obtain sufficient quantities of these headset adapters or chips, we would be placed at a competitive disadvantage.

In order for certain of our headsets to connect to the Xbox platforms’ advanced features and controls, a proprietary computer chip or wireless module is required. As a result, with respect to our products designed for the Xbox platforms, we are currently reliant on Microsoft or their designated supplier to provide us with sufficient quantities. If we are unable to obtain sufficient quantities of these headset adapters or chips, sales of such Xbox platform headsets and consequently our revenues would be adversely affected.

We are licensed and approved by Microsoft to develop and sell Xbox platform compatible audio products pursuant to a license agreement under which we have the right to manufacture (including through third party manufacturers), market and sell audio products for the Xbox platform video game console. Our current Xbox platform headsets are dependent on this license and headsets for future Xbox consoles may also be dependent on this license. Microsoft has the right to terminate that license under certain circumstances set forth in the agreement. Should that license be terminated, our headset offerings may be limited, which could significantly reduce our revenues. While Sony does not currently require a license for audio products to be compatible with PlayStation® consoles, they could do so in the future.

Accordingly, Microsoft, Sony and other third-party gaming platform manufacturers may control our ability to manufacture headsets compatible with their platforms, and could cause unanticipated delays in the release of our products as well as increases to projected development, manufacturing, licensing, marketing or distribution costs, any of which could negatively impact our business.

***We are party to ongoing stockholder litigation, and in the future could be party to additional stockholder litigation, any of which could harm our business, financial condition and operating results.***

We have had, and may continue to have, actions brought against us by stockholders in connection with the merger, past transactions, changes in our stock price or other matters. Any such claims, whether or not resolved in our favor, could divert our management and other resources from the operation of our business and otherwise result in unexpected and substantial expenses that would adversely and materially impact our business, financial condition and operating results. For example, and as further described in Note 14, “Commitments and Contingencies,” we are involved in legal proceedings related to the merger of VTBH and Paris Acquisition Corp. involving certain of our stockholders.

**Risks Related to Liquidity**

***In the past, we have depended upon the availability of capital under our revolving credit facility to finance our operations. Any additional financing that we may need may not be available on favorable terms, or at all.***

In addition to cash flow generated from operations, we have financed our operations with a credit facility (the “Credit Facility”) provided by Bank of America, as Agent, Sole Lead Arranger and Sole Bookrunner. If we are unable to comply with the financial and other covenants contained in the Credit Facility and are unable to obtain a waiver under the Credit Facility, Bank of America may declare any outstanding borrowings under the Credit Facility immediately due and payable. If we had borrowing under the Credit Facility, such an event would have an immediate and material adverse impact on our business, results of operations, and financial condition. We could be required to obtain additional financing from other sources, and we cannot predict whether or on what terms, if any, additional financing might be available. If we were required to seek additional financing and were unable to obtain it, we might need to change our business and capital expenditure plans, which may have a materially adverse effect on our business, financial condition and results of operations. In addition, any debt under the Credit Facility could make it more difficult to obtain other debt financing in the future. The Credit Facility contains certain financial covenants and other restrictions that limit our ability, among other things, to incur certain additional indebtedness; pay dividends and repurchase stock; make certain investments and other payments; enter into certain mergers or consolidations; engage in sale and leaseback transactions and transactions with affiliates; and encumber and dispose of assets.

If we violate any of these covenants, we will likely be unable to borrow under the Credit Facility. If a default occurs and is not timely cured or waived, Bank of America could seek remedies against us, including termination or suspension of obligations to make loans and issue letters of credit, and acceleration of amounts then outstanding under the applicable Credit Facility. No assurance can be given that we will be able to maintain compliance with these covenants in the future. The Credit Facility is asset based and can only be drawn down in an amount to which eligible collateral exists and can be negatively impacted by extended collection of accounts receivable, unexpectedly high product returns and slow-moving inventory, among other factors. In addition, we have granted the lender a first-priority lien against substantially all of our assets, including trade accounts receivable and inventories. Failure to comply with the operating restrictions or financial covenants could result in the lender terminating or suspending its obligation to make loans and issue letters of credit to us.

## **General Risk Factors**

***If we are unable to protect our information systems against service interruption, misappropriation of data or breaches of security, our operations could be disrupted, our reputation may be damaged, and we may be financially liable for damages.***

We rely heavily on information systems to manage our operations, including a full range of retail, financial, sourcing and merchandising systems. We regularly make investments to upgrade, enhance or replace these systems, as well as leverage new technologies to support our growth strategies. In addition, we have implemented enterprise-wide initiatives that are intended to standardize business processes and optimize performance. Further, while many of our employees and certain suppliers with whom we do business operate in a remote working environment during the COVID-19 pandemic, the risk of cybersecurity attacks and data breaches, particularly through phishing attempts, may be increased as we and third-parties with whom we interact leverage our IT infrastructure in previously unanticipated ways during the ongoing COVID-19 pandemic. Any delays or difficulties in transitioning to new systems or integrating them with current systems or the failure to implement our initiatives in an orderly and timely fashion could result in additional investment of time and resources, which could impair our ability to improve existing operations and support future growth, and ultimately have a material adverse effect on our business.

The reliability and capacity of our information systems are critical. Despite preventative efforts, our systems are vulnerable to damage or interruption from, among other things, natural disasters, technical malfunctions, inadequate systems capacity, human error, power outages, computer viruses and security breaches. Any disruptions affecting our information systems could have a material adverse impact on our business. In addition, any failure to maintain adequate system security controls to protect our computer assets and sensitive data, including associate and client data, from unauthorized access, disclosure or use could damage our reputation with our associates and our clients, exposing us to financial liability, legal proceedings (such as class action lawsuits), and/or regulatory action. While we have implemented measures to prevent security breaches and cyber incidents, our preventative measures and incident response efforts may not be entirely effective. As a result, we may not be able to immediately detect any security breaches, which may increase the losses that we would suffer. Finally, our ability to continue to operate our business without significant interruption in the event of a disaster or other disruption depends, in part, on the ability of our information systems to operate in accordance with our disaster recovery and business continuity plans.

Our reliance on information systems and other technology also gives rise to cybersecurity risks, including security breach, espionage, system disruption, theft and inadvertent release of information. The occurrence of any of these events could compromise our networks, and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disrupt operations, and damage our reputation, which could adversely affect our business. In addition, as security threats continue to evolve we may need to invest additional resources to protect the security of our systems.

***The United Kingdom’s exit of the European Union may negatively impact our operations.***

The changes to the trading relationship between the United Kingdom (U.K.) and European Union resulting from the U.K.’s exit from the European Union on January 31, 2020 (“Brexit”) will likely result in increased cost of goods imported into and exported from the U.K. and may decrease the profitability of our U.K. and other European operations. Additional currency volatility could result in a weaker British pound, which increases the cost of goods imported into our U.K. operations and may decrease the profitability of our U.K. operations. A weaker British pound versus the Euro and U.S. dollar also causes local currency results of our U.K. operations to be translated into fewer U.S. dollars during a reporting period. On December 24, 2020, the UK and the EU entered into a trade and cooperation agreement (the “Trade and Cooperation Agreement”),



which was applied on a provisional basis from January 1, 2021. While the economic integration does not reach the level that existed during the time the UK was a member state of the EU, the Trade and Cooperation Agreement sets out preferential arrangements in areas such as trade in goods and in services, digital trade and intellectual property. Negotiations between the UK and the EU are expected to continue in relation to the relationship between the UK and the EU in certain other areas which are not covered by the Trade and Cooperation Agreement. The long term effects of Brexit will depend on the effects of the implementation and application of the Trade and Cooperation Agreement and any other relevant agreements between the UK and the EU.

***The market price of our common stock may fluctuate significantly.***

We cannot predict the prices at which our common stock may trade. The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including but not limited to:

- actual or anticipated fluctuations in our operating results due to factors related to our business;
- success or failure of our business strategy;
- the success of third-party gaming platforms and certain game titles to drive sales;
- our quarterly or annual earnings, or those of other companies in our industry;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- our ability to execute transformation, restructuring and realignment actions;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations; and
- general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock. These fluctuations may also cause short sellers to periodically enter the market on the belief that we may experience worse results in the future. We cannot predict the actions of market participants and, therefore, can offer no assurances that the market for our common stock will be stable or appreciate over time.

***Loss of our key management and other personnel could impact our business.***

Our future success depends largely upon the continued service of our executive officers and other key management and technical personnel and on our ability to continue to attract, retain and motivate qualified personnel. In addition, competition for skilled and non-skilled employees among companies like ours is intense, and the loss of skilled or non-skilled employees or an inability to attract, retain and motivate additional skilled and non-skilled employees required for the operation and expansion of our business could hinder our ability to conduct research activities successfully, develop new products, attract customers and meet customer shipments.

***Our business could be adversely affected by significant movements in foreign currency exchange rates.***

We are exposed to fluctuations in foreign currency transaction exchange rates, particularly with respect to the Euro and British Pound. Any significant change in the value of currencies of the countries in which we do business relative to the value of the U.S. dollar could affect our ability to sell products competitively and control our cost structure. Additionally, we are subject to foreign exchange translation risk due to changes in the value of foreign currencies in relation to our reporting currency, the U.S. dollar. The translation risk is primarily concentrated in the exchange rate between the U.S. dollar and the British Pound. As the U.S. dollar fluctuates against other currencies in which we transact business, revenue and income could be impacted.

***Any acquisitions we pursue could disrupt our business and harm our financial condition and results of operations.***

As part of our business strategy, we review and intend to continue to review acquisition opportunities that we believe would be advantageous or complementary to the development of our business. If we make any acquisitions, we could take any or all of the following actions, any one of which could adversely affect our business, financial condition, results of operations or share price:

- use a significant portion of our available cash;
- require a significant devotion of management's time and resources in the pursuit or consummation of such acquisition;
- incur debt, which may not be available to us on favorable terms and may adversely affect our liquidity;
- issue equity or equity-based securities that would dilute existing stockholders' ownership percentage;
- assume contingent and other liabilities; and
- take charges in connection with such acquisitions.

Acquisitions also entail numerous other risks, including, without limitation: difficulties in assimilating acquired operations, products, technologies and personnel; unanticipated costs; diversion of management's attention from existing operations; risks of entering markets in which we have limited or no prior experience; regulatory approvals; unanticipated costs or liabilities; and potential loss of key employees from either our existing business or the acquired organization. Acquisitions may result in accounting charges for restructuring and other expenses, amortization of purchased technology and intangible assets and stock-based compensation expense, any of which could materially and adversely affect our operating results. We may not be able to realize the anticipated synergies, innovation, operational efficiencies, benefits of or successfully integrate with our existing business the businesses, products, technologies or personnel that we acquire, and our failure to do so could harm our business and operating results.

***Our products may be subject to warranty claims, product liability and product recalls.***

We may be subject to product liability or warranty claims that could result in significant direct or indirect costs, or we could experience greater returns from retailers than expected, which could harm our net sales. The occurrence of any quality problems due to defects in our products could make us liable for damages and warranty claims in excess of any existing reserves. In addition to the risk of direct costs to correct any defects, warranty claims, product recalls or other problems, any negative publicity related to the perceived quality of our products could also affect our brand image, decrease retailer and distributor demand and our operating results and financial condition could be adversely affected. Changes in production levels or processes could result in increased manufacturing errors, as well as higher component, manufacturing and shipping costs, all of which could reduce our profit margins, result in prices increases and harm our relationships with retailers and consumers.

We could incur unanticipated expenses in connection with warranty or product liability claims relating to a recall of one or more of our products, which could require significant expenditures to defend. Additionally, we may be required to comply with governmental requirements to remedy the defect and/or notify consumers of the problem that could lead to unanticipated expense, and possible product liability litigation against a customer or us.

***Changes in laws or regulations or the manner of their interpretation or enforcement could adversely impact our financial performance and restrict our ability to operate our business or execute our strategies.***

New laws or regulations, or changes in existing laws or regulations or the manner of their interpretation or enforcement, may create uncertainty for public companies, increase our cost of doing business and restrict our ability to operate our business or execute our strategies. This could include, among other things, compliance costs and enforcement under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

We continually evaluate and monitor developments with respect to new and proposed laws, regulations, standards and rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs. Any such new or changed laws, regulations, standards and rules may be subject to varying interpretations and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and we may be harmed.

***We are subject to various environmental laws and regulations that could impose substantial costs on us and may adversely affect our business, operating results and financial condition.***

Our operations and some of our products are regulated under various federal, state, local and international environmental laws. In addition, regulatory bodies in many of the jurisdictions in which we operate propose, enact and amend environmental laws and regulations on a regular basis. If we were to violate or become liable under these environmental laws, we could be required to incur additional costs to comply with such regulations and may incur fines and civil or criminal sanctions, third-party property damage or personal injury claims, or could be required to

incur substantial investigation or remediation costs. Liability under environmental laws may be joint and several and without regard to comparative fault. The ultimate costs under environmental laws and the timing of these costs are difficult to predict. Although we cannot predict the ultimate impact of any new environmental laws and regulations, such laws may result in additional costs or decreased revenue, and could require that we redesign or change how we manufacture our products, any of which could have a material adverse effect on our business. Additionally, to the extent that our competitors choose not to abide by these environmental laws and regulations, we may be at a cost disadvantage, thereby hindering our ability to effectively compete in the marketplace.

## Item 2 - Unregistered Sale of Equity Securities and Use of Proceeds

On April 9, 2019, the Company's Board of Directors authorized a stock repurchase program to acquire up to \$15.0 million of its common stock. Any repurchases under the program will be made from time to time on the open market at prevailing market prices. On April 1, 2021, the Company's Board of Directors approved an extension and expansion of this share repurchase program up to \$25 million of its common shares, expiring April 9, 2023. The following table summarizes, by month, the repurchases made during the three months ended March 31, 2021, under the repurchase program and in connection with shares repurchased from employees to satisfy tax withholding obligations in connection with the vesting of restricted stock awards.

Period	Issuer Purchases of Equity Securities			Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	
January 1-31, 2021	—	\$ —	—	—
February 1-28, 2021	6,295	\$ 34.10	—	—
March 1-31, 2021	—	\$ —	—	—
Total	6,295	\$ 34.10	—	—

For the first quarter of 2021, we repurchased approximately \$0.2 million of common shares related to employee transactions. These amounts represent common shares repurchased from employees in an amount equal to the statutory tax liability associated with the vesting of their equity awards, which is then remitted on behalf of the employee.

## Item 5 - Other Information

None.

## Item 6. Exhibits

- 3.1 [Articles of Incorporation of Turtle Beach Corporation, as amended \(Incorporated by reference to Exhibit 3.1 to Company's 10-Q filed August 6, 2018\).](#)
- 3.2 [Bylaw, as amended, of Turtle Beach Corporation \(Incorporated by reference to Exhibit 3.1 to Company's 8-K filed June 20, 2019\).](#)
- 31.1 \*\* [Certification of Juergen Stark, Principal Executive Officer, pursuant to Rule 13a-14\(a\) or 15d-14\(a\) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 31.2 \*\* [Certification of John T. Hanson, Principal Financial Officer, pursuant to Rule 13a-14\(a\) or 15d-14\(a\) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 32.1 \*\* [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Juergen Stark, Principal Executive Officer and John Hanson, Principal Financial Officer \(filed herewith\).](#)

### **Extensible Business Reporting Language (XBRL) Exhibits**

- 101.INS Inline XBRL Instance Document
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Labels Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

\*\* Filed herewith.

**SIGNATURES**

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

TURTLE BEACH CORPORATION

Date: May 5, 2021

By:                                 /s/ JOHN T. HANSON  
**John T. Hanson**  
**Chief Financial Officer, Treasurer and Secretary**  
(Principal Financial and Accounting Officer)

## CERTIFICATION

I, Juergen Stark, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Turtle Beach Corporation;
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 officers 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: May 5, 2021

By: \_\_\_\_\_ /s/ JUERGEN STARK  
 Juergen Stark  
 Chief Executive Officer and President

## CERTIFICATION

I, John T. Hanson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Turtle Beach Corporation;
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 officers 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: May 5, 2021

By: \_\_\_\_\_ /s/ JOHN T. HANSON  
 John T. Hanson  
*Chief Financial Officer, Treasurer and Secretary*

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

Each of the undersigned hereby certifies, in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his or her capacity as an officer of Turtle Beach Corporation (the "Company"), that, to his or her knowledge, the Quarterly Report of the Company on Form 10-Q for the period ended March 31, 2021, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: May 5, 2021

By: \_\_\_\_\_ /s/ JUERGEN STARK  
Juergen Stark  
*Chief Executive Officer and President*  
*(Principal Executive Officer)*

Date: May 5, 2021

By: \_\_\_\_\_ /s/ JOHN T. HANSON  
John T. Hanson  
*Chief Financial Officer, Treasurer and Secretary*  
*(Principal Financial Officer)*