

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report: November 5, 2020
(Date of earliest event reported)

Turtle Beach Corporation

(Exact name of registrant as specified in its charter)

001-35465
(Commission File Number)

Nevada
(State or other jurisdiction of
incorporation or organization)

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

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

10601
(Zip Code)

(888) 496-8001
(Registrant's telephone number, including area code)

11011 Via Frontera, Suite A/B, San Diego, CA 92127
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class
Common Stock, par value \$0.001

Trading Symbols
HEAR

Name of each exchange on which registered
Nasdaq

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging Growth Company

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

**TURTLE BEACH REPORTS RECORD THIRD QUARTER 2020 RESULTS
AND RAISES FULL-YEAR OUTLOOK**

White Plains, NY – November 5, 2020 – [Turtle Beach Corporation](#) (Nasdaq: HEAR), a leading gaming audio and accessory provider, reported record financial results for the third quarter ended September 30, 2020.

Third Quarter Summary vs. Year-Ago Quarter:

- Net revenue increased 141% to \$112.5 million (\$111.5 million in constant currency);
- Gross margin increased 880 basis points to 41.0%;
- Net income increased significantly to \$17.8 million, or \$1.04 per diluted share, compared to a net loss of \$3.1 million, or \$(0.22) per diluted share; and
- Adjusted EBITDA increased to \$27.6 million compared to \$0.3 million.

Management Commentary

“Our blistering sales momentum continued in the third quarter, as a combination of strong consumer demand for headsets, further market share gains driven by our leading products and brand, superior execution, and our ability to leverage operating expenses drove results that were by far the best third quarter results we have ever achieved,” said Juergen Stark, CEO of Turtle Beach. “We are extremely proud of what our team has accomplished in recent months under challenging conditions. What is most encouraging is that we believe the strong underlying demand continues to be driven by greater overall engagement of existing gamers as well as new and lapsed gamers joining the market as new gaming headset users. In addition, non-gamers continue to buy headsets for at-home work, school and socializing. All of this sets us up nicely for the holiday season and for 2021.”

Stark added, “The increase in demand is not limited to console gaming, as we saw strong increases in our award-winning ROCCAT line of PC mice, keyboards and headsets in the quarter, which we expect will continue, especially with the investments we are making in our PC portfolio as evidenced by the new products we’ve launched the past few months.

“As a result of the performance in the third quarter and our belief that demand will remain at elevated levels through the end of the year, with the launch of the next generation Xbox and PlayStation consoles later this month, we are confident that our results this year will exceed our previous forecasts for both revenue and EBITDA. We’ve stepped-up our investments to capitalize

Turtle Beach Reports Third Quarter Financial Results

on new opportunities and, with the integration of the ROCCAT acquisition going well, the excellent team we have here, and our strong continued execution, we will continue to take actions to enable and drive further expansion and growth.”

Third Quarter 2020 Financial Results

Net revenue in the third quarter of 2020 increased 140.8% to \$112.5 million compared to \$46.7 million in the year-ago quarter. The Company’s strong performance in the third quarter was due to increased demand from a continued surge in gaming activity, resulting from stay-at-home orders which increased gaming among existing gamers and caused an influx of new and lapsed gamers. In addition, the Company’s ability to significantly increase its production and delivery capacity and execute well at retail allowed the Company to gain further market share and achieve the significantly higher revenues. On a constant currency basis, revenue in the third quarter of 2020 was \$111.5 million.

Gross margin in the third quarter of 2020 increased 880 basis points to 41.0% compared to 32.2% in the third quarter of 2019. This significant increase was due to volume-driven fixed cost leverage, lower than normal promotional spending given increased demand, and favorable business mix, partially offset by \$2.0 million in incremental air freight to enable retail supply.

Operating expenses in the third quarter of 2020 were \$21.9 million compared to \$17.6 million in the 2019 period, with the increase driven primarily by higher volume-related selling costs and additional investments to expand the PC gaming product portfolio and ROCCAT brand.

Net income in the third quarter of 2020 improved significantly to \$17.8 million compared to a net loss of \$3.1 million in the year-ago quarter. The increase was due to the strong revenue performance, higher gross margin as described above and operating expense leverage.

Net income per share in the third quarter of 2020 was \$1.04 on 17.2 million weighted average diluted shares outstanding, compared to a net loss per share of \$0.22 on 14.5 million weighted average diluted shares outstanding in the year-ago quarter. (Note: per accounting rules, in periods when the Company reports positive net income, the diluted share count is higher than in periods when there is a net loss.)

Adjusted EBITDA (as defined below in “Non-GAAP Financial Measures”) in the third quarter of 2020 increased significantly to \$27.6 million, compared to \$0.3 million in the year ago quarter. This is the highest level of adjusted EBITDA of any quarter in the Company’s history.

Balance Sheet & Cash Flow Highlights

At September 30, 2020, the Company had \$27.3 million of cash and cash equivalents with no debt, including no outstanding debt under its revolving line of credit. This compares to \$7.0 million of cash and cash equivalents with \$26.6 million of outstanding debt under its revolving line of credit at September 30, 2019. Cash flows from operating activities were \$32.6 million for the nine months ended September 30, 2020 compared to \$27.3 million in the corresponding period in 2019.

Increased 2020 Outlook

For the full year 2020, the Company now expects revenue to be approximately \$330 million, which is 10% higher than its previous guidance of approximately \$300 million. The annual revenue forecast reflects continued strong consumer demand for gaming accessories driven by new and existing gamers, as well as increased use of headsets for non-gaming uses, followed by an anticipated further increase in demand spurred by next generation console launches around the holiday season.

Adjusted EBITDA is now expected to be approximately \$50 million, or more than 50% above the prior guidance of approximately \$30 million, reflecting the higher expected revenue for the year, higher gross margin, partially offset by expected air freight of approximately \$10.0 million to enable supply and increased revenue, and planned marketing and new product-related investments of approximately \$12.0 million to expand the Company's position in the PC accessories market and drive future growth.

Net income per diluted share is now expected to approximate \$1.80 compared to prior guidance of approximately \$0.85, and adjusted net income per diluted share is expected to be approximately \$1.75 compared to prior guidance of approximately \$0.80, both reflecting the aforementioned revenue and EBITDA forecasts. Per share figures for the full year 2020 assume approximately 16.3 million diluted shares outstanding.

Second Half Outlook

For the second half of 2020, the Company expects revenue to be approximately \$215 million, 16% higher than its previous guidance of approximately \$185 million. The updated revenue forecast reflects a shift in the timing of shipments into the third quarter as many retailers have started holiday purchasing earlier than normal this year.

Adjusted EBITDA for the second half is now expected to be approximately \$40 million, or double the prior guidance of approximately \$20 million. The updated guidance reflects a shift of some expenses expected in the third quarter to the fourth quarter. Net income per diluted share and

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adjusted net income per diluted share in the second half are now both expected to approximate \$1.45 compared to prior guidance of approximately \$0.50.

With respect to the Company's adjusted EBITDA outlook for the full year 2020, a reconciliation to its net income (loss) outlook for the same periods has not been provided because of the variability, complexity, and lack of visibility with respect to certain reconciling items between adjusted EBITDA and net income (loss), including other income (expense), provision for income taxes and stock-based compensation. These items cannot be reasonably and accurately predicted without the investment of undue time, cost and other resources and, accordingly, a reconciliation of the Company's adjusted EBITDA outlook to its net income (loss) outlook for such periods is not provided. These reconciling items could be material to the Company's actual results for such periods.

Conference Call Details

Turtle Beach Corporation will hold a conference call today, November 5, 2020, at 2:00 p.m. Pacific Time (5:00 p.m. Eastern Time) to discuss its third quarter 2020 results.

CEO Juergen Stark and CFO John Hanson will host the call, followed by a question and answer session.

Conference Call Details:

Date: Thursday, November 5, 2020

Time: 5:00 p.m. ET / 2:00 p.m. PT

Toll-Free Dial-in Number: (877) 303-9855

International Dial-in Number: (408) 337-0154

Conference ID: 8798099

For the conference call, please dial-in 5-10 minutes prior to the start time and an operator will register your name and organization. If you have any difficulty with the conference call, please contact Gateway Investor Relations at (949) 574-3860.

The conference call will be broadcast live and available for replay [here](#) and via the investor relations section of the Company's website at corp.turtlebeach.com.

A replay of the conference call will be available after 8:00 p.m. ET on the same day through November 12, 2020.

Toll-Free Replay Number: (855) 859-2056

International Replay Number: (404) 537-3406

Non-GAAP Financial Measures

In addition to its reported results, the Company has included in this earnings release certain financial results, including adjusted EBITDA, adjusted net income, and constant currency revenue, that the Securities and Exchange Commission defines as “non-GAAP financial measures.” Management believes that such non-GAAP financial measures, when read in conjunction with the Company’s reported results, can provide useful supplemental information for investors analyzing period-to-period comparisons of the Company’s results. “Adjusted Net Income” is defined as net income excluding (i) integration and transaction costs related to the acquisition of the business and assets related to the ROCCAT brand, (ii) the effect of the mark-to-market requirement of the financial instrument obligation, (iii) any change in fair value of contingent consideration and (iv) the release of valuation allowances on deferred tax assets. “Adjusted EBITDA” is defined by the Company as net income (loss) before interest, taxes, depreciation and amortization, stock-based compensation (non-cash), and certain non-recurring items that we believe are not representative of core operations (e.g., the integration and transaction costs related to the acquisition of the business and assets related to the ROCCAT brand, the mark-to-market adjustment for the financial instrument obligation and the change in fair value of contingent consideration). “Constant currency revenue” is defined by the Company as revenue excluding the impacts of fluctuations in exchange rates from prior periods. These non-GAAP financial measures are presented because management uses non-GAAP financial measures to evaluate the Company’s operating performance, to perform financial planning, and to determine incentive compensation. Therefore, the Company believes that the presentation of non-GAAP financial measures provides useful information to, and facilitates additional analysis by, investors. The presented non-GAAP financial measures exclude items that management does not believe reflect the Company’s core operating performance because such items are inherently unusual, non-operating, unpredictable, non-recurring, or non-cash. See a reconciliation of GAAP results to Adjusted Net Income and Adjusted EBITDA included below for the three- and nine-month periods ended September 30, 2020 and 2019.

About Turtle Beach Corporation

Turtle Beach Corporation (www.corp.turtlebeach.com) is one of the world’s leading gaming audio and accessory providers. The Turtle Beach brand (www.turtlebeach.com) is known for pioneering first-to-market features and patented innovations in high-quality, comfort-driven headsets for all levels of gamer, making it a fan-favorite brand and the market leader in console gaming audio for the last decade. Turtle Beach’s ROCCAT brand (www.roccat.org) combines detail-loving German innovation with a genuine passion for designing the best PC gaming products. Under the ROCCAT brand, Turtle Beach creates award-winning

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keyboards, mice, headsets, mousepads, and other PC accessories. Turtle Beach's shares are traded on the Nasdaq Exchange under the symbol: [HEAR](#).

Cautionary Note on Forward-Looking Statements

This press release includes forward-looking information and statements within the meaning of the federal securities laws. Except for historical information contained in this release, statements in this release may constitute forward-looking statements regarding assumptions, projections, expectations, targets, intentions or beliefs about future events. Statements containing the words "may", "could", "would", "should", "believe", "expect", "anticipate", "plan", "estimate", "target", "goal", "project", "intend," "forecast" and similar expressions, or the negatives thereof, constitute forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. These statements are based on management's current belief and expectations, as well as assumptions made by, and information currently available to, management.

While the Company believes that its expectations are based upon reasonable assumptions, there can be no assurances that its goals and strategy will be realized. Numerous factors, including risks and uncertainties, may affect actual results and may cause results to differ materially from those expressed in forward-looking statements made by the Company or on its behalf. Some of these factors include, but are not limited to, risks related to: the substantial uncertainties inherent in the acceptance of existing and future products; the difficulty of commercializing and protecting new technology; the impact of competitive products and pricing; the impact of the coronavirus (COVID-19) pandemic on consumer demands and manufacturing capabilities; risks relating to, and uncertainty caused by or resulting from, the COVID-19 pandemic; risks associated with the expansion of our business including the integration of any businesses we acquire and the integration of such businesses within our internal control over financial reporting and operations; and our liquidity. These risks may be in addition to the other factors and matters discussed in the Company's most recent Annual Report on Form 10-K, Quarterly Report on Form 10-Q, and the Company's other periodic reports filed with the Securities and Exchange Commission. Except as required by the securities laws of the United States, the Company does not intend to publicly update or revise these forward-looking statements after the date of this release whether as a result of new information, future developments or otherwise.

All trademarks are the property of their respective owners.

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Turtle Beach Corporation
Condensed Consolidated Balance Sheets
(in thousands, except par value and share amounts)

Table 1.

| | September 30, 2020 | December 31, 2019 |
|--|--|----------------------|
| | (unaudited) | |
| | (in thousands, except par value and share amounts) | |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 27,265 | \$ 8,249 |
| Accounts receivable, net | 53,825 | 44,530 |
| Inventories | 79,453 | 45,711 |
| Prepaid expenses and other current assets | 8,451 | 4,057 |
| Total Current Assets | <u>168,994</u> | <u>102,547</u> |
| Property and equipment, net | 5,004 | 3,962 |
| Deferred income taxes | 7,800 | 7,439 |
| Goodwill | 8,178 | 8,515 |
| Intangible assets, net | 5,325 | 6,011 |
| Other assets | 6,230 | 2,877 |
| Total Assets | <u>\$ 201,531</u> | <u>\$ 131,351</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Revolving credit facility | \$ — | \$ 15,655 |
| Accounts payable | 63,699 | 22,511 |
| Other current liabilities | 34,432 | 26,422 |
| Total Current Liabilities | <u>98,131</u> | <u>64,588</u> |
| Deferred income taxes | 140 | 153 |
| Other liabilities | 7,524 | 3,223 |
| Total Liabilities | <u>105,795</u> | <u>67,964</u> |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Common stock, \$0.001 par value - 25,000,000 shares authorized; 15,186,990 and 14,488,182 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively | 15 | 14 |
| Additional paid-in capital | 187,065 | 176,776 |
| Accumulated deficit | (91,076) | (113,519) |
| Accumulated other comprehensive income (loss) | (268) | 116 |
| Total Stockholders' Equity | <u>95,736</u> | <u>63,387</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 201,531</u> | <u>\$ 131,351</u> |

Turtle Beach Corporation
Condensed Consolidated Statements of Operations
(in thousands, except per-share data)
(unaudited)

Table 2.

| | Three Months Ended | | Nine Months Ended | |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| Net revenue | \$ 112,494 | \$ 46,723 | \$ 227,181 | \$ 132,899 |
| Cost of revenue | 66,358 | 31,680 | 141,033 | 89,898 |
| Gross profit | <u>46,136</u> | <u>15,043</u> | <u>86,148</u> | <u>43,001</u> |
| Operating expenses: | | | | |
| Selling and marketing | 11,857 | 10,150 | 29,064 | 24,581 |
| Research and development | 3,260 | 2,198 | 8,688 | 5,388 |
| General and administrative | 6,799 | 5,214 | 19,232 | 16,057 |
| Total operating expenses | <u>21,916</u> | <u>17,562</u> | <u>56,984</u> | <u>46,026</u> |
| Operating income (loss) | 24,220 | (2,519) | 29,164 | (3,025) |
| Interest expense | 103 | 240 | 355 | 595 |
| Other non-operating expense (income), net | (101) | 302 | (1,520) | (1,430) |
| Income (loss) before income tax | 24,218 | (3,061) | 30,329 | (2,190) |
| Income tax expense | 6,424 | 63 | 7,886 | 252 |
| Net income (loss) | <u>\$ 17,794</u> | <u>\$ (3,124)</u> | <u>\$ 22,443</u> | <u>\$ (2,442)</u> |
| Net income (loss) per share | | | | |
| Basic | \$ 1.20 | \$ (0.22) | \$ 1.53 | \$ (0.17) |
| Diluted | \$ 1.04 | \$ (0.22) | \$ 1.41 | \$ (0.17) |
| Weighted average number of shares: | | | | |
| Basic | 14,845 | 14,506 | 14,642 | 14,477 |
| Diluted | 17,154 | 14,506 | 15,961 | 14,477 |

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

Table 3.

| | Nine Months Ended | |
|--|---------------------------|---------------------------|
| | September 30, 2020 | September 30, 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | \$ 32,638 | \$ 27,304 |
| CASH FLOWS FROM INVESTING ACTIVITIES | (3,918) | (14,295) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings on revolving credit facilities | 185,486 | 148,087 |
| Repayment of revolving credit facilities | (201,141) | (158,911) |
| Proceeds from sale of equity securities | 4,372 | - |
| Proceeds from exercise of stock options and warrants | 2,155 | 214 |
| Repurchase of common stock | - | (1,941) |
| Repurchase of common stock to satisfy employee tax withholding obligations | (215) | (201) |
| Net cash used for financing activities | (9,343) | (12,752) |
| Effect of exchange rate changes on cash and cash equivalents | (361) | (298) |
| Net increase (decrease) in cash and cash equivalents | 19,016 | (41) |
| Cash and cash equivalents - beginning of period | 8,249 | 7,078 |
| Cash and cash equivalents - end of period | <u>\$ 27,265</u> | <u>\$ 7,037</u> |

Turtle Beach Corporation
Reconciliation of GAAP and Non-GAAP Measures
(in thousands, except per-share data)
(unaudited)

Table 4.

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| <u>Net Income (Loss)</u> | | | | |
| GAAP Net Income (Loss) | \$ 17,794 | \$ (3,124) | \$ 22,443 | \$ (2,442) |
| Adjustments, net of tax: | | | | |
| Gain on financial instrument obligation | — | — | — | (1,601) |
| Gain on acquisition-related settlement | — | — | (1,702) | — |
| Change in fair value of contingent consideration | 126 | — | 366 | — |
| Acquisition integration costs | 26 | 543 | 273 | 2,603 |
| Non-GAAP Earnings | <u>\$ 17,946</u> | <u>\$ (2,581)</u> | <u>\$ 21,380</u> | <u>\$ (1,440)</u> |
| Diluted Earnings Per Share | | | | |
| GAAP- Diluted | \$ 1.04 | \$ (0.22) | \$ 1.41 | \$ (0.17) |
| Gain on financial instrument obligation | — | — | — | — |
| Gain on acquisition-related settlement | — | — | (0.11) | (0.11) |
| Change in fair value of contingent consideration | 0.01 | — | 0.02 | — |
| Acquisition integration costs | — | 0.04 | 0.02 | 0.18 |
| Non-GAAP- Diluted | <u>\$ 1.05</u> | <u>\$ (0.18)</u> | <u>\$ 1.34</u> | <u>\$ (0.10)</u> |

Turtle Beach Corporation
GAAP to Adjusted EBITDA Reconciliation
(in thousands)
(unaudited)

Table 5.

| | Three Months Ended September 30, 2020 | | | | | |
|---|--|-----------------------------|-----------------------------|---------------------------------------|------------------------|-----------------------|
| | As Reported | Adj Depreciation | Adj Amortization | Adj Stock Compensation | Other (1) | Adj EBITDA |
| Net revenue | \$ 112,494 | \$ - | \$ - | \$ - | - | \$ 112,494 |
| Cost of revenue | 66,358 | (645) | - | (284) | - | 65,429 |
| Gross Profit | 46,136 | 645 | - | 284 | - | 47,065 |
| Operating expenses | 21,916 | (596) | (223) | (1,288) | (37) | 19,772 |
| Operating income | 24,220 | 1,241 | 223 | 1,572 | 37 | 27,293 |
| Interest expense | 103 | | | | | |
| Other non-operating expense (income), net | (101) | | | | (175) | (276) |
| Income before income tax | 24,218 | | | | | |
| Income tax expense | 6,424 | | | | | |
| Net income | \$ 17,794 | | | | Adjusted EBITDA | \$ 27,569 |

| | Nine Months Ended September 30, 2020 | | | | | |
|---|---|-----------------------------|-----------------------------|---------------------------------------|------------------------|-----------------------|
| | As Reported | Adj Depreciation | Adj Amortization | Adj Stock Compensation | Other (1) | Adj EBITDA |
| Net revenue | \$ 227,181 | \$ - | \$ - | \$ - | - | \$ 227,181 |
| Cost of revenue | 141,033 | (1,828) | - | (623) | - | 138,582 |
| Gross Profit | 86,148 | 1,828 | - | 623 | - | 88,599 |
| Operating expenses | 56,984 | (1,474) | (665) | (3,354) | (381) | 51,110 |
| Operating income | 29,164 | 3,302 | 665 | 3,977 | 381 | 37,489 |
| Interest expense | 355 | | | | | |
| Other non-operating expense (income), net | (1,520) | | | | 1,192 | (328) |
| Income before income tax | 30,329 | | | | | |
| Income tax expense | 7,886 | | | | | |
| Net income | \$ 22,443 | | | | Adjusted EBITDA | \$ 37,817 |

(1) Other includes certain business acquisition costs, gain on an acquisition-related settlement and change in fair value of contingent consideration.

Turtle Beach Corporation
GAAP to Adjusted EBITDA Reconciliation
(in thousands)
(unaudited)

Table 5. (continued)

| | Three Months Ended September 30, 2019 | | | | | |
|---|--|-----------------------------|-----------------------------|---------------------------------------|------------------------|-----------------------|
| | As Reported | Adj Depreciation | Adj Amortization | Adj Stock Compensation | Other (2) | Adj EBITDA |
| Net revenue | \$ 46,723 | \$ - | \$ - | \$ - | \$ - | \$ 46,723 |
| Cost of revenue | 31,680 | (570) | - | (108) | - | 31,002 |
| Gross Profit | 15,043 | 570 | - | 108 | - | 15,721 |
| Operating expenses | 17,562 | (728) | (192) | (922) | (618) | 15,102 |
| Operating income (loss) | (2,519) | 1,298 | 192 | 1,030 | 618 | 618 |
| Interest expense | 240 | | | | | |
| Other non-operating expense (income), net | 302 | | | | | 302 |
| Income (loss) before income tax | (3,061) | | | | | |
| Income tax expense | 63 | | | | | |
| Net loss | <u>(3,124)</u> | | | | Adjusted EBITDA | <u>316</u> |

| | Nine Months Ended September 30, 2019 | | | | | |
|---|---|-----------------------------|-----------------------------|---------------------------------------|------------------------|-----------------------|
| | As Reported | Adj Depreciation | Adj Amortization | Adj Stock Compensation | Other (2) | Adj EBITDA |
| Net revenue | \$ 132,899 | \$ - | \$ - | \$ - | \$ - | \$ 132,899 |
| Cost of revenue | 89,898 | (1,349) | - | (76) | - | 88,473 |
| Gross Profit | 43,001 | 1,349 | - | 76 | - | 44,426 |
| Operating expenses | 46,026 | (2,129) | (413) | (2,479) | (2,961) | 38,044 |
| Operating income (loss) | (3,025) | 3,477 | 413 | 2,555 | 2,961 | 6,382 |
| Interest expense | 595 | | | | | |
| Other non-operating expense (income), net | (1,429) | | | | 1,601 | 172 |
| Income (loss) before income tax | (2,190) | | | | | |
| Income tax expense | 252 | | | | | |
| Net loss | <u>(2,442)</u> | | | | Adjusted EBITDA | <u>6,210</u> |

(2) Other includes certain business acquisition costs and a gain (loss) on financial instrument obligation.