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

FORM 8-K/A
(Amendment No.1)

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

Date of Report: March 13, 2024
(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)**	**27-2767540** **(I.R.S. Employer Identification No.)**
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)

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))

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

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock, par value $0.001	HEAR	The Nasdaq Global Market

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. ☐

Explanatory Note

On March 18, 2024, Turtle Beach Corporation (the "Company") filed a Current Report on Form 8-K (the "Original 8-K") to report its acquisition of Performance Design Products LLC ("PDP"), through the acquisition of all of the issued and outstanding equity of FSAR Holdings, Inc. (the "Transaction"). By this amendment to the Original 8-K, the Company is amending Item 9.01 thereof to include the required financial statements and pro forma financial information.

This amendment amends and supplements the Original 8-K solely to provide the financial statements and pro forma financial information relating to the Transaction required under Item 9.01 of Form 8-K as set forth below, which are incorporated herein by reference, and which were excluded from the Original 8-K in reliance on the instructions to such item. This amendment reports no other updates or amendments to the Original 8-K. The pro forma financial information included in this amendment has been presented for informational purposes only, as required by Form 8-K. It does not purport to represent the actual results of operations that the Company and PDP would have achieved had the companies been combined during the periods presented in the pro forma financial information and is not intended to project the future results of operations that the combined company may achieve after completion of the Transaction.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

Audited consolidated balance sheets as of March 31, 2023 and March 31, 2022 and the related statements of operations, member's equity, and cash flows for each of the fiscal years ended March 31, 2023 and March 31, 2022 of PDP, are attached as Exhibit 99.1 to this Form 8-K/A and incorporated herein by reference.

Unaudited consolidated balance sheets as of December 31, 2023 and March 31, 2023, statement of operations for the nine months ended December 31, 2023 and December 31, 2022, statement of member's equity for the nine and twelve months ended December 31, 2023 and March 31, 2023, and statement of cash flows for the nine months ended December 31, 2023 and December 31, 2022 of PDP, are attached as Exhibit 99.2 to this Form 8-K/A and incorporated herein by reference.

(b) Pro Forma Financial Information.

The following unaudited pro forma financial information is attached as Exhibit 99.3 to this Form 8-K/A and incorporated herein by reference:

(i) Unaudited Pro Forma Combined Statement of Operations for the three months ended March 31, 2024;

(ii) Unaudited Pro Forma Combined Statement of Operations for the year ended December 31, 2023; and

(iii) Notes to Unaudited Pro Forma Combined Financial Information.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of Plante & Moran, PLLC, independent registered public accounting firm (with respect to PDP).
99.1	Audited consolidated balance sheets as of March 31, 2023 and March 31, 2022 and the related consolidated statements of operations, member's equity, and cash flows for each of the fiscal years ended March 31, 2023 and March 31, 2022 of PDP.
99.2	Unaudited consolidated balance sheets as of December 31, 2023 and March 31, 2023, statement of operations for the nine months ended December 31, 2023 and December 31, 2022, statement of member's equity for the nine and twelve months ended December 31, 2023 and March 31, 2023, and statement of cash flows for the nine months ended December 31, 2023 and December 31, 2022 of PDP.
99.3	Unaudited Pro Forma Combined Financial Information.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURE

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

TURTLE BEACH CORPORATION

Date:	May 28, 2024	By:	/s/ JOHN T. HANSON
			John T. Hanson
			Chief Financial Officer and Treasurer

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the inclusion of our report dated May 24, 2024 on the financial statements of Performance Designed Products LLC for the years ended March 31, 2023 and 2022 in the Amended Current Report on Form 8-K/A of Turtle Beach Corporation (Commission File No. 001-35465) dated May 28, 2024, related to its acquisition of Performance Designed Products LLC.

/s/ Plante & Moran, PLLC

Schaumburg, IL
May 28, 2024

Performance Designed Products LLC

Consolidated Financial Report
March 31, 2023

Performance Designed Products LLC

Contents

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Independent Auditor's Report

To the Board of Directors
Performance Designed Products LLC

Opinion

We have audited the consolidated financial statements of Performance Designed Products LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of March 31, 2023 and 2022 and the related consolidated statements of operations, member's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2023 and 2022 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the Company and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 3 to the consolidated financial statements, the Company adopted new accounting guidance under ASU No. 2016-02, *Leases (Topic 842)*, which will supersede the current lease accounting requirements in Topic 840, *Leases*, as of April 1, 2022. Topic 842 is based on the principle that a lessee should recognize assets and liabilities that arise from leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

To the Board of Directors
Performance Designed Products LLC

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

May 24, 2024

Performance Designed Products LLC

Consolidated Balance Sheet

March 31, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and restricted cash	$ 3,705,050	$ 1,306,375
Accounts receivable - Net	11,635,962	13,616,657
Inventory - Net	20,734,428	24,027,434
Prepaid expenses and other current assets:		
Prepaid expenses	1,907,216	2,123,725
Vendor advances	684,154	437,407
Other current assets	—	74,294
Total current assets	38,666,810	41,585,892
Property and Equipment - Net (Note 4)	1,156,491	770,847
Right-of-use Operating Lease Assets (Note 7)	4,469,573	—
Intangible Assets - Net (Note 5)	52,108	52,366
Other Assets	295,897	177,391
Total assets	**$44,640,879**	**$42,586,496**
Liabilities and Member's Equity		
Current Liabilities		
Accounts payable	$ 4,571,399	$ 4,134,790
Revolving loan (Note 6)	23,541,806	16,756,271
Current portion of long-term debt (Note 6)	6,169,260	4,166,667
Current portion of lease liabilities - Operating (Note 7)	894,908	—
Accrued and other current liabilities:		
Taxes payable	345,414	397,537
Accrued compensation	1,336,859	1,677,025
Accrued interest	195,317	—
Accrued royalties (Note 10)	2,325,095	2,609,614
Other accrued liabilities	325,430	415,473
Total current liabilities	39,705,488	30,157,377
Long-term Debt - Net of current portion (Note 6)	—	4,171,730
Lease Liabilities - Operating - Net of current portion (Note 7)	3,689,591	—
Total liabilities	43,395,079	34,329,107
Member's Equity	1,245,800	8,257,389
Total liabilities and member's equity	**$44,640,879**	**$42,586,496**

See notes to consolidated financial statements

Performance Designed Products LLC

Consolidated Statement of Operations

Years Ended March 31, 2023 and 2022

	2023	2022
Net Sales	$91,217,974	$110,202,301
Cost of Sales	71,401,235	82,713,675
Gross Profit	19,816,739	27,488,626
Operating Expenses		
Selling, general, and administrative	22,201,999	21,107,116
Other operating expenses (Note 9)	3,144,441	3,932,059
Total operating expenses	25,346,440	25,039,175
Operating (Loss) Income	(5,529,701)	2,449,451
Nonoperating (Expense) Income		
Loss on foreign currency translation	(111,148)	(881,131)
Other income	473,627	3,314
Interest expense	(1,758,637)	(1,577,297)
Phantom equity expense (Note 11)	—	(3,575,096)
Total nonoperating expense	(1,396,158)	(6,030,210)
Loss - Before income taxes	(6,925,859)	(3,580,759)
Income Tax Expense	85,730	107,482
Consolidated Net Loss	**$ (7,011,589)**	**$ (3,688,241)**

See notes to consolidated financial statements

Consolidated Statement of Member's Equity

Years Ended March 31, 2023 and 2022

Balance - April 1, 2021	$ 51,049,369
Consolidated net loss	(3,688,241)
Advances to member	(42,678,835)
Member contribution	3,575,096
Balance - March 31, 2022	8,257,389
Consolidated net loss	(7,011,589)
Balance - March 31, 2023	**$ 1,245,800**

See notes to consolidated financial statements

Consolidated Statement of Cash Flows

Years Ended March 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Consolidated net loss	$(7,011,589)	$ (3,688,241)
Adjustments to reconcile consolidated net loss to net cash and restricted cash from operating activities:		
Depreciation and amortization	943,460	763,128
Amortization of debt issuance costs	142,285	386,445
Bad debt (recovery) expense	(341,868)	240,000
Loss on disposal of property and equipment	30,505	—
Amortization of right-of-use asset	487,140	—
Changes in operating assets and liabilities that provided (used) cash and restricted cash:		
Accounts receivable	2,322,563	4,773,164
Inventory	3,293,006	503,741
Prepaid expenses and other assets	(74,450)	3,209,081
Accounts payable	436,609	(2,293,976)
Accrued and other liabilities	(571,534)	653,965
Operating lease liability	(372,214)	—
Net cash and restricted cash (used in) provided by operating activities	(716,087)	4,547,307
Cash Flows Used in Investing Activities - Purchase of property and equipment	(1,359,351)	(485,477)
Cash Flows from Financing Activities		
Proceeds from long-term debt	—	10,000,000
Payments on long-term debt	(2,311,422)	(1,388,889)
Net proceeds from the revolving loan	6,785,535	16,756,271
Debt issuance costs	—	(415,000)
Advances to member	—	(42,678,835)
Member contribution	—	3,575,096
Net cash and restricted cash provided by (used in) financing activities	4,474,113	(14,151,357)
Net Increase (Decrease) in Cash and Restricted Cash	2,398,675	(10,089,527)
Cash and Restricted Cash - Beginning of year	1,306,375	11,395,902
Cash and Restricted Cash - End of year	**$ 3,705,050**	**$ 1,306,375**
Supplemental Cash Flow Information		
Interest paid	$ 1,421,035	$ 1,190,852
Phantom stock payout	—	3,575,096
Significant Noncash Transactions - Right-of-use asset capitalized under operating leases	$ 4,462,986	$ —

See notes to consolidated financial statements

Note 1—Nature of Business

Performance Designed Products LLC (the “Company”) is engaged in the sale and distribution of video game accessories in various geographic locations. The Company is a wholly owned subsidiary of FSAR Holdings, Inc. (the “Parent Company”).

On April 21, 2021, the Parent Company was acquired by a new entity, resulting in a change in control. As a result of the acquisition, the Company’s debt was amended and restated, and the Parent Company elected not to apply pushdown accounting to Performance Designed Products LLC. Therefore, the Company’s consolidated financial statements are reported at historical cost.

Note 2—Significant Accounting Policies

Basis of Presentation and Use of Estimates

The consolidated financial statements of the Company have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. The subsidiaries consist of Performance Designed Products Limited (PDP UK); PDP France SARL (PDP France); Performance Designed Products B.V. (PDP Netherlands); Performance Designed Products Australia Pty Ltd (PDP Australia); and Performance Designed Products Co., Ltd (PDP Japan). PDP UK, PDP France, PDP Netherlands, PDP Australia, and PDP Japan are incorporated in the United Kingdom, France, the Netherlands, Australia, and Japan, respectively. All material intercompany accounts and transactions have been eliminated in consolidation.

Restricted Cash

The Company has approximately $201,000 of restricted cash, which is pledged as collateral for letters of credit that the Company has with its lender. The restricted cash is presented in cash on the consolidated balance sheet.

Trade Accounts Receivable

Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts on accounts receivable balances was $54,084 and $416,367 as of March 31, 2023 and 2022, respectively.

Inventory

Inventory primarily consists of finished goods purchased for distribution and components utilized in the production of the finished goods at third-party manufacturing facilities. Inventory is stated at the lower of cost or net realizable value, with cost determined on the weighted-average method. As of March 31, 2023 and 2022, the reserve for excess and slow-moving inventory is $3,395,689 and $1,657,549, respectively. Included in the reserve as of March 31, 2023 is $2,413,083 of reserves for component inventory that management deemed to be obsolete during the year ended March 31, 2023.

The Company has approximately $1,250,000, $3,249,000, $5,487,000, and $412,000 of inventory in Australia, Europe, China, and Japan, respectively, as of March 31, 2023. The Company has approximately $1,106,000, $4,425,000, $6,403,000, and $297,000 of inventory in Australia, Europe, China, and Japan, respectively, as of March 31, 2022.

Note 2—Significant Accounting Policies (Continued)

Leases

The Company has operating leases for certain warehouses described in Note 7. The Company records a right-of-use asset and lease liability based on the present value of the future minimum payments over the lease term. The Company recognizes expense for operating leases on a straight-line basis over the lease term. The Company made a policy election not to separate lease and nonlease components for the warehouse leases. Therefore, all payments are included in the calculation of the right-of-use asset and lease liability.

The Company used an estimated incremental borrowing rate as the discount rate for calculating the right-of-use asset and lease liability for the warehouse leases. Additionally, the Company elected to account for leases with a lease term of one year or less as short-term leases, which are not included in the right-of-use asset and lease liability.

Debt Issuance Costs

During the year ended March 31, 2022, the Company amended and restated the credit agreement with the lending bank. Upon amendment and restatement, the Company wrote off previous unamortized debt issuance costs of approximately $244,000 within interest expense and capitalized approximately $415,000 of debt issuance costs in connection with the amendment. These debt issuance costs, net of accumulated amortization, are presented net of debt. The costs are amortized over the term of the related debt and reported as a component of interest expense, which approximated $142,000 during the years ended March 31, 2023 and 2022. Total capitalized debt issuance costs were $415,000 and accumulated amortization was approximately $285,000 and $142,000 as of March 31, 2023 and 2022, respectively.

Property and Equipment

Property and equipment are recorded at cost. The Company uses the straight-line method for computing depreciation and amortization. Assets are depreciated over their estimated useful lives. The cost of leasehold improvements is depreciated (amortized) over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Revenue Recognition

The Company primarily distributes video game accessories directly to customers.

The Company recognized revenue from the sale of goods totaling $91,217,974 and $110,202,301, net of returns, discounts, and other allowances of $15,166,740 and $14,905,350, for the years ended March 31, 2023 and 2022, respectively. The Company’s sales by geographic region for the year ended March 31, 2023 are as follows: $73,353,060 in North America, $5,869,920 in Australia, $26,261,471 in Europe, and $900,263 in Africa and Asia. The Company’s sales by geographic region for the year ended March 31, 2022 are as follows: $84,698,699 in North America, $6,986,853 in Australia, $32,583,204 in Europe, and $838,895 in Africa and Asia.

Timing of Satisfaction

The goods sold are homogenous and have an alternative use in that they can be sold to another customer, and, as a result, all revenue was recognized at a point in time for the years ended March 31, 2023 and 2022.

The Company typically satisfies its performance obligations for sale as goods are delivered. Therefore, revenue is recognized when control of the goods is transferred to the customer, which generally occurs upon shipment. The Company also has certain arrangements with delivery terms that are not shipping point and, therefore, are recognized upon the transfer of control, which is based on the associated shipping terms, such as upon delivery of the products to the customer.

Note 2—Significant Accounting Policies (Continued)

Because contracts with customers usually contain only one performance obligation that is satisfied at a point in time, there are no satisfied performance obligations that would result in contract assets other than trade accounts receivable. Total accounts receivable were $11,635,962, $13,616,657, and $18,629,821 as of March 31, 2023; March 31, 2022; and April 1, 2021, respectively. There were no significant contract liabilities recorded at March 31, 2023; March 31, 2022; or April 1, 2021.

Allocating the Transaction Price

The transaction price of a contract is the amount of consideration that the Company expects to receive in exchange for transferring promised goods or services to a customer. Transaction prices do not include amounts collected on behalf of third parties (e.g., sales taxes).

To determine the transaction price of a contract, the Company considers its customary business practices and the customer payment terms. For the purpose of determining transaction prices, the Company assumes that the goods will be transferred to the customer in accordance with the customer order. All of the Company's orders from customers have fixed transaction prices that are denominated in U.S. dollars and payable in cash.

Revenue is recognized net of variable considerations, which include retailer-specific stipulated contractual programs and estimates of other anticipated customer rebates, price protection, and other discounts. The Company establishes sales allowances based on estimates of future price protection and returns with respect to current period product revenue. The allowance for price protections and returns for the years ended March 31, 2023 and 2022 was $9,053,901 and $11,399,360, respectively. In addition, management monitors the volume of sales to retailers and distributors and their inventories as substantial overstocking in the distribution channel, which may result in the requirement for substantial price protection or high returns in subsequent periods. Price protection and returns in future periods are inherently uncertain, as unsold products in the distribution channels are exposed to rapid changes in consumer preferences, market considerations, or technological obsolescence due to new platforms, product updates, or competing products.

Significant Payment Terms

Payment for goods is typically due 30 to 90 days after invoice date. Incremental costs, which are primarily sales commissions, to obtain contracts are expensed when incurred.

Nature of Promises to Transfer

The Company does not act as an agent (i.e., the Company does not provide a service of arranging for another party to transfer goods or services to the customer).

Warranties

The Company's vendor warranties provide customers with assurance that purchased goods comply with published specifications. The Company does not sell warranties separately.

Shipping and Handling Costs

The Company records shipping and handling costs for the delivery of finished goods in selling, general and administrative expenses in the consolidated statement of operations. Shipping and handling costs are treated as fulfillment costs and total $2,516,238 and $2,468,664 for March 31, 2023 and 2022, respectively.

Advertising Expense

Advertising expense is charged to income during the year in which it is incurred. Advertising expense for the years ended March 31, 2023 and 2022 was $1,213,823 and $828,073, respectively.

Note 2—Significant Accounting Policies (Continued)

Foreign Currency Exchange

The expression of assets and liabilities in a foreign currency amount gives rise to exchange gains and losses when such obligations are paid in United States dollars. Foreign currency exchange rate adjustments (i.e., differences between amounts recorded and actual amounts owed or paid) are reported in the consolidated statement of operations as the foreign currency fluctuations occur. Foreign currency exchange rate adjustments are reported in the consolidated statement of cash flows using the exchange rates in effect at the time of the cash flows.

Foreign Currency Translation

Assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at the rate of exchange in effect at the close of the period. Income and expenses are translated at an average rate of exchange for the period. The aggregate effect of translating the financial statements is insignificant and presented in the consolidated statement of operations.

Income Taxes

Pursuant to provisions of the Internal Revenue Code, the Company has elected to be taxed as an S corporation. Generally, the income of an S corporation is not subject to federal income tax at the corporate level, but rather the stockholders are required to include a pro rata share of the corporation's taxable income or loss in their personal income tax returns, irrespective of whether dividends have been paid. Accordingly, no provision for federal income taxes has been made in the accompanying financial statements.

Australia, France, and the United Kingdom recognize income tax assets and liabilities, based on enacted tax laws, for all temporary differences between the financial reporting and tax bases of assets and liabilities and for net operating loss carryforwards. Deferred tax assets and liabilities are insignificant as of March 31, 2023 and 2022.

Intangible Assets

Acquired intangible assets subject to amortization are stated at cost and are amortized using the straight-line method over the estimated useful lives of the assets, which is 15 years for domain names. Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually. No impairment charge was recognized during the years ended March 31, 2023 and 2022.

Major Customers and Suppliers

The Company has three customers that accounted for 64 percent of accounts receivable and 57 percent of sales as of and for the year ended March 31, 2023. The Company had three major customers that accounted for 66 percent of accounts receivable and 59 percent of sales for the year ended March 31, 2022.

The Company has one vendor that accounted for 19 percent of accounts payable and 18 percent of purchases as of and for the year ended March 31, 2023. The Company has three vendors that accounted for 3 percent of accounts payable and 36 percent of purchases as of and for the year ended March 31, 2022.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including May 24, 2024, which is the date the consolidated financial statements were available to be issued.

Note 2—Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Company's accounts receivable, by requiring the Company to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The new guidance will be effective for the Company's year ending March 31, 2024. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the period of adoption, and the impact has not yet been determined.

Note 3—Adoption of New Accounting Pronouncement

As of April 1, 2022, the Company adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases*. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. The Company elected to adopt the ASU using the modified retrospective method as of April 1, 2022 and applied the following practical expedients:

- The Company did not reassess if expired or existing contracts are or contain a lease.
- The Company did not reassess the lease classification for expired or existing leases.
- The Company did not reassess initial direct costs for any existing leases.

As a result of the adoption of the ASU, the Company recorded a right-of-use asset and lease liability of $352,435 as of April 1, 2022 for existing operating leases. There was no impact on retained earnings as a result of adopting the new ASU.

Note 4—Property and Equipment

Property and equipment are summarized as follows at March 31, 2023 and 2022:

	2023	2022	Depreciable Life - Years
Machinery and equipment	$1,448,680	$1,450,759	3
Tooling	4,011,859	3,984,615	2
Furniture and fixtures	286,856	901,540	3-5
Computer equipment and software	866,495	2,230,930	3-5
Leasehold improvements	195,137	639,095	3-5
Total cost	6,809,027	9,206,939	
Accumulated depreciation	5,652,536	8,436,092	
Net property and equipment	$1,156,491	$ 770,847	

Depreciation and amortization expense for 2023 and 2022 was $943,202 and $762,870, respectively.

Note 5—Intangible Assets

Intangible assets of the Company at March 31, 2023 and 2022 are summarized as follows:

	2023		2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets - Domain name	$ 3,872	$ (1,764)	$ 3,872	$ (1,506)
Unamortized intangible assets - Trade name	50,000	—	50,000	—
Total amortized and unamortized intangible assets	$ 53,872	$ (1,764)	$ 53,872	$ (1,506)

Amortization expense for intangible assets totaled $258 for the years ended March 31, 2023 and 2022.

Note 6—Revolving Loan and Long-term Debt

Prior to the change in control on April 22, 2021, the Company had a line of credit agreement with a bank that allowed the Company borrowings of up to $25,000,000. On April 22, 2021, in conjunction with the sale of the Parent Company disclosed in Note 1, the credit agreement was amended and restated, providing the Company with a revolving loan and term loan. The credit agreement matures on February 29, 2024 and is collateralized by all assets of the Company.

The revolving loan under the amended and restated credit agreement allows for borrowings up to $40,000,000, subject to borrowing base restrictions. The revolving loan incurs interest at the bank's LIBOR plus 75 basis points (an effective rate of 8.50 percent and 4.25 percent as of March 31, 2023 and 2022, respectively) and requires monthly interest-only payments, with the principal due upon maturity.

The term loan under the amended and restated credit agreement had an initial balance of $5,000,000. The term loan incurs interest at the bank's prime rate plus 200 basis points (an effective rate of 9.75 and 5.50 percent as of March 31, 2023 and 2022, respectively), with monthly principal payments of $138,889 plus accrued interest with any final principal due upon maturity.

On April 22, 2021, in addition to the amended credit agreement above, the Company entered into a related party note payable with a prior owner upon the change in control. The related party note payable had an initial principal balance of $5,000,000. The related party note payable is non-interest bearing (except as disclosed further below) and is not collateralized. The payment terms require two installments of $2,500,000 on October 22, 2022 and April 22, 2023. The note is subordinate to the credit agreement noted above, and payment of the related party note is blocked if the Company does not meet certain liquidity levels. The Company did not meet the liquidity levels at the first payment date through March 31, 2023 or through the date of this report. As a result, the related party note payable remains unpaid as of the date of this report and will become due upon the Company achieving the required liquidity requirements. There is an acceleration clause that would make the note due upon demand if there was a change in control and a clause that requires interest to be charged in the event the Company did not meet certain liquidity levels defined in the credit agreement. During the year ended March 31, 2023, the Company did not meet the liquidity level on October 22, 2022, the first payment installment date. Therefore, the note accrued interest at the prime rate (an effective interest rate of 6.25 percent) for the period from the first payment installment date through March 31, 2023.

Note 6—Revolving Loan and Long-term Debt (Continued)

The following summarizes revolving loan and long-term debt balances as of March 31, 2023:

	2023	2022
Revolving loan	$ 23,541,806	$ 16,756,271
Term loan	1,299,689	3,611,111
Related party note payable	5,000,000	5,000,000
Unamortized debt issuance costs	(130,429)	(272,714)
Total debt less debt issuance costs	29,711,066	25,094,668
Less current portion	(29,711,066)	(20,922,938)
Total long-term debt	$ —	$ 4,171,730

Total interest expense incurred on the debt above was $1,758,637 and $1,190,852 for the years ended March 31, 2023 and 2022, respectively, which includes amortization on the debt issuance costs.

Under the credit agreement with the bank, the Company is subject to various financial covenants, including a leverage ratio and a fixed-charge coverage ratio. As of March 31, 2023, the Company was in violation of the leverage ratio and fixed-charge coverage ratio. Additionally, the credit agreement requires delivery of audited financial statements to the bank within 120 days after year end, which the Company violated for the year ended March 31, 2023. Subsequent to year end, the bank waived the covenant violations and amended the credit agreement to amend the financial covenants.

As described above, the Company's revolving and term loan with its lender mature in February 2024. Subsequent to March 31, 2023, the Company extended the revolving loan and term loan to May 29, 2024.

Note 7—Leases

The Company is obligated under operating leases primarily for warehouses, expiring at various dates through January 31, 2028. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 4.5 percent to 8.3 percent. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs.

Note 7—Leases (Continued)

Future minimum annual commitments under these operating leases are as follows:

Years Ending March 31	Amount
2024	$1,238,327
2025	1,086,068
2026	1,112,856
2027	1,150,472
2028	985,709
Total	5,573,432
Less amount representing interest	988,933
Present value of net minimum lease payments	4,584,499
Less current obligations	894,908
Long-term obligations under leases	$3,689,591

Expenses recognized under these leases for the year ended March 31, 2023 consist of the following:

Finance lease cost	$ —
Operating lease cost	1,250,000
Variable lease cost	177,473
Total lease cost	$1,427,473
Other information:	
Cash paid for amounts included in the measurement of lease liabilities - Operating cash flows from operating leases	$1,162,716
Right-of-use assets obtained in exchange for new operating lease liabilities	4,462,986
Weighted-average remaining lease term (in years) - Operating leases	3.9
Weighted-average discount rate - Operating leases	8.3%

Total rent expense under these leases during the year ended March 31, 2022 was $1,144,752.

Note 8—Retirement Plans

The Company sponsors a 401(k) plan for substantially all employees. The plan provides for the Company to make a discretionary contribution. Contributions to the plan totaled $158,285 and $139,027 for the years ended March 31, 2023 and 2022, respectively.

Note 9—Other Operating Expenses

Other operating expenses for the years ended March 31, 2023 and 2022 are summarized as follows:

	2023	2022
Depreciation expense (Note 4)	$ 943,202	$ 763,128
Strategic initiative expenses	1,301,270	916,013
Management fees	899,969	1,084,465
Inventory write-down	—	1,168,453
Total	$3,144,441	$3,932,059

Strategic Initiative Expenses

During the years ended March 31, 2022 and 2022, the Company incurred expenses for strategic initiatives as it rebranded and realigned key initiatives upon the change in control event. The expenses included salaries paid to employees and consulting fees paid to third-party firms. During the year ended March 31, 2023, the expenses also included costs to change certain third-party warehouse providers.

Management Fees

During the years ended March 31, 2022 and 2022, the Company paid related party management fees to the ultimate shareholder of the Company for oversight and business management services.

Inventory Write-down

The Company identified certain inventory that it concluded to retool based on certain initiatives identified during the year ended March 31, 2022. These inventory items were reevaluated, and certain costs were written off during the year. The Company recorded this one-time adjustment in operating expenses, as it realigned future operations with new ownership upon the change in control. The Company did not have similar costs related to reevaluation of inventory during the year ended March 31, 2023.

Note 10—Royalty Agreements

The Company has licensing agreements with various licensors for rights to use certain patents and trademarks. Under the terms of the agreements, the Company is subject to royalties on certain sales at varying rates ranging from 6 percent to 12 percent. Certain agreements require upfront prepayment of annual minimum royalty obligations for the next 12 months. Other agreements have guaranteed minimum royalties, which are offset by royalties earned as a result of sales. Royalty expense is recorded upon shipment of products subject to royalties and is generally payable on a quarterly basis. Minimum royalty obligations paid in advance are reported as prepaid royalties by the Company and subsequently charged to cost of sales in accordance with the terms of the respective agreement. If all or a portion of the minimum royalty obligations paid in advance subsequently appears to be unrecoverable through future use of the rights obtained under the license, the unrecoverable portion is charged to cost of sales.

As of March 31, 2023 and 2022, the Company has prepaid royalty expense of $136,332 and $473,125 and accrued royalty expense payable of $2,325,095 and $2,609,614, respectively. Total royalty expense for the years ended March 31, 2023 and 2022 approximated $11,210,000 and $14,458,000, respectively.

The Company has future minimum royalty payments as of March 31 for the following years:

2024	$1,043,000
2025	1,043,000
2026	1,043,000
Total	$3,129,000

Note 11—Phantom Equity Agreements

The Company has a management incentive plan that may grant phantom equity awards to employees pursuant to a phantom equity agreement (the "Plan").

The Plan permits the board of directors to grant incentive units that, upon a change in control, as defined, allow the award holder to receive cash payments of a specific percentage of the sales proceeds, which is defined in the individual award agreements. The sales proceeds are defined as follows: (i) in the event a change of control is accomplished by the sale of the Company's assets, the gross proceeds received with respect to the sale of such assets reduced by any indebtedness of the Company as of the sale date that was not assumed by the purchaser and (ii) in the event of any other transaction constituting a change of control, the gross proceeds resulting from such transaction and received by any person with respect to their direct or indirect ownership interest in the Company.

The awards do not constitute or represent an ownership interest in the Company. The term of an award terminates on the earliest of (a) the date of separation other than as a result of an involuntary termination without cause, (b) the eighth anniversary of the date of grant, and (c) the date on which payment is made to the award holder with respect to the award.

In April 2021, there was a change in control event that met the payout terms of the Plan, and individuals with outstanding grants received a total of $3,500,000 in cash, which was recorded in nonoperating expenses on the consolidated statement of operations. To fund the payout, the Company received a member contribution in the amount of approximately $3,500,000 in April 2021. All previously outstanding phantom units were paid out as part of the April 2021 transaction, and no new phantom equity agreements have been entered into at the Company.

Note 12—Subsequent Events

On March 13, 2024, the Company's parent, FSAR Holdings, Inc., was acquired by Turtle Beach Corporation which created a change in control.

Performance Designed Products LLC

Condensed Consolidated Financial Report
As of and for the nine months ended December 31, 2023

Performance Designed Products LLC

Contents

Condensed Consolidated Financial Statements

Performance Designed Products LLC

Condensed Consolidated Balance Sheet

(Unaudited) *(In dollars)*		As at December 31, 2023		As at March 31, 2023
Assets				
Current Assets				
Cash and restricted cash	$	5,456,956	$	3,705,050
Accounts receivable – Net		37,088,446		11,635,962
Inventory – Net		25,902,087		20,734,428
Prepaid expenses and other current assets:				
Prepaid expenses		1,223,583		1,907,216
Vendor advances		290,690		684,154
Total current assets		69,961,762		38,666,810
Property and Equipment - Net		1,167,756		1,156,491
Right-of-use Operating Lease Assets (Note 5)		3,979,445		4,469,573
Intangible Assets - Net		51,850		52,108
Other Assets		179,000		295,897
Total assets	**$**	**75,339,813**	**$**	**44,640,879**
Liabilities and Member's Equity				
Current Liabilities				
Accounts payable	$	12,095,450	$	4,571,399
Revolving loan (Note 4)		36,995,931		23,541,806
Current portion of long-term debt (Note 4)		5,112,745		6,169,260
Current portion of lease liabilities—Operating (Note 5)		842,091		894,908
Accrued and other current liabilities:				
Taxes payable		547,775		345,414
Accrued compensation		2,050,593		1,336,859
Accrued interest		700,583		195,317
Accrued royalties		5,771,156		2,325,095
Other accrued liabilities		1,260,323		325,430
Total current liabilities		65,376,647		39,705,488
Lease Liabilities—Operating - Net of current portion (Note 5)		3,285,021		3,689,591
Total liabilities		68,661,668		43,395,079
Member's Equity		6,678,146		1,245,800
Total liabilities and member's equity	**$**	**75,339,813**	**$**	**44,640,879**

See notes to condensed consolidated financial statements

Performance Designed Products LLC

Condensed Consolidated Statement of Operations

(Unaudited) *(In dollars)*	**For nine months ended December 31, 2023**	**For nine months ended December 31, 2022**
Net Sales	$ 87,655,917	$ 72,658,758
Cost of Sales	60,770,997	57,951,410
Gross Profit	26,884,920	14,707,348
Operating Expenses		
Selling, general, and administrative	17,402,017	15,225,604
Other operating expenses	1,638,577	4,733,455
Total operating expenses	19,040,594	19,959,059
Operating (Loss) Income	7,844,326	(5,251,711)
Nonoperating (Expense) Income		
(Gain) loss on foreign currency translation	(115,208)	209,713
Other expense (income)	18,830	(318,762)
Interest expense	2,395,054	1,602,487
Total nonoperating expense	2,298,676	1,493,438
Income (Loss) – Before income taxes	5,545,650	(6,745,149)
Income Tax Expense	113,304	56,679
Consolidated Net Income (Loss)	**$ 5,432,346**	**$ (6,801,828)**

See notes to condensed consolidated financial statements

Performance Designed Products LLC

Condensed Consolidated Statement of Member's Equity

(Unaudited) *(In dollars)*		**As of December 31, 2023 and March 31, 2023**
Balance – April 1, 2022	$	8,257,389
Consolidated net income (loss)		(7,011,589)
Balance – March 31, 2023		1,245,800
Consolidated net income (loss)		5,432,346
Balance – December 31, 2023	**$**	**6,678,146**

See notes to condensed consolidated financial statements

Performance Designed Products LLC

Condensed Consolidated Statement of Cash Flows

(Unaudited) *(In dollars)*	For the nine months ended December 31, 2023	For the nine months ended December 31, 2022
Cash Flows from Operating Activities		
Consolidated net income (loss)	$ 5,432,346	$ (6,801,828)
Adjustments to reconcile consolidated net loss to net cash and restricted cash from operating activities:		
Depreciation and amortization	714,996	640,722
Amortization of debt issuance costs	104,285	106,714
Bad debt (recovery) expense	4,000	70,228
Gain on disposal of property and equipment	(1,500)	—
Amortization of right-of-use asset	736,890	180,195
Changes in operating assets and liabilities that provided (used) cash and restricted cash:		
Accounts receivable	(25,456,484)	(10,763,750)
Inventory	(5,167,659)	376,107
Prepaid expenses and other assets	1,193,994	(1,175,157)
Accounts payable	7,524,051	7,932,319
Accrued and other liabilities	5,802,303	2,526,177
Operating lease liability	(704,137)	(161,002)
Net cash and restricted cash used in operating activities	(9,816,915)	(7,069,275)
Cash Flows from Investing Activities		
Purchase of property and equipment	(724,504)	(892,857)
Net cash and restricted cash used in investing activities	(724,504)	(892,857)
Cash Flows from Financing Activities		
Payments on long-term debt	(1,160,800)	(1,636,853)
Net proceeds from the revolving loan	13,454,125	13,411,734
Net cash and restricted cash provided by financing activities	12,293,325	11,774,881
Net Increase in Cash and Restricted Cash	**1,751,906**	**3,812,749**
Cash and Restricted Cash - Beginning of period	**3,705,050**	**1,306,376**
Cash and Restricted Cash - End of period	**$ 5,456,956**	**$ 5,119,125**
Supplemental Cash Flow Information		
Interest paid	$ 1,889,788	$ 1,204,095
Significant Noncash Transactions - Right-of-use asset capitalized under operating leases	$ 246,750	$ 420,979

See notes to condensed consolidated financial statements

Note 1—Nature of business

Performance Designed Products LLC (the “Company”) is engaged in the sale and distribution of video game accessories in various geographic locations. The Company is a wholly owned subsidiary of FSAR Holdings, Inc. (the “Parent Company”).

On April 21, 2021, the Parent Company was acquired by a new entity, resulting in a change in control. As a result of the acquisition, the Company’s debt was amended and restated, and the Parent Company elected not to apply pushdown accounting to Performance Designed Products LLC. Therefore, the Company’s unaudited condensed consolidated financial statements are reported at historical cost.

Note 2 – Significant Accounting Policies

Basis of Presentation and Use of Estimates

The unaudited condensed consolidated financial statements of the Company have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

The results of operations for the nine months ended December 31, 2023 are not necessarily indicative of results to be expected for the full year ending March 31, 2024, nor were those of the comparable 2022 period representative of those actually experienced for the full year ending March 31, 2023.

This Financial Statement should be read in conjunction with the Company’s audited financial statements for the year ended March 31, 2023. There have been no material changes in the Company’s critical accounting policies and estimates from those disclosed in its audited financial statements.

To the extent that an asset, liability, revenue, or expense is directly associated with the Company, it is reflected in the accompanying Financial Statements.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. The subsidiaries consist of Performance Designed Products Limited (PDP UK); PDP France SARL (PDP France); Performance Designed Products B.V. (PDP Netherlands); Performance Designed Products Australia Pty Ltd (PDP Australia); and Performance Designed Products Co., Ltd (PDP Japan). PDP UK, PDP France, PDP Netherlands, PDP Australia, and PDP Japan are incorporated in the United Kingdom, France, the Netherlands, Australia, and Japan, respectively. All material intercompany accounts and transactions have been eliminated in consolidation.

Trade Accounts Receivable

Accounts receivable are stated at net invoice amounts. The Company estimates credit losses based on relevant qualitative and quantitative information about historical events, current conditions, and reasonable and supportable forecasts that affect the collectability of its reported accounts receivable. The Company records the estimated credit losses as an allowance against its accounts receivable. All amounts deemed to be uncollectible are charged against the allowance for credit losses in the period that determination is made. The allowance for credit losses on accounts receivable balances was $50,115 and $54,084 as of December 31, 2023 and March 31, 2023, respectively.

Note 2—Significant Accounting Policies (Continued)

Inventory

Inventory primarily consists of finished goods purchased for distribution and components utilized in the production of the finished goods at third party manufacturing facilities. Inventory is stated at the lower of cost or net realizable value, with cost determined on the weighted average method. As of December 31, 2023 and March 31, 2023, the reserve for excess and slow moving inventory is $3,173,642 and $3,395,689, respectively.

Included in the reserve as of December 31, 2023 is $2,158,125 of reserves for component inventory that management deemed to be obsolete during the period ended December 31, 2023.

The Company has approximately $930,000, $2,210,000, $6,822,000, and $164,000 of inventory in Australia, Europe, China, and Japan, respectively, as of December 31, 2023. The Company has approximately $1,250,000, $3,249,000, $5,487,000, and $412,000 of inventory in Australia, Europe, China, and Japan, respectively, as of March 31, 2023.

Revenue Recognition

The Company primarily distributes video game accessories directly to customers.

The Company recognized revenue from the sale of goods totaling $87,665,917 and $72,658,758, net of returns, discounts, and other allowances of $14,566,155 and $12,093,943, for the nine months ended December 31, 2023 and 2022, respectively. The Company's sales by geographic region for the nine months ended December 31, 2023 are as follows: $67,845,954 in North America, $3,019,349 in Australia, $21,921,803 in Europe, and $1,878,811 in Africa and Asia. The Company's sales by geographic region for the nine months ended December 31, 2022 are as follows: $49,600,839 in North America, $4,194,228 in Australia, $18,156,156 in Europe, and $707,535 in Africa and Asia.

Major Customers and Suppliers

The Company has three customers that accounted for 63 percent of accounts receivable and 58 percent of sales as of and for the nine months ended December 31, 2023. The Company has three customers that accounted for 64 percent of accounts receivable and 57 percent of sales as of and for the year ended March 31, 2023.

The Company has one vendor that accounted for 19 percent of accounts payable and 18 percent of purchases as of and for the nine months ended December 31, 2023. The Company has one vendor that accounted for 19 percent of accounts payable and 18 percent of purchases as of and for the year ended March 31, 2023.

Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to December 31, 2023, to determine the need for any adjustments to and/or disclosures within the financial statements for the period ended December 31, 2023.

On March 13, 2024, the Company was acquired by Turtle Beach for a consideration of $116.90 million (Cash + equity) via a merger agreement between Turtle Beach and Parent Company.

Note 2—Significant Accounting Policies (Continued)

The consideration includes customary working capital adjustments among other adjustments. As part of the merger consideration, Turtle Beach settled the Company's debt and paid for Company transaction expenses as of closing date. Debt includes: (1) Zohar Seller Note with initial principal balance of $5,000,000 and related applicable accrued interest and fees in total of $5,440,972, (2) Fifth Third Bank indebtedness (ABL) and related applicable accrued interest and fees in total of $19,922,068.

Management has performed their analysis through May 22, 2024, which is the date the consolidated financial statements were available to be issued.

Note 3—Adoption of New Accounting Pronouncement

As of April 1, 2022, the Company adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, Leases. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. The Company elected to adopt the ASU using the modified retrospective method as of April 1, 2022 and applied the following practical expedients:

- The Company did not reassess if expired or existing contracts are or contain a lease.
- The Company did not reassess the lease classification for expired or existing leases.
- The Company did not reassess initial direct costs for any existing leases.

As a result of the adoption of the ASU, the Company recorded a right-of-use asset and lease liability of $352,435 as of April 1, 2022 for existing operating leases. There was no impact on retained earnings as a result of adopting the new ASU.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016 13, Financial Instruments Credit Losses: Measurement of Credit Losses on Financial Instruments. The ASU includes changes to the accounting and measurement of financial assets, including the Company's accounts receivable, by requiring the Company to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. We adopted this guidance as of April 1, 2023. The adoption of this guidance did not have a material impact on our financial condition and results of operations.

Note 4—Revolving Loan and Long-term Debt

The revolving loan under the amended and restated credit agreement allows for borrowings up to $40,000,000, subject to borrowing base restrictions. The revolving loan incurs interest at the bank's prime rate plus 75 basis points (an effective rate of 8.50 percent as of March 31, 2023, and 9.25 percent as of December 31, 2023) and requires monthly interest-only payments, with the principal due upon maturity. The credit agreement matures on February 29, 2024, and is collateralized by all assets of the Company.

The term loan under the amended and restated credit agreement had an initial balance of $5,000,000. The term loan incurs interest at the bank's prime rate plus 200 basis points (an effective rate of 9.75 percent as of March 31, 2023, and 10.5 percent as of December 31, 2023), with monthly principal payments of $138,889 plus accrued interest with any final principal due upon maturity.

Note 4—Revolving Loan and Long-term Debt (Continued)

The related party note payable had an initial principal balance of $5,000,000. The related party note payable is non-interest bearing (except as disclosed further below) and is not collateralized. The payment terms require two installments of $2,500,000 on October 22, 2022 and April 22, 2023. The note is subordinate to the credit agreement noted above, and payment of the related party note is blocked if the Company does not meet certain liquidity levels. The Company did not meet the liquidity levels at the first payment date through December 31, 2023. As a result, the related party note payable remains unpaid as of December 31, 2023 There is an acceleration clause that would make the note due upon demand if there was a change in control and a clause that requires interest to be charged in the event the Company did not meet certain liquidity levels defined in the credit agreement. During the period ended December 31, 2023, the Company did not meet the liquidity level. Therefore, the note accrued interest at the prime rate (an effective interest rate of 6.25 percent as of March 31, 2023, and 8.50 percent as of December 31, 2023) for the period from the first payment installment date through December 31, 2023.

The following summarizes revolving loan and long-term debt balances as of December 31, 2023 and March 31, 2023:

	December 31, 2023	March 31, 2023
Revolving loan	$ 36,995,931	$ 23,541,806
Term loan	138,889	1,299,689
Related party note payable	5,000,000	5,000,000
Unamortized debt issuance costs	(26,144)	(130,429)
Total debt less debt issuance costs	42,108,676	29,711,066
Less current portion	(42,108,676)	(29,711,086)
Total long-term debt	$ —	$ —

Total interest expense incurred on the debt above was $2,395,054 and $1,602,487 for the nine months ended December 31, 2023 and 2022, respectively, which includes amortization on the debt issuance costs.

As described above, the Company's revolving and term loan with its lender matures in February 2024. On February 27, 2024, management entered into the fourth amendment to the revolving and term loan agreement with its lender. The amendment extended the maturity date of the revolving and term loan to May 29, 2024.

Under the credit agreement with the bank, the Company is subject to various financial covenants, including a leverage ratio and a fixed charge coverage ratio. As of March 31, 2023, the Company was in violation of the leverage ratio and fixed charge coverage ratio. Additionally, the credit agreement requires delivery of audited financial statements to the bank within 120 days after year end, which the Company violated for the year ended March 31, 2023. Subsequent to year end, the bank waived the covenant violations and amended the credit agreement to amend the financial covenants.

As part of the terms of the acquisition by Turtle Beach, the amounts outstanding on the revolving loan, term loan and related party note were repaid in full. Refer Subsequent Events note included in Note – 2 above.

Note 5—Leases

The Company is obligated under operating leases primarily for warehouses, expiring at various dates through January 31, 2028. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 4.5 percent to 9.3 percent. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs.

Future minimum annual commitments under these operating leases are as follows:

Periods ending December 31	Amount
2024	$ 1,156,666
2025	1,200,596
2026	1,241,724
2027	1,196,977
2028	98,571
Total	4,894,534
Less amount representing interest	(767,422)
Present value of net minimum lease payments	4,127,112
Less current obligations	(842,091)
Long-term obligations under leases	$ 3,285,021

Expenses recognized under these leases for the nine months ended December 31, 2023 consist of the following:

Finance lease cost	$ —
Operating lease cost	1,004,618
Variable lease cost	133,105
Total lease cost	$ 1,137,723

Other information:

Cash paid for amounts included in the measurement of lease liabilities -operating cash flows from operating leases	$ 971,864
Right-of-use assets obtained in exchange for new operating lease liabilities	246,750
Weighted-average remaining lease term (in years) – Operating leases	4.0
Weighted-average discount rate—Operating leases	8.3%

Total rent expense under these leases during the nine months ended December 31, 2022 was $858,564.

On March 13, 2024, Turtle Beach Corporation ("Turtle Beach" or the "Company") acquired Performance Designed Products LLC ("PDP", collectively with FSAR, "PDP Group") for consideration that included cash and common stock (the "Acquisition").

The following unaudited pro forma combined statements of operations for the three months ended March 31, 2024 and the year ended December 31, 2023 present the combined financial information of Turtle Beach and PDP Group after giving effect to the Acquisition, related Financing (as defined in Note 1), and other adjustments described in the accompanying notes. The unaudited pro forma combined financial information does not include an unaudited pro forma combined balance sheet as of March 31, 2024, as the Acquisition was already reflected in the Company's historical interim unaudited balance sheets as of March 31, 2024 included in Form 10-Q filed with the SEC on May 7, 2024.

The unaudited pro forma combined financial information has been prepared in accordance with Article 11 of Regulation S-X, as amended by the final rule, Release No. 33-10786, "Amendments to Financial Disclosures about Acquired and Disposed Businesses." The unaudited pro forma combined statements of operations for the three months ended March 31, 2024 and the year ended December 31, 2023 give effect to the Acquisition and the related Financing as if they had been completed on January 1, 2023, the beginning of the period presented.

The unaudited pro forma combined financial information have been derived from and should be read in conjunction with:

(i) the historical audited consolidated financial statements of the Company, including the notes thereto, as of and for the year ended December 31, 2023 included in Item 8 of the Company's Annual Report on Form 10-K (File No. 001-35465) filed with the Securities and Exchange Commission (the "SEC") on March 13, 2024;

(ii) the historical interim unaudited consolidated financial statements of the Company, including the notes thereto, for the three months ended March 31, 2024 and 2023 included in Item 1 of the Company's Quarterly Report on Form 10-Q (File No. 001-35465) filed with the SEC on May 7, 2024;

(iii) the historical audited consolidated financial statements of PDP as of and for the year ended March 31, 2023 attached as Exhibit 99.1 to the Company's Current Report on Form 8-K (File No. 001-35465) filed with the SEC on May 28, 2024; and

(iv) the historical interim unaudited financial statements of PDP for the nine months ended December 31, 2023 and 2022, including the notes thereto, attached as Exhibit 99.2 to the Company's Current Report on Form 8-K (File No. 001-35465) filed with the SEC on May 28, 2024.

The fiscal year of PDP Group has been adjusted to conform to the fiscal year of Turtle Beach for the purpose of presenting the unaudited pro forma combined financial information, pursuant to Rule 11-02(c)(3) of Regulation S-X, given the most recent fiscal year ends differed by more than one fiscal quarter. As such, the statement of operations of PDP Group for the twelve months ended December 31, 2023 was derived from PDP's historical audited consolidated statement of operations for the year ended March 31, 2023, as well as the interim unaudited consolidated statements of operations for the nine months ended December 31, 2023 and 2022.

Refer to Note 2-*Basis of Pro Forma Presentation* for the adjustments made to PDP Group's historical unaudited statement of operations for the twelve months ended March 31, 2023 to conform with the Company's December 31, 2023 fiscal year end. In addition, the Company's historical financial results for the three months ended March 31, 2024 include post-acquisition operations of the PDP Group, reported in the referenced Form 10-Q.

The unaudited pro forma combined financial statements have been presented for informational purposes only and are not necessarily indicative of the financial position or results of operations that the combined company would have realized had the Acquisition and the related Financing been completed on the dates indicated, nor are they meant to be indicative of any anticipated or future financial position or results of operations that the combined company will experience following closing of the Acquisition and the related Financing. The pro forma adjustments are estimates based upon available information and certain assumptions that Turtle Beach management believes are reasonable under the circumstances, which are described in the accompanying notes to the unaudited pro forma combined financial statements. Actual results may differ materially from the pro forma amounts reflected herein due to a variety of factors.

In addition, the unaudited pro forma combined statements of operations do not include any cost savings, operating synergies, or revenue enhancements that may be realized subsequent to closing of the Acquisition. The unaudited pro forma combined statements of operations do, however, give effect to the anticipated costs to be incurred by Turtle Beach to effectuate the Acquisition and the related Financing. See Note 4–*Pro Forma Acquisition Accounting Adjustments*, for further details.

Turtle Beach Corporation
Unaudited Pro Forma Combined Statement of Operations
For the three months ended March 31, 2024

($ in thousands, except per share data)	Turtle Beach Historical	PDP Group Historical, as Reclassified (Note 2)	Pro Forma Adjustments: Transaction Accounting Adjustments (Note 4)		Pro Forma Adjustments: Financing Adjustments (Note 5)	Pro Forma Combined
Net revenue	$ 55,848	$ 22,077	$ (2,059)	(a)	$ —	$ 75,866
Cost of revenue	38,062	16,870	—		—	54,932
Gross profit	17,786	5,207	(2,059)		—	20,934
Operating expenses:						
Selling and marketing	9,013	2,500	—		—	11,513
Research and development	3,902	1,409	—		—	5,311
General and administrative	5,674	4,729	1,243	(*)	—	11,646
Acquisition-related cost	4,910	—	(4,910)	(e)	—	—
Total operating expenses	23,499	8,638	(3,667)		—	28,470
Operating (loss) income	(5,713)	(3,431)	1,608		—	(7,536)
Interest expense, net	150	632	(632)	(f)	1,615	1,765
Other non-operating expense (income), net	370	(28)	—		—	342
(Loss) income before income tax	(6,233)	(4,035)	2,240		(1,615)	(9,643)
Income tax (benefit) expense	(6,388)	—	6,606	(g)	—	218
Net income (loss)	$ 155	$ (4,035)	$ (4,366)		$ (1,615)	$ (9,861)
Net income (loss) per share:						
Basic	$ 0.01					$ (0.47)
Diluted	$ 0.01					$ (0.47)
Weighted average number of shares:						
Basic	18,321		2,722	(i)		21,043
Diluted	19,389		1,654	(i)		21,043

* (b), (c), (d)

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information

Turtle Beach Corporation
Unaudited Pro Forma Combined Statement of Operations
For the year ended December 31, 2023

($ in thousands, except per share data)	Turtle Beach Historical	PDP Group Historical, as Reclassified (Note 2)	Pro Forma Adjustments: Transaction Accounting Adjustments (Note 4)		Pro Forma Adjustments: Financing Adjustments (Note 5)	Pro Forma Combined
Net revenue	$258,122	$ 106,405	$ (400)	(a)	$ —	$364,127
Cost of revenue	182,618	80,861	2,085	(h)	—	265,564
Gross profit	75,504	25,544	(2,485)		—	98,563
Operating expenses:						—
Selling and marketing	43,489	8,778	—		—	52,267
Research and development	17,137	4,437	—		—	21,574
General and administrative	31,321	4,528	7,856	(*)	—	43,705
Acquisition-related cost	—	—	6,240	(e)		6,240
Total operating expenses	91,947	17,743	14,096		—	123,786
Operating (loss) income	(16,443)	7,801	(16,581)		—	(25,223)
Interest expense, net	504	2,550	(2,550)	(f)	7,753	8,257
Other non-operating expense, net	394	29	—		—	423
(Loss) income before income tax	(17,341)	5,222	(14,031)		(7,753)	(33,903)
Income tax expense (benefit)	338	—	(7,847)	(g)	—	(7,509)
Net (loss) income	$ (17,679)	$ 5,222	$ (6,184)		$ (7,753)	$ (26,394)
Net loss per share:						
Basic	$ (1.03)	—				$ (1.28)
Diluted	$ (1.03)	—				$ (1.28)
Weighted average number of shares:						
Basic	17,135	—	3,450	(i)		20,585
Diluted	17,135	—	3,450	(i)		20,585

* (b), (c), (d)

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

Note 1–Description of the Acquisition, Financing and Basis of Presentation

Description of the Acquisition

On March 13, 2024, the Company acquired all the issued and outstanding equity of PDP Group for consideration that included cash and common stock. Consideration for the Acquisition consisted of the issuance of 3.45 million shares of Company common stock and approximately $78.9 million in cash, subject to customary post-closing adjustments for working capital, closing cash, closing debt and closing third party expenses. The fair value of the 3.45 million common shares issued as part of the consideration was determined on the basis of the closing market price of the Company's common shares on the acquisition date, or $11.03 per share. As a result, the total preliminary purchase consideration was $116.9 million, partially funded by borrowing on the new term loan facility (see details below).

Description of the Financing

On March 13, 2024, Turtle Beach and certain of its subsidiaries entered into a new financing agreement with Blue Torch Finance, LLC, ("Blue Torch"), for an aggregate amount of $50.0 million (the "Term Loan Facility"), the proceeds of which were used to (i) fund a portion of the PDP Group acquisition purchase price; (ii) repay certain existing indebtedness of the acquired business; (iii) to pay fees and expenses related to such transactions and (iv) for general corporate purposes. The Term Loan Facility will amortize in a monthly amount equal to 0.208333% during the first two years and 0.416667% during the third year and may be prepaid at any time subject to a prepayment premium during the first year of the interest payments payable during the first year plus 3.00%. The Term Loan Facility is secured by substantially all of the assets of the Company and its subsidiaries which are party to the Term Loan Facility.

Basis of Presentation

Turtle Beach's and PDP's historical audited consolidated financial statements for the year ended December 31, 2023 and March 31, 2023, respectively, were prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Refer to Note 2-*Basis of Pro Forma Presentation* for the adjustments made to PDP's historical unaudited statement of operations for the twelve months ended December 31, 2023 to conform with the Company's December 31, 2023 fiscal year end. There were no material transactions and balances between Turtle Beach and PDP Group for the year ended December 31, 2023.

The unaudited pro forma combined financial statements were prepared using the acquisition method of accounting, as promulgated by the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 805, Business Combinations ("ASC 805"), based on the historical financial information of Turtle Beach and PDP Group, with Turtle Beach being considered the accounting acquirer. ASC 805 requires, among other things, that under the acquisition method of accounting, the acquired assets and assumed liabilities be recognized at their acquisition-date fair value, using the fair value concepts as defined in ASC Topic 820, Fair Value Measurement ("ASC 820") as of the date of closing of the Acquisition. The purchase price allocation and valuation are based on preliminary estimates, subject to final adjustments and are provided for informational purposes only.

For purposes of these unaudited pro forma combined financial statements, the fair values assigned to PDP Group's assets and liabilities are based on a preliminary estimate of fair value. Any excess of the purchase price over the fair values of identified assets to be acquired and liabilities to be assumed will be recognized as goodwill. The allocation of the purchase price to acquired assets and assumed liabilities based on their underlying fair values requires the extensive use of significant estimates and the Company's judgment. Turtle Beach management believes that the fair values recognized for the assets to be acquired and liabilities to be assumed are based on reasonable estimates and assumptions. Preliminary fair value estimates of assets and liabilities may change as additional information becomes available and such changes could be material. The final allocation of the purchase price is dependent on a number of factors, including the final valuation of the fair value of all tangible and intangible assets acquired and liabilities assumed.

Turtle Beach believes that the assumptions used in the preparation of the unaudited pro forma combined financial statements provide a reasonable basis for presenting all of the material effects of the Acquisition and the related Financing and that the pro forma adjustments give appropriate effect to those assumptions that are applied in the unaudited pro forma combined financial statements.

Note 2 – Basis of Pro Forma Presentation

PDP Group had a fiscal year of March 31 as compared to the Company's December 31 fiscal year. In order for the unaudited pro forma combined statement of operations to be comparable to the Company's, PDP Group's twelve-month period ended December 31, 2023 was used and was calculated by subtracting the financial results for the April 1, 2022 through December 31, 2022 from the fiscal year ended March 31, 2023 period, and adding financial results for the April 1, 2023 through December 31, 2023 to the fiscal year ended March 31, 2023 period. In addition, since the acquisition of PDP Group was completed on March 13, 2024, the historical results of PDP Group for the three months ended March 31, 2024 do not include 18 days of PDP Group post-acquisition financial results.

Certain historical amounts of PDP Group have been reclassified in the Unaudited Pro Forma Combined Statements of Operations to conform to Turtle Beach presentation. These reclassifications principally consisted of reflecting i) reclassification of certain employee salaries and other personnel-related costs from selling, general, and administrative to cost of revenues, general and administrative and selling and marketing to conform to Turtle Beach presentation ii) reclassification of depreciation, management fee and strategic initiatives included in other operating expense to general and administrative to conform to Turtle Beach presentation, and iii) other immaterial reclassifications.

PDP Group's twelve-month PDP Group's twelve-month period ended December 31, 2023 reclassified to conform to Turtle Beach's presentation were calculated as follows:

	Fiscal Year Ended March 31, 2023	Less: Nine-months April 1, 2022 to December 31, 2022	Add: Nine-months April 1, 2023 to December 31, 2023	Twelve Months December 31, 2023
Net revenue	$ 91,212	$ 72,663	87,856	$106,405
Cost of revenue	77,172	62,073	65,762	80,861
Gross Profit	14,040	10,590	22,094	25,544
Operating expenses:				
Selling and marketing	8,069	6,245	6,954	8,778
Research and development	4,338	3,338	3,437	4,437
General and administrative	4,550	3,610	3,588	4,528
Total operating expenses	16,957	13,193	13,979	17,743
Operating (loss) income	(2,917)	(2,603)	8,115	7,801
Interest expense, net	1,757	1,602	2,395	2,550
Other non-operating expense, net	2,338	2,597	288	29
(Loss) income before income tax	(7,012)	(6,802)	5,432	5,222
Income tax expense	—	—	—	—
Net (loss) income	(7,012)	(6,802)	5,432	5,222

Note 3–Accounting Policies

As part of preparing the unaudited pro forma combined financial statements, Turtle Beach conducted a preliminary review of the accounting policies of PDP Group to determine if differences in accounting policies would result in material differences to the unaudited pro forma combined financial statements. Based on this initial review, Turtle Beach identified certain adjustments that were necessary and quantifiable to conform the accounting policies used to produce PDP Group's historical financial statements to those of Turtle Beach. These adjustments are documented in Note 4– *Pro Forma Acquisition Accounting Adjustments*.

As part of the Company's integration efforts, the Company will perform a comprehensive review of PDP Group's accounting policies. As a result of this review, management may identify differences between the accounting policies of Turtle Beach and PDP Group, which when conformed, could have a material impact on the financial statements of the combined company. Furthermore, in an effort to present the unaudited pro forma combined financial statements in a manner that the Company believes is clear and most useful, the Company has presented the values contained herein in thousands (unless otherwise stated).

Note 4–Pro Forma Accounting Adjustments

The following pro forma accounting adjustments relate to the Unaudited Pro Forma Combined Statements of Operations for the three months ended March 31, 2024 and the year ended December 31, 2023.

(a) To reflect an adjustment to conform the estimation of PDP Group's sales allowance with Turtle Beach accounting policies.

(b) Represents recognition of new amortization expense resulting from intangibles identified as part of the estimated purchase price allocation and elimination of historical amortization expense. Estimated incremental intangible amortization expense totaling $1.58 million and $7.58 million that would have been recognized by Turtle Beach during the three months ended March 31, 2024 and year ended December 31, 2024, respectively. PDP Group's historical amortization of intangibles was not material.

(c) Represents incremental straight-line operating lease expense of $0.03 million for three months ended March 31, 2024 and $0.15 million for the year ended December 31, 2023 respectively related to increase in right-of-use asset to reflect favorable terms of the lease when compared with market terms.

(d) Represents other adjustments to PDP Group's general and administrative operating expenses totaling ($0.37 million) for the three months ended March 31, 2024 and $0.13 million for the year ended December 31, 2023 to conform with Turtle Beach accounting policies.

(e) Represents removal of the transaction costs of $4.91 million included in the historical income statement of the Company for the three months ended March 31, 2024 and to record the non-recurring transaction costs of $6.24 million incurred and expected to be incurred by Turtle Beach in pro forma income statement for the year ended December 31, 2023.

(f) To reflect removal of interest expense attributable to PDP Group's historical indebtedness, which is extinguished and paid off in connection with the Acquisition of $0.63 million for three months ended March 31, 2024 and $2.55 million for the year ended December 31, 2023 respectively.

(g) To reflect removal of $6.61 million of income tax benefit for the three months ended March 31, 2024, and to recognize $7.85 million of income tax benefit for the year ended December 31, 2023, related to the release of the Company's valuation allowance for PDP Group acquired net deferred tax liabilities. Turtle Beach concluded that the deferred tax liabilities related to the PDP Group acquisition were sufficient to realize its preexisting deferred tax assets. There is no income tax impact resulting from pro forma accounting adjustments as any income tax benefit would be fully offset by a valuation allowance.

(h) Represents the adjustments to cost of revenues associated with the recognition of inventory step-up of the $2.09 million, based on estimated fair values determined as of the closing date. The pro forma income statement for the year ended December 31, 2023 is adjusted to increase cost of sales by the same amount as the inventory that is expected to be sold within one year of the acquisition date. No adjustment is required to be made for the three months ended March 31, 2024.

(i) Represents the impact to basic and diluted weighted-average shares outstanding resulting from the 3.45 million Turtle Beach common shares issued as part of the purchase price. For the three months ended March 31, 2024, the historical Turtle Beach basic and diluted weighted-average shares outstanding reflected the 3.45 million shares outstanding for 18 days; therefore, the pro forma adjustment increased the shares outstanding by 2.77 million. For the year ended December 31, 2023, the historical Turtle Beach basic and diluted weighted-average shares outstanding did not reflect any of the common shares issued as part of the purchase price; therefore the pro forma adjustment increased the shares outstanding by 3.45 million.

Note 5–Pro Forma Financing Adjustments

The pro forma financing adjustments reflects the pro forma interest expense and amortized debt issuance costs adjustment for the three months ended March 31, 2024 and year ended December 31, 2023 respectively, calculated as follows.

($ in thousands)	For January 1, 2024 through March 12, 2024	For the year ended December 31, 2023
Estimated interest expense	$ 1,426	$ 6,843
Amortization of debt issuance costs	189	910
Financing Adjustments to Interest expense, net	$ 1,615	$ 7,753

A 1/8 of a percentage point increase or decrease in the benchmark rate for the Term Loans would result in a change in interest expense of approximately $0.02 million and $0.06 million for the three months ended March 31, 2024, and the year ended December 31, 2023, respectively.