

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35465



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

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

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

**11011 Via Frontera, Suite A/B**  
**San Diego, California**  
(Address of principal executive offices)

**92127**  
(Zip Code)

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

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

| Title of each class             | Trading Symbols | Name of each exchange on which registered |
|---------------------------------|-----------------|---|
| Common Stock, par value \$0.001 | HEAR            | Nasdaq                                    |

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

The number of shares of the registrant's Common Stock, par value \$0.001 per share, outstanding on April 30, 2019 was 14,630,799.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Turtle Beach Corporation  
Condensed Consolidated Balance Sheets

|   | March 31,<br>2019                                  | December 31, 2018 |
|---|--|-------------------|
|   | (unaudited)  |                   |
|   | (in thousands, except par value and share amounts) |                   |
| <b>ASSETS</b>   |  |                   |
| Current Assets:   |  |                   |
| Cash and cash equivalents   | \$ 10,156  | \$ 7,078          |
| Accounts receivable, net  | 12,461   | 52,797            |
| Inventories   | 44,480   | 49,472            |
| Prepaid expenses and other current assets   | 4,785  | 4,469             |
| Total Current Assets  | 71,882   | 113,816           |
| Property and equipment, net   | 5,215  | 5,856             |
| Intangible assets, net  | 997  | 1,036             |
| Other assets  | 3,831  | 1,212             |
| Total Assets  | \$ 81,925  | \$ 121,920        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |  |                   |
| Current Liabilities:  |  |                   |
| Revolving credit facility   | \$ —   | \$ 37,385         |
| Accounts payable  | 13,073   | 17,724            |
| Other current liabilities   | 16,580   | 18,488            |
| Total Current Liabilities   | 29,653   | 73,597            |
| Deferred income taxes   | 187  | 187               |
| Financial instrument obligation   | —  | 7,848             |
| Other liabilities   | 4,677  | 2,792             |
| Total Liabilities   | 34,517   | 84,424            |
| Commitments and Contingencies   |  |                   |
| Stockholders' Equity  |  |                   |
| Common stock, \$0.001 par value - 100,000,000 shares authorized; 14,575,365 and 14,268,184 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively | 14   | 14                |
| Additional paid-in capital  | 176,113  | 169,421           |
| Accumulated deficit   | (128,408)  | (131,463)         |
| Accumulated other comprehensive loss  | (311)  | (476)             |
| Total Stockholders' Equity  | 47,408   | 37,496            |
| Total Liabilities and Stockholders' Equity  | \$ 81,925  | \$ 121,920        |

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

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

|   | Three Months Ended                    |                   |
|---|---------------------------------------|-------------------|
|   | March 31,<br>2019                     | March 31,<br>2018 |
|   | (in thousands, except per-share data) |                   |
| Net revenue                               | \$ 44,846                             | \$ 40,886         |
| Cost of revenue                           | 30,059                                | 25,857            |
| Gross profit                              | 14,787                                | 15,029            |
| Operating expenses:                       |                                       |                   |
| Selling and marketing                     | 6,881                                 | 5,929             |
| Research and development                  | 1,456                                 | 1,329             |
| General and administrative                | 4,649                                 | 3,985             |
| Total operating expenses                  | 12,986                                | 11,243            |
| Operating income                          | 1,801                                 | 3,786             |
| Interest expense                          | 244                                   | 2,005             |
| Other non-operating expense (income), net | (1,662)                               | (245)             |
| Income before income tax                  | 3,219                                 | 2,026             |
| Income tax expense                        | 164                                   | 64                |
| Net income                                | \$ 3,055                              | \$ 1,962          |
| Net income (loss) per share:              |                                       |                   |
| Basic                                     | \$ 0.21                               | \$ 0.16           |
| Diluted                                   | \$ 0.09                               | \$ 0.16           |
| Weighted average number of shares:        |                                       |                   |
| Basic                                     | 14,336                                | 12,347            |
| Diluted                                   | 16,260                                | 12,369            |

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

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

|   | <b>Three Months Ended</b> |                       |
|---|---------------------------|-----------------------|
|   | <b>March 31, 2019</b>     | <b>March 31, 2018</b> |
|   | (in thousands)            |                       |
| Net income                              | \$ 3,055                  | \$ 1,962              |
| Other comprehensive income (loss):      |                           |                       |
| Foreign currency translation adjustment | 165                       | 155                   |
| Other comprehensive income              | 165                       | 155                   |
| Comprehensive income                    | \$ 3,220                  | \$ 2,117              |

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

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

|   | Three Months Ended |                |
|---|--------------------|----------------|
|   | March 31, 2019     | March 31, 2018 |
| (in thousands)  |                    |                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                    |                |
| Net income  | \$ 3,055           | \$ 1,962       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                |
| Depreciation and amortization   | 1,040              | 948            |
| Amortization of intangible assets   | 62                 | 79             |
| Amortization of debt financing costs  | 47                 | 394            |
| Stock-based compensation  | 522                | 223            |
| Accrued interest on Series B redeemable preferred stock                           | —                  | 376            |
| Paid-in-kind interest   | —                  | 665            |
| Deferred income taxes   | —                  | (21)           |
| Provision for (reversal of) sales returns reserve                                 | (2,532)            | (1,273)        |
| Provision for doubtful accounts   | —                  | 131            |
| Provision for obsolete inventory  | 783                | 582            |
| Unrealized loss (gain) on financial instrument obligation                         | (1,601)            | —              |
| Changes in operating assets and liabilities:                                      |                    |                |
| Accounts receivable   | 42,868             | 29,320         |
| Inventories   | 4,210              | 11,120         |
| Accounts payable  | (4,493)            | (3,597)        |
| Prepaid expenses and other assets   | (317)              | (68)           |
| Income taxes payable  | 132                | —              |
| Other liabilities   | (2,814)            | (2,796)        |
| Net cash provided by operating activities   | 40,962             | 38,045         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                    |                |
| Purchases of property and equipment   | (557)              | (354)          |
| Net cash used for investing activities  | (557)              | (354)          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                    |                |
| Borrowings on revolving credit facilities   | 48,119             | 37,571         |
| Repayment of revolving credit facilities  | (85,504)           | (73,396)       |
| Repayment of term loan  | —                  | (2,485)        |
| Proceeds from exercise of stock options and warrants                              | 23                 | —              |
| Repurchase of common stock to satisfy employee tax withholding obligations        | (101)              | —              |
| Debt financing costs  | —                  | (175)          |
| Net cash used for financing activities  | (37,463)           | (38,485)       |
| Effect of exchange rate changes on cash and cash equivalents                      | 136                | (118)          |
| Net increase (decrease) in cash and cash equivalents                              | 3,078              | (912)          |
| Cash and cash equivalents - beginning of period                                   | 7,078              | 5,247          |
| Cash and cash equivalents - end of period   | \$ 10,156          | \$ 4,335       |
| <b>SUPPLEMENTAL DISCLOSURE OF INFORMATION</b>                                     |                    |                |
| Cash paid for interest  | \$ 268             | \$ 482         |
| Cash paid for income taxes  | \$ —               | \$ —           |
| Reclassification of financial instrument obligation                               | \$ 6,248           | \$ —           |

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



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

|  | Common Stock  |              | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Accumulated Other<br>Comprehensive Income<br>(Loss) | Total              |
|--|---------------|--------------|----------------------------------|------------------------|---|--------------------|
|  | Shares        | Amount       |                                  |                        |   |                    |
| (in thousands)   |               |              |                                  |                        |   |                    |
| Balance at December 31, 2017   | 12,349        | 12           | 148,082                          | (170,048)              | (203)   | (22,157)           |
| Cumulative effect of the adoption of ASC 606                         | —             | —            | —                                | (605)                  | —   | (605)              |
| Net income   | —             | —            | —                                | 1,962                  | —   | 1,962              |
| Other comprehensive income   | —             | —            | —                                | —                      | 155   | 155                |
| Stock-based compensation   | —             | —            | 223                              | —                      | —   | 223                |
| Balance at March 31, 2018  | <u>12,349</u> | <u>\$ 12</u> | <u>\$ 148,305</u>                | <u>\$ (168,691)</u>    | <u>\$ (48)</u>                                      | <u>\$ (20,422)</u> |
| Balance at December 31, 2018   | 14,268        | \$ 14        | \$ 169,421                       | \$ (131,463)           | \$ (476)  | \$ 37,496          |
| Net income   | —             | —            | —                                | 3,055                  | —   | 3,055              |
| Other comprehensive income   | —             | —            | —                                | —                      | 165   | 165                |
| Reclassification of financial instrument obligation                  | —             | —            | 6,248                            | —                      | —   | 6,248              |
| Issuance of restricted stock   | 12            | —            | —                                | —                      | —   | —                  |
| Repurchase of common stock and retirement of related treasury shares | (6)           | —            | (101)                            | —                      | —   | (101)              |
| Issuance of common stock upon exercise of warrants                   | 295           | —            | —                                | —                      | —   | —                  |
| Stock options exercised  | 6             | —            | 23                               | —                      | —   | 23                 |
| Stock-based compensation   | —             | —            | 522                              | —                      | —   | 522                |
| Balance at March 31, 2019  | <u>14,575</u> | <u>\$ 14</u> | <u>\$ 176,113</u>                | <u>\$ (128,408)</u>    | <u>\$ (311)</u>                                     | <u>\$ 47,408</u>   |

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



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

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

**Organization**

Turtle Beach Corporation (“Turtle Beach” or the “Company”), headquartered in San Diego, California and incorporated in the state of Nevada in 2010, is a premier audio technology company with expertise and experience in developing, commercializing and marketing innovative products across a range of large addressable markets under the Turtle Beach® and HyperSound® brands. Turtle Beach is a worldwide leading provider of feature-rich headset solutions for use across multiple platforms, including video game and entertainment consoles, handheld consoles, personal computers, tablets and mobile devices. HyperSound technology is an innovative patent-protected sound technology that delivers immersive, directional audio with applications in digital signage and consumer electronics.

VTB Holdings, Inc. (“VTBH”), a wholly-owned subsidiary of Turtle Beach and the owner of Voyetra Turtle Beach, Inc. (“VTB”) and Turtle Beach Europe Limited (“TB Europe”), was incorporated in the state of Delaware in 2010. VTB was incorporated in the state of Delaware in 1975 with operations principally located in Valhalla, New York.

**Basis of Presentation**

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

The December 31, 2018 Condensed Consolidated Balance Sheet has been derived from the Company’s audited financial statements included in its Annual Report on Form 10-K filed with the SEC on March 18, 2019 (“Annual Report”).

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

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

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

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

**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, that introduces the recognition of a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term and, a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis for all leases (with the exception of short-term leases). The Company adopted this standard on its effective date of January 1, 2019, using the optional alternative approach, which applies the provisions of the new guidance at the effective date without adjusting the comparative periods. As part of the adoption of the new standard, the Company elected the package of practical expedients that permits entities to not reassess prior conclusions regarding lease identification, lease classification, and initial direct costs under

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

the new standard. Upon adoption of the new standard as it relates to the Company's accounting for real estate operating leases, assets and liabilities increased by approximately \$3.3 million. Refer to Note 12, "Commitments and Contingencies" for further details.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Non-employee Share-Based Payment Accounting*, that expands the scope of *Topic 718, Compensation—Stock Compensation*, to include share-based payments issued to non-employees for goods or services and substantially aligned the accounting for share-based payments to non-employees and employees. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company is evaluating the effect that this guidance will have on the financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, that removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. The new disclosure requirements include disclosing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The provisions of this ASU are effective for years beginning after December 15, 2019, with early adoption permitted. Certain disclosures in the new guidance will need to be applied on a retrospective basis and others on a prospective basis.

**Note 3. Fair Value Measurement**

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

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

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, debt instruments and certain warrants. As of March 31, 2019 and December 31, 2018, the Company had not elected the fair value option for any financial assets and liabilities for which such an election would have been permitted, and the only outstanding financial assets and liabilities recorded at fair value on a recurring basis were the wholly-funded warrants reported as a financial instrument obligation. The following is a summary of the carrying amounts and estimated fair values of our financial instruments at March 31, 2019 and December 31, 2018:

|  | March 31, 2019 |            | December 31, 2018 |            |
|--|----------------|------------|-------------------|------------|
|  | Reported       | Fair Value | Reported          | Fair Value |
|  | (in thousands) |            |                   |            |
| <b>Financial Assets and Liabilities:</b> |                |            |                   |            |
| Cash and cash equivalents                | \$ 10,156      | \$ 10,156  | \$ 7,078          | \$ 7,078   |
| Revolving credit facility                | \$ —           | \$ —       | \$ 37,385         | \$ 37,385  |
| Financial instrument obligation          | \$ —           | \$ —       | \$ 7,848          | \$ 7,848   |

Cash equivalents are stated at amortized cost, which approximates fair value as of the consolidated balance sheet dates, due to the short period of time to maturity; and accounts receivable and accounts payable are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment. The carrying value of the revolving credit facility equals fair value as the stated interest rate approximates market rates currently available to the Company, which are considered Level 2 inputs. The liability-classified warrants reported as a financial instrument obligation were classified within Level 3 because the Company uses a Black-Scholes pricing model to estimate the fair value based on inputs that are not observable in any market.

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

**Note 4. Allowance for Sales Returns**

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

|                                | Three Months Ended |          |
|--------------------------------|--------------------|----------|
|                                | March 31,          |          |
|                                | 2019               | 2018     |
|                                | (in thousands)     |          |
| Balance, beginning of period   | \$ 9,212           | \$ 5,533 |
| Reserve accrual                | 2,621              | 3,257    |
| Recoveries and deductions, net | (5,153)            | (4,530)  |
| Balance, end of period         | \$ 6,680           | \$ 4,260 |

**Note 5. Composition of Certain Financial Statement Items**

**Inventories**

Inventories consist of the following:

|                   | March 31, 2019 | December 31, 2018 |
|-------------------|----------------|-------------------|
|                   | (in thousands) |                   |
| Raw materials     | \$ 1,359       | \$ 1,410          |
| Finished goods    | 43,121         | 48,062            |
| Total inventories | \$ 44,480      | \$ 49,472         |

**Property and Equipment, net**

Property and equipment, net, consists of the following:

|   | March 31, 2019 | December 31, 2018 |
|---|----------------|-------------------|
|   | (in thousands) |                   |
| Machinery and equipment                         | \$ 1,656       | \$ 1,616          |
| Software and software development               | 367            | 306               |
| Furniture and fixtures                          | 540            | 535               |
| Tooling   | 4,161          | 3,925             |
| Leasehold improvements                          | 1,326          | 1,325             |
| Demonstration units and convention booths       | 11,715         | 11,659            |
| Total property and equipment, gross             | 19,765         | 19,366            |
| Less: accumulated depreciation and amortization | (14,550)       | (13,510)          |
| Total property and equipment, net               | \$ 5,215       | \$ 5,856          |

**Other Current Liabilities**

Other current liabilities consist of the following:

|                                 | March 31, 2019 | December 31, 2018 |
|---------------------------------|----------------|-------------------|
|                                 | (in thousands) |                   |
| Accrued royalty                 | \$ 2,480       | \$ 4,069          |
| Accrued employee expenses       | 4,763          | 4,570             |
| Accrued legal                   | 1,275          | 443               |
| Accrued expenses                | 8,062          | 9,406             |
| Total other current liabilities | \$ 16,580      | \$ 18,488         |

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

**Other non-operating expense (income), net**

Other non-operating expense (income), net consists of the following:

|   | <b>March 31, 2019</b> | <b>March 31, 2018</b> |
|---|-----------------------|-----------------------|
|   | (in thousands)        |                       |
| Unrealized loss (gain) on financial instrument obligation | \$ (1,601)            | \$ —                  |
| Other non-operating expense (income)                      | (61)                  | (245)                 |
| <b>Total other non-operating expense (income),net</b>     | <b>\$ (1,662)</b>     | <b>\$ (245)</b>       |

**Note 6. Goodwill and Other Intangible Assets**

**Acquired Intangible Assets**

Acquired identifiable intangible assets, and related accumulated amortization, as of March 31, 2019 and December 31, 2018 consist of:

|                                | <b>March 31, 2019</b>       |                                 |                       |
|--------------------------------|-----------------------------|---------------------------------|-----------------------|
|                                | <b>Gross Carrying Value</b> | <b>Accumulated Amortization</b> | <b>Net Book Value</b> |
|                                | (in thousands)              |                                 |                       |
| Customer relationships         | \$ 5,796                    | \$ 4,616                        | \$ 1,180              |
| Foreign currency               | (1,059)                     | (876)                           | (183)                 |
| <b>Total Intangible Assets</b> | <b>\$ 4,737</b>             | <b>\$ 3,740</b>                 | <b>\$ 997</b>         |

|                                | <b>December 31, 2018</b>    |                                 |                       |
|--------------------------------|-----------------------------|---------------------------------|-----------------------|
|                                | <b>Gross Carrying Value</b> | <b>Accumulated Amortization</b> | <b>Net Book Value</b> |
|                                | (in thousands)              |                                 |                       |
| Customer relationships         | \$ 5,796                    | \$ 4,539                        | \$ 1,257              |
| Foreign currency               | (1,158)                     | (937)                           | (221)                 |
| <b>Total Intangible Assets</b> | <b>\$ 4,638</b>             | <b>\$ 3,602</b>                 | <b>\$ 1,036</b>       |

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

Amortization expense related to definite lived intangible assets of \$0.1 million and \$0.1 million was recognized for the three months ended March 31, 2019 and 2018, respectively.

As of March 31, 2019, estimated annual amortization expense related to definite lived intangible assets in future periods is as follows:

|              | (in thousands) |              |
|--------------|----------------|--------------|
| 2019         | \$             | 230          |
| 2020         |                | 258          |
| 2021         |                | 217          |
| 2022         |                | 182          |
| 2023         |                | 153          |
| Thereafter   |                | 140          |
| <b>Total</b> | <b>\$</b>      | <b>1,180</b> |

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

**Note 7. Revolving Credit Facility and Long-Term Debt**

|  | March 31, 2019 | December 31, 2018 |
|--|----------------|-------------------|
|  | (in thousands) |                   |
| Revolving credit facility, maturing March 2024 | \$ —           | \$ 37,385         |

Total interest expense, inclusive of amortization of deferred financing costs, on long-term debt obligations was \$0.2 million and \$1.5 million for three months ended March 31, 2019 and 2018, respectively. This includes no related party interest for the three months ended March 31, 2019, and \$0.7 million of related party interest for the three months ended March 31, 2018, in connection with the subordinated notes.

Amortization of deferred financing costs was \$47,000 for the three months ended March 31, 2019, and \$0.4 million for the three months ended March 31, 2018.

**Revolving Credit Facility**

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

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

Amounts outstanding under the Credit Facility bear interest at a rate equal to either a rate published by Bank of America or the LIBOR rate, plus in each case, an applicable margin, which is between 0.50% to 1.25% for base rate loans and between 1.25% to 2.00% for U.S. LIBOR loans and U.K. loans, and between 2.0% to 2.75% for the FILO loan. In addition, Turtle Beach is required to pay a commitment fee on the unused revolving loan commitment at a rate ranging from 0.25% to 0.50%, and letter of credit fees and agent fees. As of March 31, 2019, interest rates for outstanding borrowings were 6.00% for base rate loans and 3.75% for LIBOR rate loans.

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

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

As of March 31, 2019, the Company was in compliance with all financial covenants under the Credit Facility, as amended, and excess borrowing availability was approximately \$30.0 million.

**Turtle Beach Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
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**Note 8. Income Taxes**

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

The following table presents our income tax expense and effective income tax rate:

|                           | <b>Three Months Ended</b> |             |
|---------------------------|---------------------------|-------------|
|                           | <b>March 31,</b>          |             |
|                           | <b>2019</b>               | <b>2018</b> |
|                           | (in thousands)            |             |
| Income tax expense        | \$ 164                    | \$ 64       |
| Effective income tax rate | 5.1%                      | 3.2%        |

Income tax expense for the three months ended March 31, 2019 was \$0.2 million at an effective tax rate of 5.1% and, \$0.1 million at an effective tax rate of 3.2% for the three months ended March 31, 2018. The effective tax rate was primarily impacted by the full valuation allowance on domestic earnings, foreign entity tax benefits and certain state tax expense.

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

The Company recognizes only those tax positions that meet the more-likely-than-not recognition threshold, and establishes tax reserves for uncertain tax positions that do not meet this threshold. Interest and penalties associated with income tax matters are included in the provision for income taxes in the condensed consolidated statement of operations. As of March 31, 2019, the Company had uncertain tax positions of \$2.8 million, inclusive of \$1.1 million of interest and penalties.

The Company files U.S., state and foreign income tax returns in jurisdictions with various statutes of limitations. The federal tax years open under the statute of limitations are 2016 through 2017, and the state tax years open under the statute of limitations are 2014 through 2017.

**Note 9. Stock-Based Compensation**

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

|                                | <b>Three Months Ended</b> |             |
|--------------------------------|---------------------------|-------------|
|                                | <b>March 31,</b>          |             |
|                                | <b>2019</b>               | <b>2018</b> |
|                                | (in thousands)            |             |
| Cost of revenue                | \$ (125)                  | \$ 18       |
| Selling and marketing          | 116                       | 25          |
| Research and development       | 74                        | 30          |
| General and administrative     | 457                       | 150         |
| Total stock-based compensation | \$ 522                    | \$ 223      |

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The following table presents the stock activity and the total number of shares available for grant as of March 31, 2019:

|                                     | (in thousands) |
|-------------------------------------|----------------|
| Balance at December 31, 2018        | 1,201          |
| Options granted                     | (11)           |
| Forfeited/Expired shares added back | 17             |
| Balance at March 31, 2019           | <u>1,207</u>   |

*Stock Option Activity*

|   | Options Outstanding   |   |  |                                 |
|---|---|---|--|---------------------------------|
|   | Number of<br>Shares<br>Underlying<br>Outstanding<br>Options | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|   |   |   | (In years)   |                                 |
| Outstanding at December 31, 2018              | 1,654,729   | \$ 6.41                                   | 7.36   | \$ 14,374,572                   |
| Granted                                       | 11,050  | 13.90                                     |  |                                 |
| Exercised                                     | (5,529)   | 4.20                                      |  |                                 |
| Forfeited                                     | (17,334)  | 12.37                                     |  |                                 |
| Outstanding at March 31, 2019                 | <u>1,642,916</u>  | <u>\$ 6.41</u>                            | <u>7.10</u>  | <u>\$ 9,869,975</u>             |
| Vested and expected to vest at March 31, 2019 | <u>1,595,081</u>  | <u>\$ 6.34</u>                            | <u>7.04</u>  | <u>\$ 9,633,213</u>             |
| Exercisable at March 31, 2019                 | <u>785,510</u>  | <u>\$ 6.68</u>                            | <u>5.36</u>  | <u>\$ 3,903,627</u>             |

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

Aggregate intrinsic value represents the difference between the estimated fair value of the underlying common stock and the exercise price of outstanding, in-the-money options. The aggregate intrinsic value of options exercised was \$0.1 million for the three months ended March 31, 2019.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of options granted as of the grant date. The following are the assumptions for options granted during the three months ended March 31, 2019.

|                          |              |
|--------------------------|--------------|
| Expected term (in years) | 6.1          |
| Risk-free interest rate  | 2.3% - 2.7%  |
| Expected volatility      | 38.3%- 39.3% |
| Dividend rate            | 0%           |

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

The weighted average grant date fair value of options granted during the three months ended March 31, 2019 was \$5.76. The total estimated fair value of employee options vested during the three months ended March 31, 2019 was \$0.1 million. As of

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March 31, 2019, total unrecognized compensation cost related to non-vested stock options granted to employees was \$2.0 million, which is expected to be recognized over a remaining weighted average vesting period of 2.5 years.

*Restricted Stock Activity*

|   | Shares   | Weighted Average<br>Grant Date Fair Value<br>Per Share |
|---|----------|--|
| Nonvested restricted stock at December 31, 2018 | 265,635  | \$ 19.29   |
| Granted   | —        | —  |
| Vested  | (12,515) | 22.23  |
| Nonvested restricted stock at March 31, 2019    | 253,120  | \$ 19.14   |

As of March 31, 2019, total unrecognized compensation cost related to the nonvested restricted stock awards was \$4.3 million, which will be recognized over a remaining weighted average vesting period of 1.9 years.

**Stock Warrants**

In connection with certain subordinated notes, the Company issued warrants to purchase an aggregate 0.4 million shares and 0.3 million shares of the Company's common stock at an exercise price of \$10.16 and \$8.00 per share, respectively, to SG VTB Holdings, LLC, all of which were settled through cashless exercises during the three months ended March 31, 2019.

In connection with the retirement of the Series B Preferred Stock in April 2018, the Company issued fully-funded warrants exercisable for an aggregate of 0.5 million shares of its common stock. Under the terms of the warrants, the holders had the right to receive, at their option, a cash payment for the remaining unexercised portion of the warrants upon the Company consummating a Fundamental Transaction (as defined in the warrant agreement, and including any merger, consolidation, sale or other reorganization event in which its common stock is converted into or exchanged for securities, cash or other property). If so elected by the warrant holders, the cash payment will be based on a Black-Scholes pricing model and will be made upon the consummation of a Fundamental Transaction or during the ensuing 30-day period thereafter. As a result of these terms regarding the possible future cash payment, the Company has accounted for the warrants issued in connection with the retirement of the Series B Preferred Stock as a financial instrument obligation that is marked to market each period, with subsequent changes in fair value reported in earnings.

On March 30, 2019, the Company and the warrant holders entered into an amendment to the warrant agreement that revises the terms under which warrant holders may exercise their rights under a Fundamental Transaction. As a result of this amendment, the warrants are no longer accounted for as a financial instrument obligation and reported as a liability that is marked to market each period with changes in fair value reported in earnings. The warrants were marked to market through March 30, 2019, the execution date of the amendment, at which time the warrants are accounted for as an equity instrument. The fair value on that date of \$6.2 million was reclassified to additional paid-in-capital. For the three months ended March 31, 2019, the Company recognized an unrealized gain on the warrants of \$1.6 million that is included in "Other non-operating expense (income), net" in the Consolidated Statement of Operations.



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**Note 10. Net Income (Loss) Per Share**

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

|  | <b>Three Months Ended</b>             |                 |
|--|---------------------------------------|-----------------|
|  | <b>March 31,</b>                      |                 |
|  | <b>2019</b>                           | <b>2018</b>     |
|  | (in thousands, except per-share data) |                 |
| Net income   | \$ 3,055                              | \$ 1,962        |
| Unrealized gain on financial instrument obligation   | (1,601)                               | —               |
| Net income- diluted                                  | <u>\$ 1,454</u>                       | <u>\$ 1,962</u> |
| <br>   |                                       |                 |
| Weighted average common shares outstanding — Basic   | 14,336                                | 12,347          |
| Plus incremental shares from assumed conversions:    |                                       |                 |
| Dilutive effect of restricted stock                  | 55                                    | 3               |
| Dilutive effect of stock options                     | 1,053                                 | 19              |
| Dilutive effect of warrants                          | 816                                   | —               |
| Weighted average common shares outstanding — Diluted | <u>16,260</u>                         | <u>12,369</u>   |
| Net income per share:                                |                                       |                 |
| Basic  | \$ 0.21                               | \$ 0.16         |
| Diluted  | \$ 0.09                               | \$ 0.16         |

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

|                                  | <b>Three Months Ended</b> |              |
|----------------------------------|---------------------------|--------------|
|                                  | <b>March 31,</b>          |              |
|                                  | <b>2019</b>               | <b>2018</b>  |
|                                  | (in thousands)            |              |
| Stock options                    | 145                       | 1,678        |
| Warrants                         | —                         | 765          |
| Unvested restricted stock awards | 201                       | 14           |
| Total                            | <u>346</u>                | <u>2,457</u> |

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**Notes to Condensed Consolidated Financial Statements**  
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**Note 11. Geographic Information**

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

|                    | Three Months Ended |           |
|--------------------|--------------------|-----------|
|                    | March 31,          |           |
|                    | 2019               | 2018      |
|                    | (in thousands)     |           |
| North America      | \$ 35,107          | \$ 32,984 |
| United Kingdom     | 4,312              | 4,029     |
| Europe             | 4,192              | 3,247     |
| Other              | 1,235              | 626       |
| Total net revenues | \$ 44,846          | \$ 40,886 |

**Note 12. Commitments and Contingencies**

**Litigation**

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

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

*Commercial Dispute:* On July 20, 2016, Bigben Interactive S.A. ("BigBen") filed a statement of claim before the Regional Court of Berlin, Germany against VTB, which statement of claim was formally serviced upon VTB on June 28, 2017. The statement of claim alleges that VTB's termination of a distribution agreement by and between BigBen and VTB breached the terms thereof and was invalid, and that BigBen is entitled to damages amounting to €5.0 million plus accrued interest thereon plus certain additional damages as a result of such invalid termination. VTB filed its statement of defense with the court on September 21, 2017. On January 7, 2019, the Regional Court of Berlin issued its judgment on this dispute, dismissing BigBen's

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**(unaudited)**

claim in its entirety. On February 7, 2019, BigBen Interactive S.A. has filed an appeal against the judgment of the Regional Court of Berlin of January 7, 2019 (the "Judgment"). On April 15, 2019, Big Ben provided the reasoning for its appeal against the Judgment. The Higher Regional Court of Berlin has set VTB a deadline for the reply to the reasoning for the appeal until May 24, 2019. The Higher Regional Court of Berlin will review and decide the provisions of the Judgment specifically relating to preliminary enforceability of the Judgment in separate proceedings and before the appellate proceedings regarding the main part of the Judgment. The Higher Regional Court of Berlin has scheduled an oral hearing regarding the provisions of the Judgment on the preliminary enforceability for June 11, 2019.

The Company will continue to vigorously defend itself in the foregoing matters. However, litigation and investigations are inherently uncertain. Accordingly, the Company cannot predict the outcome of these matters. The Company has not recorded any accrual at March 31, 2019 for contingent losses associated with these matters based on its belief that losses, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time. The unfavorable resolution of these matters could have a material adverse effect on the Company's business, results of operations, financial condition, or cash flows. The Company is engaged in other legal actions, not described above, arising in the ordinary course of its business and, while there can be no assurance, believes that the ultimate outcome of these other legal actions will not have a material adverse effect on its business, results of operations, financial condition, or cash flows.

**Warranties**

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

|                                | <b>Three Months Ended</b> |               |
|--------------------------------|---------------------------|---------------|
|                                | <b>March 31,</b>          |               |
|                                | <b>2019</b>               | <b>2018</b>   |
|                                | (in thousands)            |               |
| Warranty, beginning of period  | \$ 668                    | \$ 472        |
| Warranty costs accrued         | 243                       | 234           |
| Settlements of warranty claims | (207)                     | (172)         |
| Warranty, end of period        | <u>\$ 704</u>             | <u>\$ 534</u> |

**Operating Leases - Right of Use Assets**

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

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

|  | <b>Balance Sheet Classification</b> | <b>March 31, 2019</b> |
|--|-------------------------------------|-----------------------|
|  |                                     | (in thousands)        |
| Right-of-use assets                              | Other assets                        | <u>\$ 2,946</u>       |
| Lease liability obligations, current             | Other current liabilities           | 1,361                 |
| Lease liability obligations, noncurrent          | Other liabilities                   | 1,885                 |
| <b>Total lease liability obligations</b>         |                                     | <u>\$ 3,246</u>       |
| Weighted-average remaining lease term (in years) |                                     | 2.10                  |
| Weighted-average discount rate                   |                                     | 3.75%                 |

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**Notes to Condensed Consolidated Financial Statements**  
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During the three months ended March 31, 2019, the Company recognized approximately \$0.2 million of lease costs in operating expenses and operating cash flows from operating leases of approximately \$0.4 million.

Approximate future minimum lease payments for our right of use assets over the remaining lease periods as of March 31, 2019, are as follows:

|                               | (in thousands) |              |
|-------------------------------|----------------|--------------|
| 2019                          | \$             | 1,194        |
| 2020                          |                | 1,233        |
| 2021                          |                | 434          |
| 2022                          |                | 117          |
| 2023                          |                | 103          |
| Thereafter                    |                | 397          |
| <b>Total minimum payments</b> | <b>\$</b>      | <b>3,478</b> |
| Less: Imputed interest        | \$             | (232)        |
| <b>Total</b>                  | <b>\$</b>      | <b>3,246</b> |

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

*The following discussion and analysis of our operations should be read together with our unaudited condensed consolidated financial statements and the related notes included in Part I of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2019 (the "Annual Report.")*

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

### Business Overview

Turtle Beach Corporation (herein referred to as the "Company," "we," "us," or "our"), headquartered in San Diego, California, and incorporated in the state of Nevada in 2010, is a premier audio technology company with expertise and experience in developing, commercializing and marketing innovative products across a range of large addressable markets under the Turtle Beach® brand. Turtle Beach is a worldwide leading provider of feature-rich headset solutions for use across multiple platforms, including video game and entertainment consoles, handheld consoles, personal computers, tablets and mobile devices.

### Business Trends

#### Gaming Headset Market

Gaming headsets are part of a growing global gaming market sized at approximately \$150 billion. The global gaming audience now exceeds global cinema and music markets with over 2.4 billion active gamers worldwide. Gaming peripherals, such as headsets, are a \$3.8 billion business globally with over 75% of that market in the Americas and Europe where the Company's business is focused. Gaming headsets represent more than a \$2.7 billion global market, or more than 70% of the total peripherals market.

Competitive esports is a global phenomenon where professional gamers train, compete, win prize money, partner with major brands, and attract/gain fans - similar to traditional professional sports. There are over 140 million esports enthusiasts globally and the market is growing quickly. We believe a quality gaming headset is a must-have piece of equipment for esports participants.

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

Xbox and PlayStation® consoles are still the dominant gaming platforms in North America and Europe, however, Nintendo's Switch console continues to perform well two years into its lifecycle. In addition to consoles, personal computers are a popular gaming platform where players utilize a similar style headset. Gaming on mobile/tablet devices represents about a third of the global gaming market, and while headsets can be used for mobile gaming, console and PC gaming are by far the largest drivers of gaming headset use.

Historically, Microsoft and Sony have gone through cycles where their respective console platform is changed significantly or updated to a new version. Microsoft and Sony launched Pro versions of their existing console platforms in 2016 and 2017, respectively, that did not result in the same levels of disruption as previous cycles in the gaming headset business. Turtle Beach believes this is a good indication that any potential future console changes will not be as disruptive. As of early 2019, industry analysts anticipate that the next generation of Xbox will be released in 2020 or 2021, while Sony's PlayStation®5 is rumored to

arrive as early as holiday 2019. The Nintendo Switch™ is completing its second year in the market with more than 25 million units sold through the end of December 2018, during which there has been an expanding library of games and an increased number of multiplayer chat-enabled games.

In addition to console sales, we believe Xbox, PlayStation®, Nintendo, and PC gaming markets are driven by major game launches and franchises that encourage players to buy equipment and accessories. On Xbox and PlayStation®, flagship games like *Call of Duty*®, *Destiny*, *Star Wars: Battlefront*, *Battlefield*, *Grand Theft Auto*, and the recently popular “battle royale” games like *Fortnite*, *Apex Legends* and *PlayerUnknown’s Battlegrounds*, are examples of major franchises that prominently feature online multiplayer modes that encourage communication, which tend to drive increased gaming headset sales. Many of these established franchises launch new titles annually leading into the holidays, and as a result, the gaming headset business tends to be highly seasonal, often with 45%-55% of sales occurring in the fourth quarter.

In 2017, *PlayerUnknown’s Battlegrounds* popularized a style of multiplayer game known as battle royale, in which players compete on large but shrinking maps until there is a single winner left. Players are able to play in teams and audio cues and communication can be very helpful, making headsets a key accessory for this type of game.

Toward the end of 2017, Epic Games introduced *Fortnite*, which includes a similar format and soared in popularity resulting in large and growing audiences of both players and spectators through content sharing platforms like Twitch, YouTube, Xbox’s Mixer and PlayStation® Now.

Gaming headsets are sold at major retailers such as Amazon, Best Buy, GameStop, Target and Walmart. Brick and mortar retailers often have kiosks that allow shoppers to try the headsets and experience each headset’s specific fit, feel, and overall audio quality.

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

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

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

Adjusted EBITDA (and a reconciliation to Net income, the nearest GAAP financial measure) for the three months ended March 31, 2019 and 2018, are as follows:

|  | <b>Three Months Ended</b> |                 |
|--|---------------------------|-----------------|
|  | <b>March 31,</b>          |                 |
|  | <b>2019</b>               | <b>2018</b>     |
|  | (in thousands)            |                 |
| Net income   | \$ 3,055                  | \$ 1,962        |
| Interest expense                                   | 244                       | 2,005           |
| Depreciation and amortization                      | 1,102                     | 1,027           |
| Stock-based compensation                           | 522                       | 223             |
| Income tax expense                                 | 164                       | 64              |
| Unrealized gain on financial instrument obligation | (1,601)                   | —               |
| Business transaction expense                       | 780                       | —               |
| Adjusted EBITDA                                    | <u>\$ 4,266</u>           | <u>\$ 5,281</u> |

*Comparison of the Three Months Ended March 31, 2019 to the Three Months Ended March 31, 2018*

Net income for the three months ended March 31, 2019 was \$3.1 million compared to net income of \$2.0 million in the comparable prior year period as a result of a \$1.6 million unrealized gain on a financial instrument obligation.

For the three months ended March 31, 2019, Adjusted EBITDA was \$4.3 million compared to \$5.3 million in the prior year period. Adjusted EBITDA decreased on increased promotional activity, additional marketing spend ahead of the Recon 70 Series release and continued esports presence growth, and refurbishing costs incurred to support higher anticipated revenues.

**Results of Operations**

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

|   | <b>Three Months Ended</b> |                 |
|---|---------------------------|-----------------|
|   | <b>March 31,</b>          |                 |
|   | <b>2019</b>               | <b>2018</b>     |
|   | (in thousands)            |                 |
| Net revenue                               | \$ 44,846                 | \$ 40,886       |
| Cost of revenue                           | 30,059                    | 25,857          |
| Gross profit                              | 14,787                    | 15,029          |
| Operating expenses                        | 12,986                    | 11,243          |
| Operating income                          | 1,801                     | 3,786           |
| Interest expense                          | 244                       | 2,005           |
| Other non-operating expense (income), net | (1,662)                   | (245)           |
| Income before income tax                  | 3,219                     | 2,026           |
| Income tax expense                        | 164                       | 64              |
| Net income                                | <u>\$ 3,055</u>           | <u>\$ 1,962</u> |

### Net Revenue and Gross Profit

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

|                 | Three Months Ended |        |      |        |
|-----------------|--------------------|--------|------|--------|
|                 | March 31,          |        |      |        |
|                 | 2019               |        | 2018 |        |
|                 | (in thousands)     |        |      |        |
| Net Revenue     | \$                 | 44,846 | \$   | 40,886 |
| Gross Profit    | \$                 | 14,787 | \$   | 15,029 |
| Gross Margin    |                    | 33.0%  |      | 36.8%  |
| Cash Margin (1) |                    | 33.5%  |      | 37.1%  |

(1) Excludes non-cash charges

### Comparison of the Three Months Ended March 31, 2019 to the Three Months Ended March 31, 2018

Net revenues for the three months ended March 31, 2019 were \$44.8 million, a \$4.0 million increase from net revenues of \$40.9 million in the comparable prior year period as retailers replenished stock on continued momentum coming out of the holiday and increased consumer demand over historic levels driven by battle royale style game players. Turtle Beach held 42.5% of market revenue share as the industry leading Stealth 600X contributed to higher revenues across all channels.

For the three months ended March 31, 2019, gross profit as a percentage of net revenue decreased to 33.0% from 36.8% in the comparable prior year period. Margins were adversely impacted by increased promotional activity, refurbishing costs incurred to support higher anticipated revenues and channel mix.

### Operating Expenses

|                            | Three Months Ended |        |      |        |
|----------------------------|--------------------|--------|------|--------|
|                            | March 31,          |        |      |        |
|                            | 2019               |        | 2018 |        |
|                            | (in thousands)     |        |      |        |
| Selling and marketing      | \$                 | 6,881  | \$   | 5,929  |
| Research and development   |                    | 1,456  |      | 1,329  |
| General and administrative |                    | 4,649  |      | 3,985  |
| Total operating expenses   | \$                 | 12,986 | \$   | 11,243 |

### Selling and Marketing

Selling and marketing expenses for the three months ended March 31, 2019 totaled \$6.9 million, or 15.3% as a percentage of net revenues, compared to \$5.9 million, or 14.5% as a percentage of net revenues, for the three months ended March 31, 2018. This increase was primarily due to marketing spend ahead of the Recon 70 Series release, continued investment in our esports presence and variable sales-based commissions.

### Research and Development

Research and development costs remained relatively consistent year over year as we continue to invest in the resources that we believe are necessary to maintain and expand our technical capability to manufacture multiple product lines that incorporate the latest technologies. The overall increase is due to costs for legal research and patent related expenses associated with the development of new products.



### *General and Administrative*

General and administrative expenses for the three months ended March 31, 2019 totaled \$4.6 million, inclusive of \$0.8 million of acquisition integration costs, compared to \$4.0 million for the three months ended March 31, 2018. Excluding these costs, the year-over-year reduction was primarily due to lower variable compensation costs and decreased legal expenditures.

### *Interest Expense*

For the three months ended March 31, 2019, interest expense decreased \$1.8 million as compared to the three months ended March 31, 2018, due to the full repayment of the subordinated notes and term loans, and the exchange of the Series B redeemable preferred stock in 2018.

### *Other Non-Operating Expense (Income)*

Other non-operating income totaled \$1.7 million for the three months ended March 31, 2019 due to a \$1.6 million gain from the change in fair value of a financial instrument, compared to \$0.2 million for the three months ended March 31, 2018 driven by U.S. dollar fluctuations on our foreign operations.

### *Income Taxes*

Income tax expense for the three months ended March 31, 2019 was \$0.2 million at an effective tax rate of 5.1% compared to \$0.1 million at an effective tax rate of 3.2% for the three months ended March 31, 2018. The effective tax rate was primarily impacted by the full valuation allowance on domestic earnings, foreign entity tax benefits and certain state tax expense.

### **Liquidity and Capital Resources**

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

The following table summarizes our sources and uses of cash:

|  | <b>Three Months Ended</b>     |                 |
|--|-------------------------------|-----------------|
|  | <b>March 31,</b>              |                 |
|  | <b>2019</b>                   | <b>2018</b>     |
|  | <small>(in thousands)</small> |                 |
| Cash and cash equivalents at beginning of period | \$ 7,078                      | \$ 5,247        |
| Net cash provided by operating activities        | 40,962                        | 38,045          |
| Net cash used for investing activities           | (557)                         | (354)           |
| Net cash used for financing activities           | (37,463)                      | (38,485)        |
| Effect of foreign exchange on cash               | 136                           | (118)           |
| Cash and cash equivalents at end of period       | <u>\$ 10,156</u>              | <u>\$ 4,335</u> |

### *Operating activities*

Cash provided by operating activities for the three months ended March 31, 2019 was \$41.0 million, an increase of \$2.9 million as compared to \$38.0 million for the three months ended March 31, 2018. The increase is primarily the result of higher gross receipts from higher revenue and improved days sales outstanding.

### *Investing activities*

Cash used for investing activities was \$0.6 million for the three months ended March 31, 2019 compared to \$0.4 million in the prior period primarily due to certain advertising display and manufacturing investments.

### ***Financing activities***

Net cash used for financing activities was \$37.5 million during the three months ended March 31, 2019 compared to \$38.5 million during the three months ended March 31, 2018. Financing activities during the three months ended March 31, 2019 included net repayments on our revolving credit facility of \$37.4 million. Financing activities during the three months ended March 31, 2018 included net repayments on our revolving credit facility of \$35.8 million and term loan payments of \$2.5 million.

### ***Management assessment of liquidity***

Management believes that our current cash and cash equivalents, the amounts available under our revolving credit facility and cash flows derived from operations will be sufficient to meet anticipated cash needs for working capital and capital expenditures for at least the next twelve months. Significant assumptions underlie this belief, including, among other things, that there will be no material adverse developments in our business, liquidity or capital requirements.

Foreign cash balances at March 31, 2019 and December 31, 2018 were \$1.4 million and \$5.2 million, respectively.

### ***Revolving Credit Facility***

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

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

Amounts outstanding under the Credit Facility bear interest at a rate equal to either a rate published by Bank of America or the LIBOR rate, plus in each case, an applicable margin, which is between 0.50% to 1.25% for base rate loans and between 1.25% to 2.00% for U.S. LIBOR loans and U.K. loans, and between 2.0% to 2.75% for the FILO loan. In addition, Turtle Beach is required to pay a commitment fee on the unused revolving loan commitment at a rate ranging from 0.25% to 0.50%, and letter of credit fees and agent fees. As of March 31, 2019, interest rates for outstanding borrowings were 6.00% for base rate loans and 3.75% for LIBOR rate loans.

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

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

As of March 31, 2019, the Company was in compliance with all financial covenants under the Credit Facility, as amended, and excess borrowing availability was approximately \$30.0 million.

### ***Stock Warrants***

In connection with certain subordinated notes, the Company issued warrants to purchase an aggregate 0.4 million shares and 0.3 million shares of the Company’s common stock at an exercise price of \$10.16 and \$8.00 per share, respectively, to SG VTB Holdings, LLC, all of which were settled through cashless exercises during the three months ended March 31, 2019.

## **Critical Accounting Estimates**

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

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, that introduces the recognition of a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term and, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis for all leases (with the exception of short-term leases). The Company adopted this standard on its effective date of January 1, 2019, using the optional alternative approach, which applies the provisions of the new guidance at the effective date without adjusting the comparative periods. Upon adoption of the new standard as it relates to the Company's accounting for real estate operating leases, assets and liabilities increased by approximately \$3.3 million.

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

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

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

The Company has used derivative financial instruments, specifically foreign currency forward and option contracts, to manage exposure to foreign currency risks, by hedging a portion of its forecasted expenses denominated in British Pounds expected to occur within a year. When such derivative financial instruments are used, the effect of exchange rate changes on foreign currency forward and option contracts is expected to offset the effect of exchange rate changes on the underlying hedged item. The Company does not use derivative financial instruments for speculative or trading purposes. As of March 31, 2019 and December 31, 2018, we did not have any derivative financial instruments.

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

The Company has exchange rate exposure primarily with respect to the British Pound. As of March 31, 2019 and December 31, 2018, our monetary assets and liabilities that are subject to this exposure are immaterial, therefore the potential immediate loss to us that would result from a hypothetical 10% change in foreign currency exchange rates would not be expected to have a material impact on our earnings or cash flows. This sensitivity analysis assumes an unfavorable 10% fluctuation in the exchange rates affecting the foreign currencies in which monetary assets and liabilities are denominated and does not take into account the offsetting effect of such a change on our foreign currency denominated revenues.

### ***Inflation Risk***

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

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

### **Disclosure Controls and Procedures**

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

At the conclusion of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision of our Chief Executive Officer (our principal executive officer, or PEO) and our Chief Financial Officer (our principal financial officer, or PFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our PEO and PFO concluded that our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, were effective as of March 31, 2019.

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

In our annual report on Form 10-K for the year ended December 31, 2018, management identified a material weakness in our internal control over financial reporting related to the review of certain material non-routine transactions or events, which resulted in a material adjustment to the accounting for warrants issued in connection with the retirement of the Company's Series B Preferred Stock in April 2018. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Corporation's annual or interim financial statements will not be prevented or detected on a timely basis.

Since the identification of the material weakness, management has reviewed its existing control procedures and implemented additional management review controls related to material non-routine transactions or events by qualified personnel. As of March 31, 2019, management has determined that the disclosed material weakness has been remediated.

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

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

## PART II. OTHER INFORMATION

### Item 1 - Legal Proceedings

Please refer to Note 12, "Commitments and Contingencies" in the notes to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Report on Form 10-Q, which is incorporated into this item by reference.

### Item 1A - Risk Factors

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

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

#### Risks Related to Our Operations

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

The performance of our headset business is affected by the continued success of third-party gaming platforms, such as Microsoft's Xbox consoles and Sony's PlayStation® consoles, as well as video games developed by such manufacturers and other third-party publishers. Our business could suffer if any of these parties fail to continue to drive the success of these platforms, develop new or enhanced videogame platforms, develop popular game and entertainment titles for current or future generation platforms or produce and timely release sufficient quantities of such consoles. For example, DFC Intelligence forecasts' estimates of future cumulative new generation console has declined since the debut of the new-gen consoles in 2013, which, if such estimates are accurate, may negatively impact our future headset sales or otherwise negatively impact our business. Further, if a platform is withdrawn from the market or fails to sell, we may be forced to liquidate inventories relating to that platform or accept returns resulting in significant losses.

The battle royale genre, such as *Fortnite*, *Apex Legends* and *PlayerUnknown's Battlegrounds*, has increased demand for our headset products and driven significant revenue growth over prior year results. If console and personal computer game titles that are enhanced by the use of gaming headsets decline in number, popularity, or are delayed, our revenue and profits may decrease substantially and our business may be adversely affected.

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

We compete with other producers of personal computers and video game console headsets, including the video game console manufacturers. Our competitors may spend more money and time on developing and testing products, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees to licensors for motion picture, television, sports, music and character properties, or develop more commercially successful products for the personal computer or video game platforms than we do. In addition, competitors with large product lines and popular products, in particular the video game console manufacturers, typically have greater leverage with retailers, distributors and other customers, who may be willing to promote products with less consumer appeal in return for access to those competitors' more popular products.

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

In addition, if console manufacturers implement new technologies, through hardware or software, which would cause our headsets to become incompatible with that hardware manufacturer's console, there could be unanticipated delays in the release of our products as well as increases to projected development, manufacturing, marketing or distribution costs, any of which could harm our business and financial results.

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

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

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

Further, our competitors may adapt to an emerging technology more quickly or effectively than we do, creating products that are technologically superior to ours, more appealing to consumers, or both. If, on the other hand, we elect not to pursue the development of products incorporating a new technology or for new platforms that achieve significant commercial success, our revenues could also be adversely affected. It may take significant time and resources to shift product development resources to that technology or platform and it may be more difficult to compete against existing products incorporating that technology or for that platform. Any failure to successfully adapt to, and appropriately allocate resources among, emerging technologies could harm our competitive position, reduce our share and significantly increase the time it takes us to bring popular products to market.

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

***Our business could be adversely affected by actions on trade by domestic and foreign governments.***

The U.S. government has altered its approach to international trade policy and in some cases renegotiated, or terminated, certain existing bilateral or multi-lateral trade agreements and treaties with foreign countries, including the North American Free Trade Agreement (“NAFTA”). In addition, the U.S. government has initiated or is considering imposing tariffs on certain foreign goods, including consumer goods. Related to this action, certain foreign governments, including China, have instituted or are considering imposing tariffs on certain U.S. goods. It remains unclear what the U.S. Administration or foreign governments will or will not do with respect to tariffs, NAFTA or other international trade agreements and policies. A trade war or other governmental action related to tariffs or international trade agreements or policies has the potential to adversely impact demand for our products, our costs, customers, suppliers and/or the U.S. economy or certain sectors thereof and, thus, to adversely impact our businesses. The majority of our production occurs in foreign jurisdictions, including China, and while our products are currently not subject to tariffs they may become subject in the future which may have an adverse effect on our results.

***The decision by British voters to exit the European Union may negatively impact our operations.***

The U.K. is currently negotiating the terms of its exit from the European Union (“Brexit”), scheduled for October 31, 2019. Various draft Withdrawal Agreements have been rejected by the U.K. Parliament creating significant uncertainty about the terms (and timing) under which the U.K. will leave the European Union.

If the U.K. leaves the European Union with no agreement (“hard Brexit”), it will likely have an adverse impact on labor and trade in addition to creating further short-term uncertainty and currency volatility. In the absence of a future trade deal, the U.K.’s trade with the European Union and the rest of the world would be subject to tariffs and duties set by the World Trade Organization. Additionally, the movement of goods between the U.K. and the remaining member states of the European Union will be subject to additional inspections and documentation checks, leading to possible delays at ports of entry and departure.

These changes to the trading relationship between the U.K and European Union would likely result in increased cost of goods imported into and exported from the U.K. and may decrease the profitability of our U.K. and other operations. Additional currency volatility could drive a weaker British pound, which increases the cost of goods imported into our U.K. operations and may decrease the profitability of our U.K. operations. A weaker British pound versus the U.S. dollar also causes local currency results of our U.K. operations to be translated into fewer U.S. dollars during a reporting period. With a range of outcomes still possible, the impact from Brexit remains uncertain and will depend, in part, on the final outcome of tariff, trade, regulatory and other negotiations.

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

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

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

During 2018, our three largest individual customers accounted for approximately 44% of our gross sales in the aggregate. The loss of, or financial difficulties experienced by, any of these or any of our other significant customers, including as a result of the bankruptcy of a customer, could have a material adverse effect on our business, results of operations, financial condition and liquidity. We do not have long-term agreements with these or other significant customers and our agreements with these customers do not require them to purchase any specific amount of products. All of our customers generally purchase from us on a purchase order basis. As a result, agreements with respect to pricing, returns, cooperative advertising or special promotions, among other things, are subject to periodic negotiation with each customer. No assurance can be given that these or other customers will continue to do business with us or that they will maintain their historical levels of business. In addition, the uncertainty of product orders can make it difficult to forecast our sales and allocate our resources in a manner consistent with actual sales, and our expense levels are based in part on our expectations of future sales. If our expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls. In addition, financial difficulties experienced by a significant customer could increase our exposure to uncollectible receivables and the risk that losses from uncollected receivables exceed the reserves we have set aside in anticipation of this risk.

***The manufacture, supply and shipment of our products are dependent upon a limited number of third parties, and our success is dependent upon the ability of these parties to manufacture, supply and ship sufficient quantities of their product components to us in a timely fashion, as well as the continued viability and financial stability of these third-parties.***

Because we rely on a limited number of manufacturers and suppliers for our products, we may be materially and adversely affected by the failure of any of those manufacturers and suppliers to perform as expected or supply us with sufficient quantities of their product components to ensure consumer availability of our own products. Our suppliers' ability to supply products to us is also subject to a number of risks, including the availability of raw materials, their financial instability, the destruction of their facilities, or work stoppages. Any shortage of raw materials or components or an inability to control costs associated with manufacturing could increase our costs or impair our ability to ship orders in a timely and cost-efficient manner. As a result, we could experience cancellations of orders, refusal to accept deliveries or a reduction in our prices and margins, any of which could harm our financial performance and results of operations.

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

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

In addition, the ongoing effectiveness of our supply chain is dependent on the timely performance of services by third parties shipping products and materials to and from our warehouse facilities and other locations. If we encounter problems with



these shipments, our ability to meet retailer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies could be materially adversely affected. We have experienced some of these problems in the past and we cannot assure you that we will not experience similar problems in the future.

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

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

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

- If our forecasts of demand for products are too high, we may accumulate excess inventories of products, which could lead to markdown allowances or write-offs affecting some or all of such excess inventories. We may also have to adjust the prices of our existing products to reduce such excess inventories;
- If demand for specific products increases beyond what we forecast, our suppliers and third-party manufacturers may not be able to increase production quickly enough to meet the demand. Our failure to meet market demand may lead to missed opportunities to increase our base of gamers, damage our relationships with retailers or harm our business;
- The on-going console transition increases the likelihood that we could fail to accurately forecast demand for our new generation console headsets and our existing headsets; and
- Rapid increases in production levels to meet unanticipated demand could result in increased manufacturing errors, as well as higher component, manufacturing and shipping costs, all of which could reduce our profit margins and harm our relationships with retailers and consumers.

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

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

***If we are unable to continue to develop innovative and popular headset products, or if our design and marketing efforts do not effectively raise the recognition and reputation of our Turtle Beach brand, we may not be able to successfully implement our headset growth strategy.***

We believe that our ability to extend the recognition and favorable perception of our Turtle Beach brand is critical to implement our headset growth strategy, which includes further establishing our position in existing gaming headsets, developing a strong position in new console headsets, expanding beyond existing console, PC and mobile applications to new technology applications, accelerating our international growth and expanding complementary product categories. To extend the reach of our Turtle Beach brand, we believe we must devote significant time and resources to headset product design, marketing and promotions. These expenditures, however, may not result in a sufficient increase in net sales to cover such costs.

***Transitions in console platforms may adversely affect our headset business.***

When new console platforms are announced or introduced into the market, consumers have historically reduced their purchases of game console peripherals and accessories, including headsets, for old generation console platforms in anticipation of new platforms becoming available. During these console transition periods, sales of gaming console headsets related to old generation consoles slow or decline until new platforms are introduced and achieve wide consumer acceptance, which we cannot guarantee. This decrease or decline may not be offset by increased sales of products for the new console platforms. Over time as the old generation platform user base declines, products for the old platforms are typically discontinued which can result in lower margins, excess inventory, excess parts, or similar costs related to end of life of a product model. In addition, as a third party gaming headset company, we are reliant on working with the console manufacturers for our headsets to be compatible with any new console platforms, which if not done on a timely basis may adversely affect sales. Sony and Microsoft may make changes to their platforms that impact how headsets connect with or work with the new consoles which could create a disruption to consumer buying behavior and/or product life-cycles.

As console hardware moves through its life cycle, hardware manufacturers typically enact price reductions, and decreasing prices may put downward pressure on prices for products for such platforms. During platform transitions, we may simultaneously incur costs both in continuing to develop and market new products for prior-generation video game platforms, which may not sell at premium prices, and also in developing products for current-generation platforms, which will not generate immediate or near-term revenue. As a result, our operating results during platform transitions are more volatile and difficult to predict than during other times.

Further, technological and other developments may in the future accelerate the frequency of such console transitions resulting in such disruption occurring more frequently. In addition, competing technologies such as tablet-based gaming and virtual reality may result in further disruption to the overall console gaming market.

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

As part of our business strategy, we review and intend to continue to review acquisition opportunities that we believe would be advantageous or complementary to the development of our business. During the first quarter of 2019, we entered into an agreement to acquire certain assets of ROCCAT GmbH and its subsidiaries, and we may acquire additional businesses, assets, or technologies in the future. If we make any acquisitions, we could take any or all of the following actions, any one of which could adversely affect our business, financial condition, results of operations or share price:

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

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

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

We have had, and may continue to have, actions brought against us by stockholders in connection with the merger, past transactions, changes in our stock price or other matters. Any such claims, whether or not resolved in our favor, could divert our management and other resources from the operation of our business and otherwise result in unexpected and substantial expenses that would adversely and materially impact our business, financial condition and operating results. For example, and as further described in Item 3, "Legal Proceedings," and Note 12, "Commitments and Contingencies," we are involved in legal proceedings related to the merger of VTBH and Paris Acquisition Corp. involving certain of our stockholders.

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

We rely heavily on information systems to manage our operations, including a full range of retail, financial, sourcing and merchandising systems. We regularly make investments to upgrade, enhance or replace these systems, as well as leverage new technologies to support our growth strategies. In addition, we have implemented enterprise-wide initiatives that are intended to standardize business processes and optimize performance. Any delays or difficulties in transitioning to new systems or integrating them with current systems or the failure to implement our initiatives in an orderly and timely fashion could result in additional investment of time and resources, which could impair our ability to improve existing operations and support future growth, and ultimately have a material adverse effect on our business.

The reliability and capacity of our information systems are critical. Despite preventative efforts, our systems are vulnerable to damage or interruption from, among other things, natural disasters, technical malfunctions, inadequate systems capacity, human error, power outages, computer viruses and security breaches. Any disruptions affecting our information systems could have a material adverse impact on our business. In addition, any failure to maintain adequate system security controls to protect our computer assets and sensitive data, including associate and client data, from unauthorized access, disclosure or use could damage

our reputation with our associates and our clients, exposing us to financial liability, legal proceedings (such as class action lawsuits), and regulatory action. While we have implemented measures to prevent security breaches and cyber incidents, our preventative measures and incident response efforts may not be entirely effective. As a result, we may not be able to immediately detect any security breaches, which may increase the losses that we would suffer. Finally, our ability to continue to operate our business without significant interruption in the event of a disaster or other disruption depends, in part, on the ability of our information systems to operate in accordance with our disaster recovery and business continuity plans.

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

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

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

- trade restrictions, higher tariffs, currency fluctuations or the imposition of additional regulations relating to import or export of our products, especially in China, where all of our Turtle Beach products are manufactured, which could force us to seek alternate manufacturing sources or increase our costs;
- difficulties obtaining domestic and foreign export, import and other governmental approvals, permits and licenses, and compliance with foreign laws, which could halt, interrupt or delay our operations if we cannot obtain such approvals, permits and licenses;
- difficulties encountered by our international distributors or us in staffing and managing foreign operations or international sales, including higher labor costs;
- transportation delays and difficulties of managing international distribution channels;
- longer payment cycles for, and greater difficulty collecting, accounts receivable;
- political and economic instability, including wars, terrorism, political unrest, boycotts, curtailment of trade and other business restrictions, any of which could materially and adversely affect our net sales and results of operations; and
- natural disasters.

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

The electronics industry in general has historically been characterized by a high degree of volatility and is subject to substantial and unpredictable variations resulting from changing business cycles. Our operating results will be subject to fluctuations based on general economic conditions, and in particular conditions that impact discretionary consumer spending. The audio products sector of the electronics industry has and may continue to experience a slowdown in sales, which adversely impacts our ability to generate revenues and impacts the results of our future operations. A lack of available credit in financial markets may adversely affect the ability of our commercial customers to finance purchases and operations and could result in an absence of orders or spending for our products as well as create supplier disruptions. We are unable to predict the likely duration and severity of any adverse economic conditions and disruptions in financial markets and the effects they will have on our business and its financial condition.

Further, Turtle Beach products are manufactured in China for export to the United States and worldwide. As a result of opposition to policies of the Chinese government and China's growing trade surpluses with the United States, there has been, and in the future may be, opposition to the extension of normal trade relations ("NTR") status for China. The loss of NTR status for China, changes in current tariff structures or adoption in the United States of other trade policies adverse to China could increase our manufacturing expenses and make it more difficult for us to manufacture our products in China.

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

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

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

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

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

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

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

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

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

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

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

reverse engineering or otherwise copying and using these features in competitive products. If we fail to protect or to enforce our intellectual property rights successfully, our competitive position could suffer, which could adversely affect our financial results.

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

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

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

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

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

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

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

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

We are licensed and approved by Microsoft to develop and sell Xbox One compatible audio products pursuant to a license agreement under which we have the right to manufacture (including through third party manufacturers), market and sell audio products for the Xbox One video game console (the “Xbox One Agreement”). Our Xbox One headsets are dependent on this license. Microsoft has the right to terminate the Xbox One Agreement under certain circumstances set forth in the agreement. Should the Xbox One Agreement be terminated, our headset offerings may be limited, thereby significantly reducing our revenues.

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

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

We may be subject to product liability or warranty claims that could result in significant direct or indirect costs, or we could experience greater returns from retailers than expected, which could harm our net sales. The occurrence of any quality problems due to defects in our products could make us liable for damages and warranty claims in excess of any existing reserves. In addition to the risk of direct costs to correct any defects, warranty claims, product recalls or other problems, any

negative publicity related to the perceived quality of our products could also affect our brand image, decrease retailer and distributor demand and our operating results and financial condition could be adversely affected.

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

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

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

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

***Our HyperSound technology is subject to government regulation, which could lead to unanticipated expenses and/or enforcement action against us.***

Under the Radiation Control for Health and Safety Act of 1968, and the associated regulations promulgated by the Food and Drug Administration (“FDA”), HyperSound products are regulated as electrical emitters of ultrasonic vibrations. Under the terms of such regulations, in August 2012 we provided, and in January 2016 further supplemented, an abbreviated report to the FDA describing the HyperSound commercial product. In September 2015 we provided an initial product report describing the HyperSound Clear® 500P product. The FDA may respond to these reports and request changes or safeguards to our HyperSound products. We also are required to notify the FDA should a product be found to have a defect relating to safety of use due to the emission of electronic product radiation. We do not believe our technology poses any human health risks. However, modifications to the technology may be required. Our HyperSound product advertising is regulated by the Federal Trade Commission (the “FTC”), which requires all advertising be truthful, not deceptive or unfair, and evidence based.

The HyperSound Clear 500P and the HyperSound Tinnitus Module were regulated by the FDA as medical devices pursuant to the Federal Food, Drug, and Cosmetic Act, or FDCA, and implementing regulations. HyperSound Clear 500P received 510(k) clearance permitting over-the-counter (“OTC”) commercial distribution for use as a group auditory trainer or group hearing aid and the HyperSound Tinnitus Module feature received 510(k) clearance for prescription use in the temporary relief of tinnitus symptoms.

Although we have discontinued sales of our HyperSound Clear 500P and the HyperSound Tinnitus Module, we continue to be subject to FDA’s requirements for marketed medical devices with respect to those HyperSound Clear 500P products that have already been sold, such as the Quality System Regulation, or QSR (which imposes procedural, documentation and record keeping requirements regarding the manufacture of medical devices); the Medical Device Reporting regulation (which requires that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur); and the Reports of Corrections and Removals regulation (which requires manufacturers to report recalls and field actions to the FDA if initiated to reduce a risk to health posed by the device or to remedy a violation of the FDCA that may pose a risk to health). FDA enforces these requirements by inspection and market surveillance. If the FDA finds a violation, it can institute a wide range of enforcement actions, ranging from a public warning letter to more severe sanctions such as fines, penalties, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions, total shutdown of production, and criminal prosecution.

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

Our operations and some of our products are regulated under various federal, state, local and international environmental laws. In addition, regulatory bodies in many of the jurisdictions in which we operate propose, enact and amend environmental laws and regulations on a regular basis. If we were to violate or become liable under these environmental laws, we could be required to incur additional costs to comply with such regulations and may incur fines and civil or criminal sanctions, third-party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs. Liability under environmental laws may be joint and several and without regard to comparative fault. The ultimate costs under environmental laws and the timing of these costs are difficult to predict. Although we cannot predict the ultimate impact of any new environmental laws and regulations, such laws may result in additional costs or decreased revenue, and could require that we redesign or change how we manufacture our products, any of which could have a material adverse effect on our business. Additionally, to the extent that our competitors choose not to abide by these environmental laws and regulations, we may be at a cost disadvantage, thereby hindering our ability to effectively compete in the marketplace.

***Failure to comply with the U.S. Foreign Corrupt Practices Act or other applicable anti-corruption legislation could result in fines, criminal penalties and an adverse effect on our business.***

Our products are sold in over 40 countries, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws. We are subject, however, to the risk that our officers, directors, employees, agents and collaborators may take action determined to be in violation of such anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977, the U.K. Bribery Act 2010, the European Union Anti-Corruption Act and other similar laws, or that subjects us to trade sanctions administered by the Office of Foreign Assets Control and the U.S. Department of Commerce. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties or curtailment of operations in certain jurisdictions, and might adversely affect our results of operations. In addition, actual or alleged violations could damage our reputation and ability to do business.

#### **Risks Related to Liquidity**

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

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

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

*If suppliers, customers, landlords, employees or other stakeholders lose confidence in our business, it may be more difficult for us to operate and may materially adversely affect our business, results of operations and financial condition.*

If suppliers, customers, landlords, employees or other stakeholders have doubts regarding our ability to continue as a going concern, this could materially adversely affect our ability to operate. Concerns about our financial condition may cause our suppliers and other counterparties to tighten credit terms or cease doing business with us altogether, which would have a material adverse effect on our business and results of operations.

#### **Risks Related to Ownership of our Common Stock**

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

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

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

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock.

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

| Period               | Issuer Purchases of Equity Securities |                              |  |  |
|----------------------|---------------------------------------|------------------------------|--|--|
|                      | Total Number of Shares Purchased      | Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
| January 1- 31, 2019  | 2,331                                 | \$ 15.97                     | —  | —  |
| February 1- 28, 2019 | 2,041                                 | \$ 17.51                     | —  | —  |
| March 1- 31, 2019    | 2,068                                 | \$ 13.32                     | —  | —  |
| Total                | 6,440                                 | \$ 15.61                     | —  | —  |

For the first quarter of 2019, we repurchased approximately \$0.1 million of common shares related to employee transactions. These amounts represent common shares repurchased from employees in an amount equal to the statutory tax liability associated with the vesting of their equity awards, which is then remitted on behalf of the employee.

On March 13, 2019, 295,577 unregistered shares were issued under a cashless exercise of warrants.

#### **Item 5 - Other Information**

None.



## Item 6. Exhibits

- [3.1](#) Articles of Incorporation of Turtle Beach Corporation, as amended (Incorporated by reference to Exhibit 3.1 to Company's 10-Q filed August 6, 2018).
- [3.2](#) Bylaw, as amended, of Turtle Beach Corporation (Incorporated by reference to Exhibit 3.2 to Company's 10-Q filed August, 11, 2014).
- [10.2\\*\\*+](#) ROCCAT Asset Purchase Agreement
- [31.1](#) Certification of Juergen Stark, Principal Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- [31.2](#) Certification of John T. Hanson, Principal Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- [32.1](#) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Juergen Stark, Principal Executive Officer and John Hanson, Principal Financial Officer (filed herewith).

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

|         |  |
|---------|--|
| 101.INS | XBRL Instance Document                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document       |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

\*\* Filed herewith.

+ Portions of this exhibit (indicted by asterisks) have been omitted.

**SIGNATURES**

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

TURTLE BEACH CORPORATION

Date: May 8, 2019

By: \_\_\_\_\_ /S/ JOHN T. HANSON

**John T. Hanson**  
**Chief Financial Officer, Treasurer and Secretary**  
(Principal Financial and Accounting Officer)

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (i) NOT MATERIAL AND (ii) WOULD BE LIKELY TO CAUSE COMPETITIVE HARM TO THE COMPANY IF PUBLICLY DISCLOSED. SUCH EXCLUDED INFORMATION IS DENOTED BY ASTERISKS IN BRACKETS [\*\*].

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**ASSET PURCHASE AGREEMENT**

by and among

**ROCCAT GMBH,**

**ROCCAT STUDIOS TAIPEI CO., LTD.,**

**ROCCAT ASIA PACIFIC CO., LTD.,**

**ROCCAT INC.,**

**THE STOCKHOLDERS NAMED HEREIN,**

**JÖLLENBECK GMBH,**

**FIRST WISE MEDIA GMBH**

and

**TBC HOLDING COMPANY LLC**

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Dated as of March 11, 2019

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## ASSET PURCHASE AGREEMENT

**THIS ASSET PURCHASE AGREEMENT** is entered into as of March 11, 2019, by and among Roccat GmbH, a private limited company organized under the laws of Germany (“**Roccat**”), Roccat Studios Taipei Co., Ltd., a limited company organized under the laws of Taiwan (“**RST**”), Roccat Asia Pacific Co., Ltd., a limited company organized under the laws of Taiwan (“**RAP**”), and Roccat Inc., a Nevada corporation (“**RUS**,” and together with Roccat, RST, RAP and RUS, the “**Sellers**”), the stockholders of Roccat listed on the signature pages hereto in their capacity as such (the “**Stockholders**”), Jöllenbeck GmbH, a private limited company organized under the laws of Germany (“**Jöllenbeck**”), First Wise Media GmbH, a private limited company organized under the laws of Germany (“**First Wise**”), TBC Holding Company LLC, a Delaware limited liability company (the “**Buyer**”), and, solely for the purposes of Article 10, Turtle Beach Corporation, a Nevada corporation and ultimate parent company of the Buyer (“**Parent**”).

Certain capitalized terms used in this Agreement are defined in Exhibit A.

### BACKGROUND

- A. Roccat is in the business of designing, developing, marketing, having manufactured, distributing, importing, exporting, and selling gaming mice, headsets, keyboards and accessories under the Roccat brand (the “**Business**”);
- B. Jöllenbeck, an Affiliate of Roccat, owns certain assets of the Business, which will be transferred to Roccat prior to the Closing; and
- C. The Sellers, Jöllenbeck, the Stockholders and the Buyer each desire to provide for the sale of the Purchased Assets (as defined below) and the transfer of the employment of employees related to the Business to the Buyer’s designated assignees on the terms set forth in this Agreement.

## AGREEMENT

The parties to this Agreement, intending to be legally bound, agree as follows:

### **Sale of Purchased Assets; Related Transactions.**

#### **1.1 Sale of Purchased Assets by Sellers.**

(a) At the Closing and on the terms and subject to the conditions set forth in this Agreement, the Sellers will sell, assign, transfer, convey, and deliver to the Buyer's designated assignees, all of Sellers' right, title and interest in, to, and under all assets, properties, interests and rights of every kind and description, existing as of the date of this Agreement or acquired through the Closing that relate to, or are used or held for us in connection with, the Business, free of any Encumbrances, other than the Excluded Assets (collectively the "**Purchased Assets**"). At the Closing, the Buyer will accept or cause its designated affiliates to accept such sale, assignment and transfer. The Purchased Assets include, without limitation, all of the following assets, properties, interests and rights of Sellers in:

(i) subject to the receipt of the applicable consents set forth on Schedule 2.3, those Contracts listed on Schedule 1.1(a), which schedule may be amended at the sole discretion of the Buyer (other than to remove Contracts designated as "Take" therein (the "**Accepted Contracts**")) at any time prior to Closing (the "**Assigned Contracts**");

(ii) all Accounts Receivables, including those certain past due Accounts Receivables set forth on Exhibit B (the "**Past Due Receivables**") and those to be transferred to the Sellers in the Internal Asset Transfer;

(iii) all Inventory, including Inventory to be transferred to the Sellers in the Internal Asset Transfer, other than any Excluded Inventory;

(iv) all kiosks, store fixtures and other retail display units relating to the Seller Products to be transferred to the Sellers in the Internal Asset Transfer (the "**Product Kiosks**");

(v) all Intellectual Property and Intellectual Property rights (including all Seller IP and all of the Sellers' rights therein);

(vi) subject to the receipt of the applicable consents set forth on Schedule 8.1(e), all Permits;

(vii) all personnel records and forms relating to Transferring Employees;

(viii) subject to the receipt of the applicable consents set forth on Schedule 8.1(e), all real property that is leased, subleased, licensed to or otherwise occupied by, a Seller, including all leasehold improvements owned by a Seller and forming part thereof;

(ix) all fixed assets and personal property (whether owned or leased) including all fixtures, trade fixtures, machinery, equipment, Systems, furniture, furnishings, vehicles and other chattels of the Sellers (including those in possession of suppliers, customers and other third parties);

(x) all equipment leases covering any asset used by the Sellers, including any remaining equity in existing equipment leases;

(xi) copies of all books and records related to the Business, including, but not limited to, books of account, ledgers and general, financial and accounting records, internal financial statements, machinery and equipment maintenance files, customer lists, customer purchasing histories, price lists, distribution lists, supplier lists, production data, quality control records and procedures, research and development files, marketing materials, sales material and records (including pricing history, total sales, terms and conditions of sale, sales and pricing policies and practices), strategic plans, and any material, research or files relating to the Intellectual Property Assets and the Intellectual Property Agreements (“**Books and Records**”);

(xii) to the extent related to any Purchased Asset or any Assumed Liability, all rights to any Proceedings of any nature to the extent related to the Business, whether arising by way of counterclaim or otherwise;

(xiii) all rights under warranties, indemnities and all similar rights against third parties to the extent related to any Purchased Assets;

(xiv) to the extent related to a Purchased Asset or an Assumed Liability all insurance benefits, including rights and proceeds, arising from or relating to the Business; and

(xv) all goodwill and going concern value of the Business and the Purchased Assets.

(b) The Purchased Assets will include the assets specified in the non-exclusive list of assets of the Business attached hereto as Schedule 1.1(b). All assets specified in such list which, during the period from the date hereof up to the Closing Date, have been, or will be, sold or otherwise withdrawn from the Business in the Ordinary Course of Business and without any breach of any covenant by the Sellers provided for in this Agreement are not sold as part of the Purchased Assets. Assets which have been, or will be, manufactured, acquired or otherwise received by the Sellers in respect of the Business during the period from the date hereon up to the Closing Date as a replacement for, or supplementary to, the assets specified in the assets list are sold under this Agreement as part of the Purchased Assets.

(c) Subject to Section 6.1(b), without undue delay after the date hereof, the Sellers will endeavor to obtain from the counterparties to the Assigned Contracts the consents required for the transfer from the applicable Seller to the Buyer or its designee and the Buyer will assist Sellers to the extent reasonably requested and to the extent that and as long as any such consent cannot be obtained prior to or after the Closing, the Sellers will, in respect of the external relationships, remain the debtor of the relevant Assumed Liability and will comply with the Buyer’s instructions regarding the exercise of any rights under such Assigned Contracts.

## **1.2 Assumed Liabilities, Excluded Liabilities and Excluded Assets.**

(a) For purposes of this Agreement “**Assumed Liabilities**” means only (i) those Liabilities arising from the employment of the Business Employees, but solely to the extent required by applicable Law and subject to Sections 6.5, 7.2(b)(v) and (vi), (ii) payables and other current liabilities solely to the extent included in the final calculation of Working Capital which are not owed to any Affiliates of Sellers or to Jöllenbeck and its Affiliates and arose in the Ordinary Course of Business consistent with past practice and (iii) the obligations of the Sellers under the Assigned Contracts identified on Schedule 1.1(a)(i) to this Agreement, but only to the extent such obligations (A) arise after the Closing Date, (B) do not arise from or relate to any Breach by any Seller of any provision of any of such Assigned Contracts, (C) do not arise from or relate to any event, circumstance or condition occurring or existing on or prior to the Closing Date that, with notice or lapse of time, would constitute or result in a Breach of any of such Assigned Contracts, and (D) are ascertainable (in nature and amount) solely by reference to the express terms of such Assigned Contracts; provided, however, that notwithstanding the foregoing, and notwithstanding anything to the contrary contained in this Agreement, the “Assumed Liabilities” will not include, and the Buyer will not be required to assume or to perform or discharge any of the following (collectively, the “**Excluded Liabilities**”):

(i) any Liability of the Stockholders, of Team Roccat, of Winspeed, of First Wise or of Jöllenbeck;

(ii) any Liability of a Seller arising out of or relating to the execution, delivery or performance of any of the Transaction Agreements, including, without limitation, fees and expenses of counsel, accountants, consultants, advisers and others;

(iii) any Liability relating to the Transactions, including transaction bonus, brokers fees, legal fees or severance obligations, of the Sellers, the Stockholders or their respective Affiliates;

(iv) any Liabilities relating to or arising out of the Excluded Assets;

(v) any Liability of a Seller arising from or relating to any action taken by such Seller, or any failure on the part of such Seller to take any action, at any time before, on or after the Closing Date, in connection with the operation of the Business (it being understood that an obligation incurred in the Ordinary Course of Business to deliver Seller Products after the Closing Date will not be excluded to the extent that the Accounts Receivable relating to such obligation is subtracted from current assets in the calculation of Working Capital);

(vi) any Liability relating to Team Roccat;

(vii) any Liabilities arising out of, in respect of or in connection with the failure by Sellers, or any of their respective Affiliates to comply with any Law;

(viii) any Liability of a Seller arising from or relating to any claim or Proceeding against such Seller;

(ix) any (A) Liability of a Seller for the payment of any Tax (including, for the avoidance of doubt, any taxes or tax liabilities within the meaning of Sec. 75 of the German General Tax Code (*Abgabenordnung - AO*)), (B) Liability for Taxes related to the Purchased Assets, the Assumed Liabilities or the Business (including, for the avoidance of doubt, any income, profit or capital gain related tax levied on the Sellers, other Parties to this Agreement or any third-party upon the transfer of the title or the beneficial ownership in or the assignment of the Purchased Assets or the Assumed Liabilities or the Business, which, for the avoidance of doubt, shall not be interpreted to limit the Buyer's obligation to pay additional amounts to the Sellers pursuant to Section 1.9 hereof) for any taxable period (or portion thereof) ending on or prior to the Closing Date, determined under the principles of Section 6.7(b) hereof, and (C) Liability for Taxes of a Seller that becomes a Liability of Buyer or any of its Affiliates under any transferee or successor liability or otherwise by operation of contract (other than a routine commercial contract the principal object of which is not the allocation of Taxes) or Law;

(x) any Liability relating to the employment of the Transferring Employees and any Liabilities of a Seller with respect to any present or former employees, officers, directors, retirees, independent contractors or consultants of Sellers, including, without limitation, any Liabilities associated with any claims for wages or other benefits, bonuses, accrued vacation, pension, workers compensation, severance, retention, termination or other payments (except to the extent such exclusion would violate applicable Law), in each case, relating to any period prior to the Closing Date;

(xi) any Liabilities of a Seller relating to any period prior to the Closing Date which arise under or in connection with any Benefit Plan of Seller (except to the extent such exclusion would violate applicable Law);

(xii) any product Liability or similar claim for injury to a Person or property which arises out of or is based upon any express or implied representation, warranty, agreement or guaranty, or by reason of the improper performance or malfunctioning of a product, improper design or manufacture, failure to adequately package, label or warn of hazards or other related product defects of any products at any time manufactured or sold or any service;

(xiii) any Liability arising out of any recall, design defect or similar claims of any products manufactured or sold or any service performed by Sellers;

(xiv) any Liability of a Seller to Jöllenbeck, the Stockholders or any Related Party;

(xv) any Indebtedness; and

(xvi) any other Liability that is not specifically assumed pursuant to this Section 1.2(a).

(b) The Purchased Assets will not include the following assets (collectively, the “**Excluded Assets**”):

- (i) any cash or cash equivalents of the Sellers;
- (ii) any bank accounts of the Sellers;
- (iii) any Contracts not listed on Schedule 1.1(a), including those listed on Schedule 1.2(b)(iii), which schedule may be amended by the Buyer in its sole discretion (other than to add Accepted Contracts) at any time prior to Closing (the “**Excluded Contracts**”);
- (iv) the articles of incorporation, bylaws, or similar organizational documents of the Sellers and any minute books, stock books, books of account or other records having to do with the corporate organization of the Sellers;
- (v) any assets exclusively relating to Team Roccat;
- (vi) the inventory set forth on Schedule 1.2(b)(vi) (“**Excluded Inventory**”); or
- (vii) all claims and causes of action, whether or not asserted, to the extent not exclusively or primarily related to an Assumed Liability or Purchased Asset.

**1.3 Purchase Price.** As consideration for the sale of the Purchased Assets to the Buyer, and subject to receipt of the items required to be delivered at Closing pursuant to Section 1.11(b), the Buyer will: (a) pay to the Sellers, by wire transfer or delivery of other immediately available funds the Closing Purchase Price (calculated based on the Estimated Net Working Capital provided by the Sellers) at the Closing and any payments required to be made pursuant to Sections 1.5, 1.6 and 1.7 (the “**Contingent Payments**”), (b) deliver to Mr. Korte (it being understood that the Sellers are entitled to this payment, but have directed the Buyer to make it to Mr. Korte on their behalf instead), the Stock Consideration (or cash in lieu thereof) as contemplated by Section 1.11(b)(iii) and (c) assume the Assumed Liabilities (collectively, the “**Purchase Price**”), plus local VAT or Transfer Taxes if applicable by Law and properly charged.

**1.4 VAT.** If and to the extent that VAT shall apply under applicable Law due to the sale and transfer of Purchased Assets, it shall become payable by the Buyer in addition to the Purchase Price, unless the reverse charge procedure (*Leistungsempfänger als Steuerschuldner*) will apply. The Buyer shall pay such VAT properly charged to the applicable Seller or, in the case that the reverse charge procedure shall apply, to the applicable Governmental Authority, in each case, within fifteen (15) Business Days after receipt of a proper invoice from the applicable Seller complying with the requirements of VAT Law in the applicable jurisdiction. Should the transfer of the Purchased Assets by the Sellers qualify as transfer of a going concern (*Geschäftsveräußerung im Ganzen*) being out of scope of VAT, the parties hereto shall seek and cooperate to treat the sale as such and provide each other with all relevant information for that purpose and the applicable Seller will provide the Buyer within twenty (20) Business Days after the Closing Date with all documentation (including calculations) required for an adjustment of input VAT according to Section 15a German VATA. If a VAT amount properly charged and actually payable as a consequence of the consummation of the transactions contemplated by this Agreement turns out to be higher or lower than the amount shown on the relevant invoice issued by the applicable Seller (including if no VAT has been invoiced at all) due to (i) an assessment after Closing of a Governmental Authority in charge of the applicable Seller’s or of the Buyer’s VAT affairs or (ii) for any other reason identified by the parties after Closing, the parties shall make appropriate declarations and filings with the relevant Governmental Authorities, amend any invoices (to the extent required by applicable VAT Laws), provide to the respective other party any requested information and copies of relevant documents and make any required payments to each other and the Governmental Authorities, respectively, in each case without undue delay. In particular, if according to a determination made by a Governmental Authority in charge of the applicable Seller’s VAT affairs decides the VAT payable by the Seller is higher than shown on the relevant invoice (including if no VAT has been invoiced at all), the Buyer shall pay the corresponding shortfall amount properly charged to the applicable Seller within fifteen (15) Business Days after receipt of notification of the shortfall amount and of a corrected invoice which complies with the provisions of the VAT Laws from the applicable Seller, but not earlier than five (5) Business Days before the applicable VAT becomes due (taking into account any extension of the due date granted by the Governmental Authority). If according to a final and unappealable determination made by a Governmental Authority in charge of the applicable Seller’s or Buyer’s VAT affairs decides the VAT payable by the Seller is lower than shown on the relevant invoice (including if no VAT should have been triggered at all), the respective Seller shall repay the corresponding excess amount to the Buyer within fifteen (15) Business Days after receipt of the corresponding final and unappealable Tax assessment notice from the Governmental Authority and provide the Buyer with a corrected invoice which complies with the provisions of the VAT Laws.

### **1.5 Purchase Price Adjustment.**

(a) At least five (5) Business Days prior to the Closing Date, the Sellers will prepare and deliver to the Buyer a good-faith estimate of the Closing Purchase Price (the “**Estimated Purchase Price**”), including, but not limited to, an estimate of the Closing Working Capital (the “**Estimated Closing Working Capital**”), and the Buyer will have the right to review and approve such estimates (such approval not to be unreasonably withheld).

(b) As promptly as practicable after the Closing, but in no event later than ninety (90) days after the Closing Date, the Buyer will prepare and deliver to the Sellers Representative a statement (the “**Closing Statement**”) setting forth the Buyer’s calculation of the Closing Purchase Price, including each of the components thereof, as of 12:01 a.m. Pacific Time on the Closing Date.

(c) The Estimated Purchase Price and Closing Statement will be prepared, and the Closing Purchase Price will be determined, in accordance with the accounting methods, policies, practices, procedures, conventions, categorizations, definitions, principles, judgments, assumptions, techniques or estimation methods with respect to financial statements, their classification or presentation or otherwise (including with respect to the nature of accounts, level of reserves or level of accruals) that are set forth in Exhibit C.

(d) The Buyer will (i) permit Roccat and its Representatives to have reasonable access to the documents (including work papers, schedules, financial statements, memoranda, etc.) pertaining to or used in connection with the preparation of the Closing Statement and the Buyer’s calculation of the Closing Purchase Price and provide Roccat with copies thereof (as reasonably requested by Roccat and subject to the entry into customary confidentiality and non-reliance agreements) and (ii) provide Roccat and its Representatives reasonable access to the Buyer’s employees and advisors. If Roccat disagrees with any part of the Buyer’s calculation of the Closing Purchase Price as set forth on the Closing Statement, Roccat will, within sixty (60) days after the receipt of the Closing Statement, notify the Buyer in writing of such disagreement by setting forth the Sellers Representative’s calculation of the Closing Purchase Price, including each of the components thereof, and describing in reasonable detail the basis for such disagreement (an “**Objection Notice**”). If an Objection Notice is delivered to the Buyer, then the Buyer and Roccat will negotiate in good faith to resolve their disagreements with respect to the computation of the Closing Purchase Price. In the event that the Buyer and Roccat are unable to resolve all such disagreements within thirty (30) days after the Buyer’s receipt of such Objection Notice, the Buyer and Roccat will submit such remaining disagreements to Ernst & Young, or if Ernst & Young is unavailable, such other valuation firm of national repute reasonably acceptable to the Buyer and Roccat (the “**Valuation Firm**”).

(e) The Valuation Firm will make a final and binding determination with respect to the computation of the Closing Purchase Price, including each of the components thereof, to the extent such amounts are in dispute, in accordance with the guidelines and procedures set forth in this Agreement and in Exhibit C. The Buyer and Roccat will cooperate with the Valuation Firm during the term of its engagement and will use commercially reasonable efforts to cause the Valuation Firm to resolve all remaining disagreements with respect to the computation of the Closing Purchase Price, including each of the components thereof, as soon as practicable. The Valuation Firm will consider only those items and amounts in the respective calculations of the Closing Purchase Price of the Buyer and Roccat, including each of the components thereof, that are identified as being items and amounts to which the Buyer and Roccat have been unable to agree. In resolving any disputed item, the Valuation Firm may not assign a value to any item greater than the greatest value for such item claimed by either party or less than the smallest value for such item claimed by either party. The Valuation Firm’s determination of the Closing Purchase Price, including each of the components thereof, will be based solely on written materials submitted by the Buyer and Roccat (*i.e.*, not on independent review) and on the definitions included herein. The determination of the Valuation Firm will be conclusive and binding upon the parties hereto and will not be subject to appeal or further review.

(f) The costs and expenses of the Valuation Firm in determining the Closing Purchase Price, including each of the components thereof, will be borne by the Buyer, on the one hand, and the Sellers, on the other hand, based upon the percentage which the portion of the contested amount not awarded to each party bears to the amount actually contested by such party. For example, if the Buyer claims the Closing Purchase Price is one thousand euros (€1,000) less than the amount determined by the Sellers, and the Sellers contest only five hundred euros (€500) of the amount claimed by the Buyer, and if the Valuation Firm ultimately resolves the dispute by awarding the Buyer three hundred euros (€300) of the five hundred euros (€500) contested, then the costs and expenses of the Valuation Firm will be allocated sixty percent (60%) (*i.e.*,  $300 \div 500$ ) to the Sellers, in the aggregate, and forty percent (40%) (*i.e.*,  $200 \div 500$ ) to the Buyer. Prior to the Valuation Firm’s determination of Closing Purchase Price, (i) the Buyer, on the one hand, and the Sellers, on the other hand, will each pay fifty percent (50%) of any retainer paid to the Valuation Firm and (ii) during the engagement of the Valuation Firm, the Valuation Firm will bill fifty percent (50%) of the total charges to each of the Buyer, on the one hand, and the Sellers, on the other hand. In connection with the Valuation Firm’s determination of Closing Purchase Price, the Valuation Firm will also determine, pursuant to the terms of the first and second sentences of this Section 1.5(f), and taking into account all fees and expenses already paid by each of the Buyer, on the one hand, and the Sellers, on the other hand, as of the date of such determination, the allocation of its fees and expenses between the Buyer and the Sellers, which such determination will be conclusive and binding upon the parties hereto.

(g) Within five (5) Business Days after the Closing Purchase Price, including each of the components thereof, is finally determined pursuant to this Section 1.5:



(i) if the Closing Purchase Price as finally determined pursuant to this Section 1.5 is less than the Estimated Purchase Price, then the Buyer and the Sellers will cause the Escrow Agent to: (A) pay to the Buyer a portion of the Adjustment Escrow Amount (the “**Buyer Adjustment Amount**”) equal to such deficiency (and if the Adjustment Escrow Fund is insufficient, the Buyer may elect (at its sole discretion) to require that the Sellers or Stockholders pay the remainder of such deficiency), have the Sellers cause the Escrow Agent to pay the remainder of such deficiency from the Indemnification Escrow Amount or collect the remainder of such deficiency from the Holdback Amount (or some combination thereof), and (B) pay to the Sellers the amount (if any) by which the amount of the Adjustment Escrow Amount is greater than the Buyer Adjustment Amount; and

(ii) if the Closing Purchase Price as finally determined pursuant to this Section 1.5 is greater than the Estimated Purchase Price (the amount of such deficiency, the “**Seller Adjustment Amount**”), then (A) the Buyer will pay to the Sellers the Seller Adjustment Amount, and (B) the Buyer and the Sellers will cause the Escrow Agent to pay to the Sellers the Adjustment Escrow Amount.

All payments to be made pursuant to this Section 1.5 will (x) be treated by all parties for tax purposes as adjustments to the Closing Purchase Price and (y) be made by wire transfer of immediately available funds to the account(s) designated by the Buyer or the Sellers, as applicable.

### **1.6 Holdback Amount.**

(a) The Closing Purchase Price paid at Closing will reflect a deduction equal to the Holdback Amount as may be increased pursuant to Schedule 1.6. Within 90 days following the first anniversary of the Closing Date, the Buyer will determine the aggregate amounts related to, incurred or paid in connection with or resulting from returns of, and credits related to, Roccat products or merchandise that were sold prior to the Closing (the “**Return Expense**”) and will provide the Sellers Representative with a written statement setting forth its calculation of the Return Expense (the “**Returns Statement**”).

(b) If the Sellers disagrees with any part of the Buyer’s calculation of the Return Expense as set forth in the Returns Statement, Roccat will, within thirty (30) days after the receipt of the Returns Statement with the Sellers Representative, notify the Buyer in writing of such disagreement by setting forth the Sellers’s calculation of the Return Expense, including each of the components thereof, and describing in reasonable detail the basis for such disagreement. In the event that the Buyer and Roccat are unable to resolve all such disagreements within thirty (30) days after the Sellers Representative’s receipt of the Returns Statement, the Buyer and Roccat will submit such remaining disagreements to the Valuation Firm. The Valuation Firm will make a final and binding determination with respect to the computation of the Return Expense, to the extent such amounts are in dispute. The Valuation Firm will consider only those items and amounts in the respective calculations of the Return Expense of the Buyer and Roccat, including each of the components thereof, that are identified as being items and amounts to which the Buyer and Roccat have been unable to agree. In resolving any disputed item, the Valuation Firm may not assign a value to any item greater than the greatest value for such item claimed by either party or less than the smallest value for such item claimed by either party. The Valuation Firm’s determination of the Return Expense, including each of the components thereof, will be based solely on written materials submitted by the Buyer and Roccat (i.e., not on independent review) and on the definitions included herein. The determination of the Valuation Firm will be conclusive and binding upon the parties hereto and will not be subject to appeal or further review. The costs and expenses of the Valuation Firm in determining the Return Expense will be borne by the Buyer and the Sellers consistent with the methodology set forth in Section 1.5(f).

(c) If the final determination of the Return Expense is less than the Holdback Amount, then the Buyer will (i) retain an amount equal to the Return Expense, and (ii) pay to the Sellers the amount (if any) by which the amount of the Holdback Amount is greater than the Return Expense. If the final determination of the Return Expense is greater than the Holdback Amount, then the Buyer will (i) retain the Holdback Amount, and (ii) be entitled to recover any excess from the Indemnification Escrow Amount or by setting off against any Contingent Payments.

**1.7 Earn Out Consideration.** Following the Closing, the Sellers will be entitled to receive from the Buyer additional amounts based on the occurrence of certain other events as described in this Section 1.7; provided, that, the Sellers intend to distribute those amounts specified in subsections (b) and (c) below to Mr. Korte and accordingly direct the Buyer to make any such payments to Mr. Korte on their behalf in satisfaction of the Buyer’s obligations with respect thereto. For the avoidance of doubt, the amounts set forth in Sections 1.7(a) and (b) are intended to be independent such that the total aggregate amount payable pursuant under the two Sections is €1,500,000.

(a) If Net Revenue during the twelve-month period ending December 31, 2019 is [\*\*], then the Sellers will be entitled to receive [\*\*], with such amount earned pursuant to this Section 1.7(a) not to exceed €1,000,000 in the aggregate. Any amounts earned pursuant to this Section 1.7(a) will be paid in cash on or prior to March 31, 2020.

(b) If Net Revenue during the twelve-month period ending December 31, 2019 is [\*\*], then the Sellers will be entitled to receive [\*\*], with such amount earned pursuant to this Section 1.7(b) not to exceed €500,000 in the aggregate. Any amounts earned pursuant to this Section 1.7(b) will be paid on or prior to March 31, 2020 and may be paid at the option of the Buyer in cash or shares of common stock of Parent (calculated using the 10-day volume weighted average price per share of Parent stock immediately prior to the date of issuance).

(c) If the Net Revenue during the twelve-month period ending December 31, 2020 is [\*\*], then the Sellers will be entitled to receive [\*\*]. Any amounts earned pursuant to this Section 1.7(c) will be paid on or prior to March 31, 2021 and may be paid at the option of the Buyer in cash or shares of common stock of Parent Corporation (calculated using the 10-day volume weighted average price per share of Parent Corporation stock immediately prior to the date of issuance).

(d) Following the Closing, if during the period ending on the date that is [\*\*] from the Closing Date (the “**Positioning Period**”), the retail positioning requirements set forth in Exhibit D (the “**Positioning Guidelines**”) are achieved and maintained (and no actions inconsistent with the Positioning Guidelines are taken by the Sellers, Stockholders or their respective Affiliates) for the duration of such period, then the Sellers will be entitled to receive [\*\*]. Any amounts earned pursuant to this Section 1.7(d) will be paid in cash on or prior the date that is three (3) months following the conclusion of the Positioning Period.

(e) Following the Closing, if, during the period ending on the date that is [\*\*] from the Closing Date (the “**AR Period**”), the Buyer is able to collect Past Due Receivables on behalf of the Sellers, then the Sellers will be entitled to receive [\*\*] of any such amounts actually collected by the Buyer, which will be deemed to be in full satisfaction of any such Past Due Receivable; provided, however, that in no event will the amounts paid to the Sellers pursuant to this Section 1.7(e) exceed [\*\*] of the aggregate amounts listed in Exhibit B with respect to the Past Due Receivables. Any amounts earned pursuant to this Section 1.7(e) will be paid in cash on the date that is six (6) months following the conclusion of the AR Period (or if such date is not a Business Day, the following Business Day). Following the Closing, none of the Sellers, Jöllenbeck, Stockholders or their respective Affiliates will (i) transfer, sell, assign, pledge or hypothecate any Past Due Receivable, (ii) collect or seek payment with respect to any Past Due Receivable unless requested by the Buyer, (iii) otherwise exercise any right or remedy with respect to any Past Due Receivable or (iv) fail to forgive in full all Past Due Receivables after the AR Period.

(f) On or prior to the date that is [\*\*] following the Closing Date, the Buyer shall deliver to Mr. Korte €100,000 worth of shares of Parent (with such number of shares calculated using the 10-day volume weighted average price per share of Parent stock immediately prior to the date of issuance); it being understood that the Sellers are entitled to this payment, but have directed the Seller to make such payment to Mr. Korte on their behalf instead.

(g) Sellers acknowledge that (i) upon the closing of the transactions contemplated hereby, the Buyer has the right to operate the Purchased Assets and the Business in any way that the Buyer deems appropriate in the Buyer’s sole discretion, (ii) the Buyer has no obligation to operate the Purchased Assets and the Business in order to achieve any amounts set forth in this Section 1.7 or to maximize the amount of payments hereunder, (iii) the Buyer is under no obligation to continue to manufacture any product or product line(s), (iv) the amounts contemplated by this Section 1.7 are speculative and subject to numerous factors outside the control of the Buyer, (v) there is no assurance that Seller will receive any such amounts and Buyer has not promised nor projected such amounts, (vi) the Buyer owes no fiduciary duty or express or implied duty to the Sellers, including an implied duty of good faith and fair dealing, and (vii) the parties solely intend the express provisions of this Agreement to govern their contractual relationship and Sellers hereby waive any fiduciary duty or express or implied duty of the Buyer to the Sellers, including an implied duty of good faith and fair dealing; provided, that, the Buyer will not take any action in bad faith for the sole purpose of reducing the amount of its payment obligations under this Section 1.7.

**1.8 Sales Taxes; Transfer Taxes.** The Buyer will bear and pay any Transfer Taxes (other than VAT described in Section 1.4 hereof) that may become payable in connection with the sale of the Purchased Assets to the Buyer or its designated affiliates or in connection with any of the other Transactions. Each party shall use reasonable efforts to avail itself of any available exemptions from any such Taxes, and to cooperate with the other parties in providing any information and documentation that may be necessary to obtain such exemptions.

**1.9 Withholding.** The Buyer will pay the Purchase Price free and clear of all withholding Taxes unless the Buyer is required to deduct and withhold under any provision of any Laws, in which case Buyer will gross up Seller for any such withholding Taxes. Each party shall use reasonable efforts to avail itself of any available exemptions from any such Taxes, and to cooperate with the other parties in providing any information and documentation that may be necessary to obtain such exemptions and/or to mitigate, reduce or eliminate any withholding Tax required to be withheld by the Buyer.

**1.10 Allocation.** During the Interim Period and prior to Closing, the Buyer will propose an allocation of the consideration referred to in this Section 1 amongst the Sellers and the Purchased Assets for Tax purposes consistent with the principles in Exhibit E hereto and will deliver such proposed allocation to the Sellers Representative. The proposed final allocation will be subject to the

review and comment of the Sellers Representative, and the Buyer will consider any comments of Seller Representative to the extent such comments are consistent with this Agreement and the principles in Exhibit E hereto. Any disputes among the parties regarding the allocation shall be resolved in accordance with the principles and procedures set forth in Section 1.5 hereof. Such allocation will be deemed final after approval by the Sellers, which approval will not be unreasonably withheld or delayed, or resolution pursuant to the dispute resolution procedures set forth in Section 1.5 hereof (the “**Allocation**”) and will be conclusive and binding upon the parties, and no Seller will file any Tax Return or other document with, or make any statement or declaration to, any Governmental Authority that is inconsistent with such Allocation unless otherwise required by applicable Law. The Allocation shall be adjusted by the parties accordingly to the extent necessary as adjustments to the Purchase Price are made pursuant to this Agreement. In the event that the Allocation is disputed by any Governmental Authority, the party receiving notice of such dispute will promptly notify the other parties hereto concerning the existence and resolution of such dispute.

### **1.11 Closing.**

(a) **Closing Date.** The closing of the Transactions (the “**Closing**”) will take place through the electronic transmission of signature pages and other required deliveries at 10:00 a.m. Eastern Standard time on the fifth Business Day following full satisfaction or due waiver of all of the closing conditions set forth in Section 8 (other than those to be satisfied at the Closing) or on such other date as is mutually agreed to in writing by the Buyer, the Sellers, and the Stockholders. For purposes of this Agreement, the “**Closing Date**” means the time and date as of which the Closing takes place.

(b) **Deliverables by Buyer.** Subject to fulfillment or waiver of the conditions set forth in Section 8, at or prior to the Closing, the Buyer will deliver (or cause to be delivered) to the Sellers Representative originals, or copies if specified, of the following agreements, documents and other items:

(i) such bills of sale, endorsements, assignments, assumptions, and other documents as may be necessary or appropriate to assign, convey, transfer and deliver to the Buyer or the Buyer’s assignees good and valid title to the Purchased Assets free of any Encumbrances other than those imposed by the Buyer, including, without limitation, Intellectual Property Assignments, lease assignments and local transfer documents in the forms attached as Exhibit F (the “**Transfer Documents**”) properly executed (if necessary) by the Buyer;

(ii) the Closing Purchase Price by wire transfer of immediately available funds to the accounts of the Sellers designated by the Sellers Representative at least five (5) Business Days prior to Closing in accordance with the Allocation;

(iii) the Stock Consideration or, at the Buyer’s option, €800,000 in cash in lieu thereof to such accounts as may be designated by Mr. Korte at least five (5) Business Days prior to Closing;

(iv) the Buyer will repay, or cause to be repaid, on behalf of the Sellers and their respective subsidiaries, all amounts necessary to discharge fully the then-outstanding balance of all Indebtedness identified on Schedule 1.11(b)(iv) by wire transfer of immediately available funds to the account(s) designated by the holders of such Indebtedness;

(v) the Transition Services Agreement executed by the Buyer;

(vi) the Escrow Agreement executed by the Buyer and the Escrow Agent;

(vii) the Adjustment Escrow Amount to the Escrow Agent for deposit into an escrow account established pursuant to the terms of the Escrow Agreement (the “**Escrow Account**”);

(viii) the Indemnification Escrow Amount to the Escrow Agent for deposit into the Escrow Account;

(ix) a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of the Buyer certifying that attached thereto are true and complete copies of all resolutions adopted by the board of directors of the Buyer approving the Transactions and that all such resolutions are in full force and effect; and

(x) a certificate signed by an officer of the Buyer certifying that the conditions specified in Section 8.2 have been satisfied.

(c) **Deliveries by Sellers and Stockholders.** Subject to fulfillment or waiver of the conditions set forth in Section 8, at or prior to the Closing, the Sellers and Stockholders will deliver (or cause to be delivered) to the Buyer originals or copies, if specified, of the following:

(i) evidence of the Internal Asset Transfer and copies of all executed documents related thereto;

- (ii) evidence of the Winspeed IP Transfer and copies of all executed documents related thereto;
- (iii) properly executed Transfer Documents;
- (iv) the Transition Services Agreement executed by the Sellers, Jöllenbeck, First Wise, and Winspeed;
- (v) the Escrow Agreement executed by Roccat;
- (vi) the Korte Employment Agreement executed by Mr. Korte;
- (vii) from each Seller that is a “U.S. person” within the meaning of Section 7701(a)(30) of the Code, an IRS Form W-9 and a properly executed statement for purposes of satisfying the Buyer’s obligations under Treasury Regulation Section 1.1445-2(b)(2) and/or Section 1446(f), if applicable, in the form and substance satisfactory to the Buyer, dated as of the Closing Date;
- (viii) a properly executed IRS Form W-8 from each Seller that is not a “U.S. person” within the meaning of Section 7701(a)(30);
- (ix) the Inventory ready to be transferred in the manner contemplated by, and to the locations set forth in, the Transition Services Agreement or as otherwise specified in writing by the Buyer;
- (x) such other customary instruments of transfer, assumption, filings or documents, in form and substance reasonably satisfactory to Buyer, as may be required to give effect to this Agreement;
- (xi) true and complete copies of all resolutions adopted by the Stockholders approving the Transactions;
- (xii) a certificate signed by an officer of each Seller certifying that the conditions specified in Section 8.1 have been satisfied;
- (xiii) a shareholders resolution of Roccat in the notarial form confirming the conclusion of this agreement;
- (xiv) evidence that the Sellers have used commercially reasonable efforts to implement the GDPR compliance plan attached as Schedule 1.11(c)(xiv);
- (xv) a true and correct listing of each action, filing, and payment that must be taken or made on or before the date that is ninety (90) days after the date hereof in order to maintain each applicable item of Registered IP in full force and effect; and
- (xvi) the unaudited entity level financial statements of the Sellers as of February 28, 2019.

**2. Representations and Warranties of the Sellers.** Each of the Sellers represents and warrants, to and for the benefit of the Buyer Indemnitees, that the statements in this Section 2 are true and correct as of the date of this Agreement and as of the Closing Date, except as set forth in the schedules accompanying this Section 2 (each, a “**Schedule**” and, collectively, the “**Disclosure Schedules**”). Capitalized terms used in the Disclosure Schedules and not otherwise defined therein have the meanings given to them in this Agreement.

**2.1 Due Organization; Capitalization.**

(a) Roccat is a corporation duly organized, validly existing and in good standing under the laws of Germany. Roccat is duly qualified or licensed to transact business and is in good standing as a foreign company in each jurisdiction where the character of its activities requires such qualification, except where the failure to be so qualified, individually or in the aggregate, is not reasonably likely to have an adverse effect on the Business or Purchased Assets.

(b) Each of RST, RAP and RUS (collectively, the “**Roccat Subsidiaries**”) is a duly organized, validly existing and in good standing under the laws of its jurisdiction of formation. Each of the Roccat Subsidiaries is duly qualified or licensed to transact business and is in good standing as a foreign company or as a company with foreign investment, as applicable, in each jurisdiction where the character of its activities requires such qualification, except where the failure to be so qualified, individually or in the aggregate, is not reasonably likely to have an adverse effect on the Business or Purchased Assets.

**2.2 Authority.** Each Seller has full corporate power and authority to enter into this Agreement and the Ancillary Documents to which a Seller is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated

hereby and thereby. The execution and delivery by each Seller of this Agreement and any Ancillary Document to which such Seller is a party, the performance by such Seller of its obligations hereunder and thereunder and the consummation by such Seller of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of such Seller. This Agreement has been duly executed and delivered by each Seller, and (assuming due authorization, execution and delivery by the other parties hereto) this Agreement constitutes a legal, valid and binding obligation of such Seller enforceable against such Seller in accordance with its terms. When each Ancillary Document to which a Seller is or will be a party has been duly executed and delivered by such Seller (assuming due authorization, execution and delivery by each other party thereto), such Ancillary Document will constitute a legal and binding obligation of such Seller enforceable against it in accordance with its terms.

**2.3 Non-Contravention; Consents.** Except as set forth on Schedule 2.3, neither the execution and delivery of any of the Transaction Agreements by the Sellers, nor the consummation or performance of any of the Transactions by the Sellers, will directly or indirectly (with or without notice or lapse of time):

(a) conflict with any provision of the charter, certificate of incorporation, by-laws or other organizational documents of a Seller;

(b) contravene, conflict with or result in a violation of, or give any Governmental Authority or other Person the right to challenge any of the Transactions or to exercise any remedy or obtain any relief under, any Law or any Order to which a Seller or any of the Purchased Assets, is subject; or

(c) except for any statutory rights under section 613a German Civil Code, require the consent, notice or other action by any Person under, conflict with, result in a violation or breach of, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, result in the acceleration of or create in any party the right to accelerate, terminate, modify or cancel any Contract or Permit to which a Seller is a party or by which a Seller or the Business is bound or to which any of the Purchased Assets are subject; or

(d) result in the creation or imposition of any Encumbrance on the Purchased Assets.

No consent, approval, Permit, Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to a Seller in connection with the execution and delivery of this Agreement or any of the Ancillary Documents and the consummation of any of the Transactions. There is no Proceeding that has been commenced against any of the Sellers that challenges, or may have the effect of preventing, delaying, making illegal or otherwise interfering with, any of the Transactions and to the Sellers Knowledge, no such Proceeding has been threatened.

**2.4 Title to Assets; Sufficiency.**

(a) The Sellers own, and have good and valid title to, all of the Purchased Assets (other than assets that are the subject of the Internal Asset Transfer and the Winspeed IP Transfer prior to the transfer contemplated thereby) free and clear of any Encumbrances other than Permitted Encumbrances. Schedule 2.4(a) identifies all of the Purchased Assets that are being leased or licensed to the Sellers, if any, except for the Intellectual Property, which are separately described in Section 2.11 and the corresponding Disclosure Schedules.

(b) Other than the Contracts set forth on Schedule 1.2(b)(iii) and the Excluded Inventory, the Purchased Assets, taken together with the services provided under the Transition Services Agreement, will collectively constitute, as of the Closing Date, all of the properties, rights, interests and other tangible and intangible assets necessary to enable the Buyer to conduct its business in the manner in which the Business is currently being conducted. The Purchased Assets do not consist of any real property or any interest in real property. None of the Excluded Assets are material to the Business.

**2.5 Financial Statements.** The Sellers have delivered to the Buyer the unaudited, pro forma consolidated balance sheets of the Sellers as of May 31, 2018, 2017 and 2016, and the related pro forma, unaudited statements of profits and losses of the balance sheet of the Business as of December 31st, 2018 (the “**Interim Financial Statements**” and together with the Audited Financial Statements, the “**Financial Statements**”). The Financial Statements are accurate and complete in all respects, and present fairly the financial position of the Sellers as of the date thereof and the results of operations. The Financial Statements have been prepared in accordance with German GAAP (*Bilanzrechtsmodernisierungsgesetz – BilMoG*), U.S. GAAP or Taiwanese GAAP standards, as applicable, applied on a consistent basis throughout the period covered.

**2.6 Solvency.** No Seller is now Insolvent and no Seller will be rendered Insolvent by any of the Transactions. No Seller has, at any time, (i) made a general assignment for the benefit of creditors, (ii) filed, or had filed against it, any bankruptcy petition or similar filing, (iii) suffered the attachment or other judicial seizure of all or a substantial portion of its assets, (iv) admitted in writing its inability to pay its debts as they become due, or (v) taken or been the subject of any action that may have an adverse effect on its ability to

comply with or perform any of its covenants or obligations under any of the Transaction Agreements.

**2.7 Accounts Receivable.** The accounts or notes receivable held by Sellers related to the Business, and any security, claim, remedy or other right related to any of the foregoing (“**Accounts Receivable**”): (a) have arisen from bona fide transactions entered into by Sellers involving the sale of goods or the rendering of services in the Ordinary Course of Business consistent with past practice; (b) constitute only valid, undisputed claims of a Seller not subject to claims of set-off or other defenses or counterclaims other than normal cash discounts accrued in the Ordinary Course of Business consistent with past practice; and (c) are collectible in full within 90 days after billing.

**2.8 Inventory.** All inventory, finished goods, raw materials, work in progress, packaging, supplies, parts and other inventories related to the Business (“**Inventory**”) consist of a quality and quantity usable and salable in the Ordinary Course of Business consistent with past practice, except for obsolete, damaged, defective or slow-moving items that have been written off or written down to fair market value or for which adequate reserves have been established (consistent with Exhibit G). All Inventory is free and clear of all Encumbrances, and no Inventory is held on a consignment basis. The quantities of each item of Inventory (whether raw materials, work-in-process or finished goods) are not excessive, but are reasonable in the present circumstances of the Business.

**2.9 Absence Of Changes.** Since December 31, 2018:

(a) there has not been any adverse change in, and no event has occurred that could reasonably be expected to have a material adverse effect on, the condition, assets, liabilities, operations, financial performance, or net income of the Sellers or the Business;

(b) the Sellers have not taken any action that would have required the consent of the Buyer if taken during the Interim Period; and

(c) the Seller has not agreed, committed or offered (in writing or otherwise) to take any of the actions referred to above.

**2.10 Employees; Benefit Plans.**

(a) Schedule 2.10(a) contains a list of all persons who are employees of the Business (“**Business Employees**”) as of the date hereof, including any employee who is on a leave of absence of any nature, paid or unpaid, authorized or unauthorized, and sets forth for each such individual the following: (i) name; (ii) title or position (including whether full-time or part-time); (iii) hire or retention date; (iv) current annual base compensation rate or contract fee; (v) commission, bonus or other incentive-based compensation; and (vi) a description of the statutorily required and fringe benefits provided to each such individual as of the date hereof. All compensation, including wages, commissions, bonuses, stock option or grant, other compensation, social insurances and pension, contributable for and/or payable to all Business Employees for services performed, except for bonuses, commissions and other compensation with an assessment period which has not ended on or prior to the date hereof have been paid in full and there are no outstanding agreements, understandings or commitments of Sellers with respect to any compensation, commissions or bonuses.

(b) Sellers are not, and have never been, a party to, bound by, or negotiating any collective bargaining agreement or other Contract with a union, works council or labor organization (collectively, “**Union**”), and Sellers have not been approached by, had contact with, or negotiated with any Union representing or purporting to represent any Business Employee, and, to the Sellers Knowledge, no Union or group of Business Employees is seeking or has sought to organize Business Employees for the purpose of collective bargaining. There has never been, nor has there been any threat of, any strike, slowdown, work stoppage, lockout, concerted refusal to work overtime or other similar labor disruption or dispute affecting the Business or any Business Employees.

(c) Sellers are and have been in compliance with all applicable Laws pertaining to employment and employment practices to the extent they relate to Business Employees, including all Laws relating to labor relations, equal employment opportunities, fair employment practices, employment discrimination, harassment, retaliation, reasonable accommodation, disability rights or benefits, immigration, wages, hours, overtime compensation, child labor, hiring, promotion and termination of employees, working conditions, break periods, privacy, health and safety, workers compensation, leaves of absence, paid sick leave, unemployment insurance, labor insurance, required health insurance and pension contribution. All individuals characterized and treated by Sellers as consultants or independent contractors of the Business are properly treated as independent contractors under all applicable Laws. There are no Proceedings against a Seller pending, or to the Sellers Knowledge, threatened to be brought or filed, by or with any Governmental Authority or arbitrator in connection with the employment of any current or former Business Employee or applicant of the Business, including, without limitation, any charge, investigation or claim relating to unfair labor practices, equal employment opportunities, fair employment practices, employment discrimination, harassment, retaliation, reasonable accommodation, disability rights or benefits, immigration, wages, hours, overtime compensation, employee classification, child labor, hiring, promotion and termination of employees, working conditions, meal and break periods, privacy, health and safety, workers compensation, leaves of

absence, paid sick leave, unemployment insurance, labor insurance, required health insurance, pension contribution or any other employment related matter arising under applicable Laws.

(d) Schedule 2.10(d) contains a true and complete list of each pension, benefit, labor insurance, required health insurance, retirement, compensation, employment, consulting, profit-sharing, deferred compensation, incentive, bonus, performance award, phantom equity, stock or stock-based, change in control, retention, severance, vacation, paid time off (PTO), medical, vision, dental, disability, welfare, cafeteria, fringe-benefit and other similar agreement, plan, policy, program or arrangement (and any amendments thereto), in each case whether or not reduced to writing and whether funded or unfunded, which is or has been maintained, sponsored, contributed to, or required to be contributed to by a Seller for the benefit of any Business Employee, officer or director of the Business or any spouse or dependent of such individual, or under which a Seller has or may have any Liability, or with respect to which the Buyer or any of its Affiliates would reasonably be expected to have any Liability, contingent or otherwise (each, a “**Benefit Plan**”).

(e) With respect to each Benefit Plan, Sellers have made available to the Buyer accurate, current and complete copies of each of the following: (i) where the Benefit Plan has been reduced to writing, the plan document together with all amendments; (ii) where the Benefit Plan has not been reduced to writing, a written summary of all material plan terms; (iii) where applicable, copies of any trust agreements or other funding arrangements, custodial agreements, insurance policies and contracts, administration agreements and similar agreements, and investment management or investment advisory agreements, now in effect or required in the future as a result of the transactions contemplated by this Agreement or otherwise; (iv) copies of any summary plan descriptions, summaries of material modifications, summaries of benefits and coverage, employee handbooks and any other written communications (or a description of any oral communications) relating to any Benefit Plan; (v) actuarial valuations and reports related to any Benefit Plans with respect to the most recently completed plan years; and (vi) copies of material notices, letters or other correspondence from any Governmental Authority relating to a Benefit Plan.

(f) Each Benefit Plan and any related trust has been established, administered and maintained in accordance with its terms and in compliance with all applicable Law. All benefits, contributions and premiums relating to each Benefit Plan have been timely paid in accordance with the terms of such Benefit Plan and all applicable Laws and accounting principles, and all benefits accrued under any unfunded Benefit Plan have been paid, accrued or otherwise adequately reserved to the extent required by, and in accordance with IFRS.

(g) There is no pending or, to Sellers Knowledge, threatened Proceeding relating to a Benefit Plan (other than routine claims for benefits), and no Benefit Plan has been the subject of an examination or audit by a Governmental Authority or the subject of an application or filing under, or is a participant in, an amnesty, voluntary compliance, self-correction or similar program sponsored by any Governmental Authority.

(h) There has been no amendment to, announcement by a Seller or any of its Affiliates relating to, or change in employee participation or coverage under, any Benefit Plan or collective bargaining agreement that would increase the annual expense of maintaining such plan above the level of the expense incurred for the most recently completed fiscal year (other than on a de minimis basis) with respect to any Business Employee, director, consultant or independent contractor of the Business, as applicable. Neither Sellers nor any of their Affiliates has any commitment or obligation or has made any representations to any Business Employee, director or officer, of the Business, whether or not legally binding, to adopt, amend, modify or terminate any Benefit Plan or any collective bargaining agreement.

(i) Neither the execution of this Agreement nor any of the Transactions will (either alone or upon the occurrence of any additional or subsequent events): (i) entitle any Business Employee, director or officer of the Business to severance pay or any other payment; (ii) accelerate the time of payment, funding or vesting, or increase the amount of compensation (including stock-based compensation) due to any such individual; or (iii) increase the amount payable under or result in any other material obligation pursuant to any Benefit Plan.

## **2.11 Intellectual Property.**

(a) Products and Services. Schedule 2.11(a) accurately identifies and describes each Seller Product designed, developed, manufactured, marketed, distributed, provided, licensed, or sold as of the date of this Agreement.

(b) Seller Owned IP. Schedule 2.11(b)(i) accurately identifies: (A) each item of Registered IP; (B) the jurisdiction in which such item of Registered IP has been registered or filed and the applicable registration or serial number; and (C) any other Person that has an ownership interest (if any) in such item of Registered IP and the nature of such ownership interest. Schedule 2.11(b)(ii) accurately identified each item of unregistered Intellectual Property material to the operation of the Business. The Sellers have made available to the Buyer complete and accurate copies of all applications, correspondence with any Governmental Authority, and other material documents related to each such item of Registered IP, and at the Buyer’s request, the Sellers will cooperate in good faith to

facilitate such transfer of documents.

(c) Inbound Licenses. Schedule 2.11(c) accurately identifies: (i) each Contract pursuant to which any Intellectual Property is or has been licensed, sold, assigned, or otherwise conveyed or provided to a Seller (other than (A) inventions assignments and similar agreements between a Seller and its employees on such Seller's standard form thereof (copies of which have been provided to Buyer), and (B) non-exclusive "shrink wrap," or "click wrap" or similar generally commercially available end user licenses on standard terms to third-party software for the Seller's internal use, that is not customized, incorporated into, or used in the development, manufacturing, testing, distribution, maintenance, or support of, any Seller Product and that is not otherwise material to such the Business that in each case, have incurred total license or other fees of less than \$50,000 (such licenses in (B) collectively, "**Off-the-Shelf Licenses**")); and (ii) whether the licenses or rights granted to the applicable Seller(s) in each such Contract are exclusive or non-exclusive.

(d) Outbound Licenses. Other than the license for the use of the name "ROCCAT" from Roccat to Roccat Studio Games, which will be terminated prior to Closing, and for the use of the trademarks "ROCCAT" and "BinBao" from Roccat to Winspeed as a supplier for the use with further suppliers and as a distributor pursuant to a Contract that is terminable by Roccat at any time without payment or other consideration due, there exists no Contract pursuant to which any Person has been granted any license under, or otherwise has received or acquired any right (whether or not currently exercisable) or interest in, any Seller IP, neither exclusive nor non-exclusive.

(e) The Contracts set forth on Schedule 2.11(c) and Schedule 2.11(d), together with the employee agreements described in Section 2.11(c)(i)(A) and the Off-the-Shelf Licenses are collectively referred to as the "**Business IP Agreements**." Each Business IP Agreement is valid and binding on the applicable Seller in accordance with its terms and is in full force and effect. The applicable Seller is not, and to the Sellers Knowledge, no other party thereto is in breach of or default under (or is alleged to be in breach of or default under), or has provided or received any notice of breach or default of or any intention to terminate, any Business IP Agreement. To the Sellers Knowledge, no event or circumstance has occurred that, with notice or lapse of time or both, would constitute an event of default under any Business IP Agreement or result in a termination thereof or would cause or permit the acceleration or other changes of any right or obligation or the loss of any benefit thereunder. Except for the Business IP Agreements, none of the Sellers are bound by, and no Seller IP is subject to, any Contract containing any covenant or other provision that in any way limits or restricts the ability of the Sellers to use, exploit, assert, or enforce any Seller IP anywhere in the world.

(f) Royalty Obligations. Schedule 2.11(f) contains a complete and accurate list and summary of all royalties, fees, commissions, and other amounts that may be payable by the Sellers (irrespective of whether or not the Sellers have paid, is paying or intends to pay such amounts) to any other Person (other than sales commissions paid to employees according to each Seller's standard commissions plan) upon or for the manufacture, sale, or distribution of any Seller Product or the use of any Seller IP. For the avoidance of doubt, Schedule 2.11(f) does not require the disclosure of any commissions payable for distribution services by the Sellers to the extent that such agreement does not provide for the payment of any commissions or royalties with respect to any Intellectual Property.

(g) Ownership Free and Clear. Except for the Seller Owned IP, none of the Sellers own any Intellectual Property necessary to carry out the Business. Except for the Excluded Assets and the Seller Owned IP, none of the Sellers own any Intellectual Property related to the Business. The Sellers solely and exclusively own all right, title (including, with respect to the Registered IP, record title), and interest to and in all of the Seller Owned IP free and clear of any Encumbrances (other than licenses and rights granted pursuant to the Contracts identified in Schedule 2.11(d)), and have a valid right to use all other Seller IP. Each of the Sellers has taken reasonable and necessary steps to protect and maintain the proprietary nature of each item of Seller Owned IP. Without limiting the generality of any of the foregoing:

(i) Employees and Contractors. Each Person who is or was an employee or contractor of the Sellers and who is or was involved in the creation or development of any Seller Product or Seller IP has signed a valid, enforceable agreement containing an assignment of Intellectual Property pertaining to such Seller Product or Seller IP to the Seller and confidentiality provisions protecting the Seller IP. No current or former Affiliate, stockholder, member, officer, director, or employee of a Seller has any claim, right (whether or not currently exercisable), or interest to or in any Seller IP or owns or licenses any Intellectual Property that constitutes or that is used in, needed for the conduct of or material to, or that otherwise relates to the Business of the Sellers as presently conducted or as proposed to be conducted. No Business Employee is (a) bound by or otherwise subject to any Contract restricting such Business Employee from performing his/her duties for such Seller or (b) in breach of any Contract with any former employer or other Person concerning Intellectual Property or confidentiality due to his/her activities as an employee of such Seller.

(ii) Government Rights. No funding, facilities, or personnel of any Governmental Authority or any public or private university, college, or other educational or research institution were used, directly or indirectly, to develop or create, in whole or in part, any Seller IP.



(iii) Protection of Proprietary Information. The Sellers have taken reasonable steps to maintain the confidentiality of and otherwise protect and enforce its rights in all of the Trade Secrets included in the Seller Owned IP (and the Trade Secrets of any other Person to whom the applicable Seller has an obligation to maintain the Trade Secrets of such Person as confidential), including any such confidential and proprietary information pertaining to the Sellers, the Business, or any Seller Product.

(iv) Past IP Dispositions. Except as set forth on Schedule 2.11(g)(iv), no Seller has assigned or otherwise transferred ownership of, or agreed to assign or otherwise transfer ownership of, and Intellectual Property to any other Person.

(h) Valid and Enforceable. All Seller Owned IP, and to the Sellers Knowledge, all other Seller IP, is valid, subsisting, and enforceable. Without limiting the generality of the foregoing:

(i) Misuse and Inequitable Conduct. No Seller has engaged in patent or copyright misuse or any fraud or inequitable conduct in connection with any Seller IP (including any that is Registered IP).

(ii) Trademarks. To the Sellers Knowledge, no Trademark owned, used, or applied for by any of the Sellers infringes, conflicts or interferes with any Trademark owned, used, or applied for by any other Person within Europe, the US, and Asia, and to the Sellers Knowledge, any Trademark owned, used, or applied for by any other Person outside of Europe, the US, and Asia. No event or circumstance (including a failure to exercise adequate quality controls and an assignment in gross without the accompanying goodwill) has occurred or exists that has resulted in, or could reasonably be expected to result in, the abandonment of any Trademark (whether registered or unregistered) owned, used, or applied for by the Sellers.

(iii) Legal Requirements and Deadlines. To the Sellers Knowledge, each item of Registered IP is and at all times has been in compliance with all Laws and all filings, payments, and other actions required to be made or taken to maintain such item of Seller Owned IP in full force and effect have been made by the applicable deadline. No application for any Registered IP filed by or on behalf of a Seller has been abandoned, allowed to lapse, or rejected (other than a rejection of claims in a patent application pursuant to an Office Action issued by the United States Patent & Trademark Office (or foreign equivalent) in the normal course of prosecution of such patent application).

(iv) Interference Proceedings and Similar Claims. No interference, opposition, reissue, reexamination, or other Proceeding is or has been pending or, to the Sellers Knowledge, threatened, in which the scope, validity, or enforceability of any Seller IP is being, has been or could reasonably be expected to be contested or challenged. To the Sellers Knowledge, there is no basis for a claim that any Seller IP is invalid or unenforceable, other than those raised in office actions or similar documents issued by the U.S. Patent and Trademark Office (or foreign equivalent) in the normal course of prosecution of the applicable Registered IP.

(i) Third-Party Infringement of Seller IP. To the Sellers Knowledge, no Person has infringed, misappropriated, or otherwise violated, and no Person is currently infringing, misappropriating, or otherwise violating, any Seller IP. Schedule 2.11(i) accurately identifies (and the Sellers have provided to the Buyer a complete and accurate copy of) each letter or other written or electronic communication or correspondence that has been sent or otherwise delivered by or to the Sellers or any representative of the Sellers regarding any actual, alleged, or suspected infringement or misappropriation of any Seller IP, and provides a brief description of the current status of the matter referred to in such letter, communication, or correspondence.

(j) Effects of This Transaction. The Seller IP owned or used by any of the Sellers immediately prior to the Closing will be owned or available for use (as applicable) by the Buyer on identical terms and conditions immediately after the Closing. Neither the execution, delivery, or performance of this Agreement (or any of the Ancillary Documents) nor the consummation of any of the transactions contemplated by this Agreement (or any of the Ancillary Documents) will, with or without notice or lapse of time, result in, or give any other Person the right or option to cause or declare, (i) a loss of, or Encumbrance on, any Seller IP; (ii) the release, disclosure, or delivery of any Seller IP by or to any escrow agent or other Person; or (iii) the grant, assignment, or transfer to any other Person of any license or other right or interest under, to, or in any of the Seller IP. The Seller Owned IP together with the Intellectual Property licensed by Sellers under the Business IP Agreements set forth in Schedule 2.11(c) constitute all Intellectual Property used in or necessary for the conduct of the Business as currently conducted and proposed to be conducted.

(k) No Infringement of Third-Party IP Rights. To the Sellers Knowledge, no Seller has ever infringed (directly, contributorily, by inducement, or otherwise), misappropriated, or otherwise violated or made unlawful use of any Intellectual Property of any other Person or engaged in unfair competition. To the Sellers Knowledge, no Seller Product, and no method or process used in the manufacturing of any Seller Product, infringes, violates, or makes unlawful use of any Intellectual Property of, or contains any Intellectual Property misappropriated from, any other Person. To the Sellers Knowledge there is no legitimate basis for a claim that a Seller or any Seller Product has infringed or misappropriated any Intellectual Property of another Person or engaged in unfair competition or that any Seller Product, or any method or process used in the manufacturing of any Seller Product, infringes, violates, or

makes unlawful use of any Intellectual Property of, or contains any Intellectual Property misappropriated from, any other Person. Without limiting the generality of the foregoing:

(i) Infringement Claims. No infringement, misappropriation, or similar claim or Proceeding is pending or, to Sellers Knowledge, threatened against the Sellers or against any other Person who is or may be entitled to be indemnified, defended, held harmless, or reimbursed by the Sellers with respect to such claim or Proceeding. No Seller has ever received any notice or other communication (in writing or otherwise) relating to any actual, alleged, or suspected infringement, misappropriation, or violation by such Seller, any of its directors, employees or agents, or any Seller Product of any Intellectual Property of another Person, including any letter or other communication suggesting or offering that such Seller obtain a license to any Intellectual Property of another Person.

(ii) Other Infringement Liability. The Sellers are not bound by any Contract to indemnify, defend, hold harmless, or reimburse any other Person with respect to, or otherwise assumed or agreed to discharge or otherwise take responsibility for, any existing or potential intellectual property infringement, misappropriation, or similar claim (other than indemnification provisions in standard forms of Contracts of Seller previously provided to the Buyer).

(iii) Infringement Claims Affecting Inbound IP. To the Sellers Knowledge, no claim or Proceeding involving any Intellectual Property licensed to the Sellers is pending or has been threatened, except for any such claim or Proceeding that, if adversely determined, would not adversely affect (a) the use or exploitation of such Intellectual Property by any of the Sellers, or (b) the design, development, manufacturing, marketing, distribution, provision, licensing or sale of any Seller Product.

(l) Bugs. None of the software (including firmware and other software embedded in hardware devices) owned, developed (or currently being developed), used, marketed, distributed, licensed, or sold by the Seller (including any software that is part of, is distributed with, or is used in the design, development, manufacturing, production, distribution, testing, maintenance, or support of any Seller Product, but excluding any third-party software that is licensed pursuant to any Off-the-Shelf License) (collectively, "**Seller Software**") (i) contains any bug, defect, or error (including any bug, defect, or error relating to or resulting from the display, manipulation, processing, storage, transmission, or use of data) that materially and adversely affects the use, functionality, or performance of such Seller Software or any product or system containing or used in conjunction with such Seller Software; or (ii) fails to comply in any material respect with any applicable warranty or other contractual commitment relating to the use, functionality, or performance of such Seller Software or the Sellers have provided to the Buyer a complete and accurate list of all known bugs, defects, and errors in each version of the Seller Software.

(m) Harmful Code. No Seller Software contains any "back door," "drop dead device," "time bomb," "Trojan horse," "virus," or "worm" (as such terms are commonly understood in the software industry) or any other code designed or intended to have, or capable of performing, any of the following functions: (i) disrupting, disabling, harming, or otherwise impeding in any manner the operation of, or providing unauthorized access to, a computer system or network or other device on which such code is stored or installed; or (ii) damaging or destroying any data or file without the user's consent.

(n) Seller Software: Source Code. All Seller Software, and software pursuant to Off-the-Shelf Licenses used by any of the Sellers is properly licensed and is not a "bootleg" version or copy. To the Sellers Knowledge, the Seller Software and other information technology used to operate the Business: (A) are in satisfactory working order and are scalable to meet current and reasonably anticipated capacity; (B) have appropriate security, back-ups, disaster recovery arrangements, and hardware and software support and maintenance to minimize the risk of material error, breakdown, failure, or security breach occurring and to ensure if such event does occur it does not cause a material disruption to the operation of the Business; and (C) have not suffered any material error, breakdown, failure, or security breach in the last twenty-four (24) months that has caused disruption or damage to the operation of the Business or that was potentially reportable to any Governmental Authority.

(o) Source Code.

(i) No source code for any Seller Software has been delivered, licensed, or made available to any escrow agent or other Person who is not, as of the date of this Agreement, an employee of a Seller. No Seller has a duty or obligation (whether present, contingent, or otherwise) to deliver, license, or make available the source code for any Seller Software to any escrow agent or other Person. To the Sellers Knowledge no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) will, or could reasonably be expected to, result in the delivery, license, or disclosure of the source code for any Seller Software to any other Person.

(ii) To the Sellers Knowledge, Schedule 2.11(o)(ii) accurately identifies and describes (A) each item of Open Source Code that is contained in, distributed with, or used in the development of the Seller Products or from which any part of any Seller Product is derived, (B) the applicable license terms for each such item of Open Source Code, and (C) the Seller

Product or Seller Products to which each such item of Open Source Code relates.

(iii) No Seller Product contains, is derived from, is distributed with, or is being or was developed using Open Source Code that is licensed under any terms that: (A) impose or could impose a requirement or condition that any Seller Product or part thereof (I) be disclosed or distributed in source code form, (II) be licensed for the purpose of making modifications or derivative works, or (III) be redistributable at no charge; or (B) otherwise impose or could impose any material limitation, restriction, or condition on the right or ability of the Sellers to use or distribute any Seller Product.

## **2.12 Tax Matters.**

(a) The Sellers have timely filed all Tax Returns required to be filed under applicable Laws related to the Purchased Assets and the Business. All such Tax Returns were correct and complete in all material respects and have been prepared in substantial compliance with all applicable Laws. All Taxes owing by the Sellers with respect to the Purchased Assets and the Business, whether or not shown on any Tax Return, have been timely paid in accordance with applicable Law. No Seller is currently the beneficiary of any extension of time within which to file any Tax Return. No claim has ever been received by a Seller from a Governmental Authority in a jurisdiction where such Seller does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. There are no Encumbrances for Taxes (other than Taxes not yet due and payable) upon any of the Purchased Assets.

(b) Each Seller has timely withheld and paid all material Taxes required to have been withheld and paid in connection with any amounts paid to any Business Employee, creditor, stockholder, or other third party and has timely complied with all information reporting requirements in respect thereof.

(c) None of the Assumed Liabilities is a Contract or other obligation that will, or could reasonably be expected to, give rise directly or indirectly to payment of any amount that would not be deductible pursuant to Section 280G of the Code. No representation or covenant made pursuant to this [Section 2.12\(c\)](#) is intended to guarantee the existence of any Tax attribute of the Purchased Assets or the Business for any taxable period (or portion thereof) beginning after the Closing Date, as determined pursuant to [Section 6.7\(b\)](#) hereof.

(d) No Seller has been a member of any affiliated group filing a consolidated U.S. federal income Tax Return (or comparable state, local or non-U.S. consolidated, joint or unitary state income Tax Return). Neither the Sellers nor the Stockholder has any liability for the Taxes of any Person under Treasury Regulations Section 1.1502 – 6 (or any similar provision of state, local or foreign law), as a transferee or successor, by Contract or otherwise. None of the Purchased Assets of a Seller that is a “foreign person” (within the meaning of Section 1.1445-2(b)(2) of the Treasury Regulations) constitutes a “United States real property interest” within the meaning of Section 897(c) of the Code or an interest in a partnership conducting a trade or business within the United States.

(e) There are no agreements or consents currently in effect for the waiver of any statute of limitations or extension of time with respect to an assessment or collection of any material Taxes related to the Purchased Assets or the Business, other than an extension arising out of an extension of the due date for filing a Tax Return.

(f) There are no examinations, audits, actions, proceedings, investigations, disputes, assessments or claims pending regarding Taxes of the Business or the Purchased Assets that would reasonably be expected to result in a material increase in Taxes with respect to the Business or the Purchased Assets for any taxable period ending after the Closing Date.

## **2.13 Material Contracts.**

(a) [Schedule 2.13\(a\)](#) identifies each Contract to which a Seller is party or by which the Purchased Assets are or may become bound, that is related to the Business and:

(i) that requires a payment by any party in excess of, or a series of payments that in the aggregate exceed, \$50,000 per annum;

(ii) pursuant to which any Seller has made or will be required to make loans or advances, or has or will have incurred Indebtedness, in an amount equal to or greater than \$50,000 or has become a guarantor or surety or pledged its credit for or otherwise become responsible with respect to any undertaking of another Person;

(iii) that limits, in any material respect, the ability of any of the Sellers or any of their Affiliates to engage in any line of business or compete with any Person or in any area;

(iv) that has as a counterparty any Governmental Authority;

(v) that is a lease of real property;

(vi) that is a lease or similar Contract relating to any tangible personal property owned by any third party involving payment of more than \$50,000 per annum (unless terminable without payment, other Liability, forfeit or transfer upon no more than sixty (60) days' notice);

(vii) that contains outstanding obligations relating to the settlement of any Proceeding;

(viii) that is with a Related Party (other than any such Contract that is an employment agreement previously provided to the Buyer or is for compensation in the Ordinary Course of Business to such Person);

(ix) that cannot be terminated (including by the Buyer after the Closing) without the incurrence of any payment, other Liability, forfeit or transfer, within thirty (30) days of the date of notice of termination;

(x) that binds any party to any exclusive business arrangements, including any sole source agreements;

(xi) that was not entered into in the Ordinary Course of Business;

(xii) that is necessary to the operation of the Business or that is otherwise material to the Business; or

(xiii) that is related to Benefit Plans.

(b) The Sellers have delivered to the Buyer accurate and complete copies of all such Contracts identified in Schedule 2.13(a), including all amendments thereto, but excluding any Contracts with consultants of the Sellers, which such Contracts shall be deemed Excluded Contracts. Each such Contract is in full force and effect and constitutes a legal, valid and binding obligation of the applicable Seller and, to the Sellers Knowledge, each other party thereto, and is enforceable against the applicable Seller and, to the Sellers Knowledge, each such other party, in accordance with its terms.

(c) Except as set forth in Schedule 2.13(c): (i) no Seller has violated or breached, or declared or committed any default under, any Contract required to be identified in Schedule 2.13(a), and, to Sellers Knowledge, no other Person has violated or breached, or declared or committed any default under, any such Contract; (ii) to the Sellers Knowledge, no event has occurred, and no circumstance or condition exists, that might (with or without notice or lapse of time) (A) result in a violation or breach of any of the provisions of any such Contract, (B) give any Person the right to declare a default or exercise any remedy under any such Contract, (C) give any Person the right to accelerate the maturity or performance of any such Contract, or (D) give any Person the right to cancel, terminate or modify any such Contract; (iii) no Seller has received any notice or other communication (in writing or otherwise) regarding any actual, alleged, possible or potential violation or breach of, or default under, any such Contract; and (iv) no Seller has waived any right under any such Contract. No Seller has guaranteed or otherwise agreed to cause, insure or become liable for, and no Seller has never pledged any of its assets to secure, the performance or payment of any obligation or other Liability of any other Person. The performance by the Sellers of the Contracts required to be identified in Schedule 2.13(a) have not resulted in any violation of or failure to comply with any Law. No Person is renegotiating, or has the right to renegotiate, any amount paid or payable to a Seller pursuant to any Contracts required to be identified in Schedule 2.13(a). To the Sellers Knowledge, no party to a Contract required to be identified in Schedule 2.13(a) could reasonably be expected to object to (X) the assignment to the Buyer of any right under such Contract or (Y) the delegation to or performance by the Buyer of any obligation under such Contract.

**2.14 Sale of Products.** Except as set forth in Schedule 2.14, no product manufactured or sold by the Sellers has been the subject of any recall or other similar action or any product Liability or similar claim for injury to a Person or property which arises out of or is based upon any express or implied representation, warranty, agreement or guaranty, or by reason of the improper performance or malfunctioning of a product, improper design or manufacture, failure to adequately package, label or warn of hazards or other related product defects of any products at any time manufactured or sold or any service; and, to the Sellers Knowledge, no event has occurred, and no condition or circumstance exists, that might (with or without notice or lapse of time) give rise to or serve as a basis for any such recall or other similar action relating to any such product.

### **2.15 Customers and Suppliers.**

(a) Schedule 2.15(a) sets forth with respect to the Business (i) each customer who has paid aggregate consideration to the Sellers, in the aggregated, for goods or services rendered in an amount greater than or equal to €500,000 in the most recent fiscal year (collectively, the “**Material Customers**”); and (ii) the amount of consideration paid by each Material Customer during such periods. No Seller has received any notice, and has no reason to believe, that any of the Material Customers has ceased, or intends to cease after the Closing, to use the goods or services of the Business or to otherwise terminate or materially reduce its relationship with the Business.

(b) Schedule 2.15(b) sets forth with respect to the Business (i) each supplier to whom the Sellers, in the aggregate,

have paid consideration for goods or services rendered in an amount greater than or equal to €500,000 in most recent fiscal year (collectively, the “**Material Suppliers**”); and (ii) the amount of purchases from each Material Supplier during such periods. No Seller has received any notice, and has no reason to believe, that any of the Material Suppliers has ceased, or intends to cease, to supply goods or services to the Business or to otherwise terminate or materially reduce its relationship with the Business.

**2.16 Compliance with Laws; Permits.** Each Seller has complied, and is now complying, with all Laws applicable to the conduct of the Business as currently conducted or the ownership and use of the Purchased Assets. Schedule 2.16 identifies each Permit that is held by a Seller. The Sellers have delivered to the Buyer accurate and complete copies of all of the Permits identified in Schedule 2.16, including all renewals thereof and all amendments thereto. Each Permit identified or required to be identified in Schedule 2.16 is valid and in full force and effect. Each Seller is and has at all times been in full compliance with all of the terms and requirements of each Permit applicable to such Seller and identified or required to be identified in Schedule 2.16. To the Sellers Knowledge, no event has occurred, and no condition or circumstance exists, that might (with or without notice or lapse of time) (a) constitute or result directly or indirectly in a violation of or a failure to comply with any term or requirement of any Permit identified or required to be identified in Schedule 2.16, or (b) result directly or indirectly in the revocation, withdrawal, suspension, cancellation, termination or modification of any Permit identified or required to be identified in Schedule 2.16. The Permits identified in Schedule 2.16 constitute all of the Permits necessary (x) to enable the Sellers to operate the Business in the manner in which the Business is currently being conducted and in the manner in which such Business is proposed to be conducted, and (y) to permit the Sellers to own and use their assets in the manner in which they are currently owned and used and in the manner in which they are proposed to be owned and used. The Sellers have delivered to the Buyer an accurate and complete copy of each report, study, survey or other document to which any of the Sellers has access that addresses or otherwise relates to the compliance of the Sellers with, or the applicability to the Sellers of, any Law. To Sellers Knowledge, no Governmental Authority has proposed or is considering any Law that, if adopted or otherwise put into effect, (i) may have an adverse effect on the business, condition, assets, liabilities, operations, financial performance, net income or prospects of the Sellers or on the ability of the Sellers to comply with or perform any covenant or obligation under any of the Transaction Agreements, or (ii) may have the effect of preventing, delaying, making illegal or otherwise interfering with any of the Transactions.

**2.17 Environmental and Safety Laws.** No Seller is in violation of or has violated any applicable Law relating to the environment or occupational health and safety, and no material expenditures are or will be required in order to comply with any such Law.

**2.18 Data Privacy and Information Security.**

(a) In connection with the collection, storage, transfer (including, without limitation, any transfer across national borders), disclosure, and/or use of any information that identifies or is reasonably likely to identify an individual, including, without limitation, any customers, prospective customers, employees and/or other third parties (collectively “**Personal Information**”), the Sellers are and have been in compliance with all Laws, the requirements of any contract or other agreements to which a Seller is a party, and all applicable industry or self-regulatory standards which a Seller has agreed to comply with or otherwise represents that it complies.

(b) Each Seller has implemented and maintains commercially reasonable physical, technical, organizational and administrative security measures and policies to protect the confidentiality, availability, and integrity of all Personal Information, such Seller’s systems, and other confidential or sensitive information. Each Seller has ensured that any individual or Entity performing services for such Seller has implemented and maintained reasonable and appropriate physical, technical, organizational, and administrative security measures to preserve the confidentiality, availability, and integrity of the all Personal Information, such Seller’s systems, and other confidential or sensitive information. No Seller has experienced any (i) unauthorized access to or material unavailability of any of the systems or information technology assets maintained by or for such Seller, or (ii) actual or reasonably suspected unauthorized access to, or acquisition, handling, disclosure, or other processing of any Personal Information maintained or processed by or for such Seller (each, a “**Security Incident**”). Each Seller is and has been in compliance in all material respects with all Laws relating to data loss, theft and breach of security notification obligations. Each Seller has promptly (A) taken appropriate actions to address all known or suspected Security Incidents and (B) remedied the cause of any Security Incidents.

(c) Each Seller has in the previous five (5) years, periodically and regularly, conducted reasonable assessments to identify security vulnerabilities in its products, services, and software. To each Seller’s Knowledge, no security vulnerabilities exist in any of such Seller’s services, products, or software implemented by such Seller or any of its customers, which present a material risk of a Security Incident.

(d) Each Seller has implemented and maintains external-facing and internal privacy policies, procedures, representations and promises relating to the collection, use, storage, disclosure, transmission, disposal, protection, and other processing of Personal Information and other confidential or sensitive data (the “**Privacy Policies**”). Accurate, current copies of all Privacy Policies have been provided and the privacy and information security practices of each Seller and the Business conform, and at times

have conformed, in all material respects, to the respective Privacy Policies. Each of the Sellers has at all times: (i) complied with all applicable Laws, as well as its own Privacy Policies, including any obligations under Title V of the Gramm-Leach-Bliley Act, as amended (15 U.S.C. §§ 6801 et seq.), the Fair Credit Reporting Act, as amended (15 U.S.C. §§ 1681 et seq.), and the European Union's General Data Protection Regulation, as well as any laws and regulations in the EEA Member States promulgated under any of the foregoing ("GDPR"); and (ii) registered with applicable data protection agencies as may be required.

(e) With respect to any Personal Information obtained by third parties other than the individuals to whom the Personal Information pertains, each Seller has conducted appropriate due diligence and implemented contractual obligations ensuring that such third parties collect, use, process, and disclose such Personal Information in compliance with all applicable Laws and the third party's privacy notices, statements and representations, and that such third parties have taken all necessary steps to secure appropriate rights to such Personal Information to enable such Seller to collect, use, disclose, and process such Personal Information for such Seller's general and specific business purposes.

(f) No person or Entity (including any foreign or domestic Governmental Authority) has made or commenced any complaint, order, action, hearing, claim, investigation, charge, inquiry, or demand relating to any Seller's practices with respect to (i) the collection, use, retention, disclosure, transfer, storage, disposal, or other processing of Personal Information by such Seller or for which such Seller is responsible; or (ii) the security, confidentiality, availability, or integrity of Personal Information.

**2.19 Insurance.** Schedule 2.19 sets forth (a) a true and complete list of all current policies or binders of fire, liability, product liability, umbrella liability, real and personal property, workers compensation, vehicular, fiduciary liability and other casualty and property insurance maintained by any Seller or its Affiliates and relating to the Business, the Purchased Assets or the Assumed Liabilities (collectively, the "**Insurance Policies**"); and (b) with respect to the Business, the Purchased Assets or the Assumed Liabilities, a list of all pending claims and the claims history for the Sellers. There are no claims related to the Business, the Purchased Assets or the Assumed Liabilities pending under any such Insurance Policies as to which coverage has been questioned, denied or disputed or in respect of which there is an outstanding reservation of rights. No Seller or any of their respective Affiliates has received any written notice of cancellation of, premium increase with respect to, or alteration of coverage under, any of such Insurance Policies. All such Insurance Policies (x) are in full force and effect and enforceable in accordance with their terms; (y) are provided by carriers who are financially solvent; and (z) have not been subject to any lapse in coverage. The Insurance Policies are of the type and in the amounts customarily carried by Persons conducting a business similar to the Business and are sufficient for compliance with all applicable Laws and Contracts to which any Seller is a party or by which any Seller is bound.

**2.20 Related Party Transactions.** No securityholder, officer, director, principal, manager or employee of a Seller or any of their respective Affiliates (or any relative thereof), Related Person or any other Person in which any securityholder, officer, director, principal, manager or employee of a Seller has a financial interest (each, a "**Related Party**"): (a) has any direct or indirect interest of any nature in any of the Purchased Assets; (b) except for employment relationships and the payment of compensation and benefits in the Ordinary Course of Business, is a party to any Contract with any Seller (each a "**Related Party Transaction**"); or (c) possesses, directly or indirectly, any material financial interests in, or is a director, officer, principal, manager or employee of, any Person which is a material client, supplier, customer, lessor, lessee or competitor of the Sellers (other than Winspeed, First Wise and Jöllenbeck). No Seller has made any loans or advances or capital contributions to any Related Party, except advances for travel expenses to officers and employees in the Ordinary Course of Business.

**2.21 Brokers.** Except for CatCap GmbH, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Sellers or the Stockholders.

**3. Representations and Warranties of the Stockholders.** Each of the Stockholders represents and warrants, to and for the benefit of the Buyer Indemnitees, that the statements in this Section 3 are true and correct as of the date of this Agreement and as of the Closing Date.

**3.1 Authority; Binding Nature of Agreements.** Such Stockholder has the right, power, authority, and capacity to enter into and to perform its obligations under each of the Transaction Agreements to which he is or may become a party; and the execution, delivery and performance by the Stockholder of the Transaction Agreements to which he is or may become a party have been duly authorized. This Agreement has been duly executed and delivered by such Stockholder, and (assuming due authorization, execution and delivery by the other parties hereto) this Agreement constitutes a legal, valid and binding obligation of such Stockholder enforceable against such Stockholder in accordance with its terms, subject to (a) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (b) rules of law governing specific enforcement, injunctive relief and other equitable remedies. When each Ancillary Document to which such Stockholder is or will be a party has been duly executed and delivered by such Stockholder (in such Stockholder's capacity as a stockholder of Roccat and assuming due authorization, execution and delivery by each other party thereto), such Ancillary Document will constitute a legal and binding obligation of such Stockholder enforceable against it in accordance with its terms, subject to (a) laws of general application relating to bankruptcy, insolvency and the relief of

debtors, and (b) rules of law governing specific enforcement, injunctive relief and other equitable remedies.

**3.2 Non-Contravention; Consents.** Neither the execution and delivery of any of the Transaction Agreements the Stockholder, nor the consummation or performance of any of the Transactions by the Stockholder, will directly or indirectly (with or without notice or lapse of time):

(a) contravene, conflict with or result in a violation of, or give any Governmental Authority or other Person the right to challenge any of the Transactions or to exercise any remedy or obtain any relief under, any Law or any Order to which the Stockholder is subject (in such Stockholder's capacity as a stockholder of Roccat); or

(b) contravene, conflict with or result in a violation or breach of, or result in a default under, any provision of any Contracts to which the Stockholder is a party.

**3.3 Certain Proceedings.** There is no Proceeding that has been commenced against such Stockholder that challenges, or may have the effect of preventing, delaying, making illegal or otherwise interfering with, any of the Transactions. To the Stockholder's Knowledge, no such Proceeding has been threatened.

**3.4 Discussions.** Neither such Stockholder nor any Representative of such Stockholder is engaged, directly or indirectly, in any discussions or negotiations with any other Person relating to any solicitation or submission of any expression of interest, inquiry, proposal or offer from any Person (other than Buyer) relating to a possible acquisition of any of the Sellers or the assets of such Seller (other than sales of inventory in the Ordinary Course of Business), in each case, whether by way of business combination, reorganization or similar transaction.

**4. Representations and Warranties of the Buyer.** The Buyer represents and warrants, to and for the benefit of the Sellers and the Stockholders, that the statements in this Section 4 are true and correct as of the date of this Agreement and as of the Closing Date:

**4.1 Due Organization.** The Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Buyer is duly qualified or licensed to transact business and is in good standing as a foreign company in each jurisdiction where the character of its activities requires such qualification, except where the failure to be so qualified, individually or in the aggregate, is not reasonably likely to have a material adverse effect on the Buyer's business.

**4.2 Authority; Binding Nature of Agreements.** The Buyer has the right, power and authority to enter into and perform its obligations under each of the Transaction Agreements to which it is or may become a party; and the execution, delivery and performance by the Buyer of the Transaction Agreements to which it is or may become a party have been duly authorized by all necessary action on the part of the Buyer, its board of directors and its officers. This Agreement has been duly executed and delivered by the Buyer, and (assuming due authorization, execution and delivery by the other parties hereto) this Agreement constitutes a legal, valid and binding obligation of the Buyer enforceable against the Buyer in accordance with its terms, subject to (a) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (b) rules of law governing specific enforcement, injunctive relief and other equitable remedies. When each Ancillary Document to which the Buyer is or will be a party has been duly executed and delivered by the Buyer (assuming due authorization, execution and delivery by each other party thereto), such Ancillary Document will constitute a legal and binding obligation of the Buyer enforceable against it in accordance with its terms, subject to (a) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (b) rules of law governing specific enforcement, injunctive relief and other equitable remedies.

**4.3 Certain Proceedings.** There is no Proceeding that has been commenced against the Buyer and that challenges, or may have the effect of preventing, delaying, making illegal or otherwise interfering with, any of the Transactions. To the Buyer's knowledge, no such Proceeding has been threatened.

## **5. Certain Pre-Closing Covenants.**

### **5.1 Conduct of the Business.**

(a) From the date hereof until the Closing Date or the earlier termination of this Agreement (the "**Interim Period**"), the Sellers will conduct the Business in the Ordinary Course of Business and use reasonable best efforts, to (i) preserve the Intellectual Property and goodwill of the Business (including its relationships with its suppliers, contractors, licensors, manufacturers, customers, distributors or others having business relations with the Business) and (ii) keep available the services of the employees of Sellers and others who provide substantial services with respect to the Business; provided, that, the Sellers will not be required to renew any design rights for Seller Products that have reached the end of their product cycles.

(b) During the Interim Period, except as otherwise explicitly specified in this Agreement or as consented to in writing by the Buyer (such consent not to be unreasonably withheld, delayed or conditioned), the Sellers will:

(i) not amend or propose to amend the respective certificates of incorporation, bylaws, certificates of formation or limited liability company agreements or other organizational documents of the Sellers in any manner;

(ii) not issue, sell, pledge, transfer or dispose of, or agree to issue, sell pledge, transfer or dispose of, any shares of capital stock or other equity interests of the Sellers;

(iii) not (A) grant to any Business Employee an increase in compensation or benefits, except (I) for regularly scheduled pay increases, promotions, and bonuses made in the Ordinary Course of Business or (II) as may be required by Law or the terms of any Benefit Plan; (B) modify or establish any Benefit Plan (or any arrangement that would constitute a Benefit Plan, if adopted), except to the extent required by Law or the terms of any Benefit Plan or contract; (C) terminate the employment of any Business Employee in the position of vice president or above or in a research and development or technical function, other than for cause;

(iv) not sell, lease, transfer or otherwise dispose of, any material property or assets of the Sellers, except for the sale, lease, transfer or disposition of inventory in the Ordinary Course of Business;

(v) not enter into any Contract that would have been required to be disclosed on Schedule 2.13(a) if such Contract existed as of the date hereof;

(vi) except for amendments in the Ordinary Course of Business, not amend or terminate (except for a termination resulting from the expiration of a Contract in accordance with its terms or its earlier termination resulting from the exercise by a Seller of a right available to it under such Contract, including as a result of the exercise of any remedy for a breach or default by the counterparty to such Contract) any Assigned Contract;

(vii) not amend, cancel, waive, modify, transfer or otherwise dispose of any rights in, to or for the use of any Intellectual Property, except for terminations in accordance with the respective terms of any of the foregoing that expire in accordance with their terms or otherwise in the Ordinary Course of Business;

(viii) not acquire any business or Person, by merger or consolidation, purchase of assets or equity interests, or by any other manner, in a single transaction or a series of related transactions;

(ix) not form, contribute capital to, make a loan to or enter into any transactions with, a joint venture;

(x) not make or change any method of accounting or auditing practice, including any working capital procedures or practices, other than changes required as a result of changes in IFRS or applicable Law;

(xi) not make or change any material election in respect of Taxes, settle, compromise or otherwise pay any material Tax in connection with an audit, claim, investigation, inquiry or other proceeding in respect of Taxes, surrender any claim for refund of a material amount of Taxes, file an amended material Tax Return, or take any other position or action in respect of Taxes that would have the result of materially increasing Buyer's liability for Taxes of the Business or related to the Acquired Assets for any taxable period (or portion thereof) ending after the Closing Date; and

(xii) not authorize, or commit or agree to take any action described in this Section 5.1.

**5.2 Access to Sellers' Books and Records.** During the Interim Period, the Sellers will, consistent with applicable Laws, provide the Buyer and its Representatives with reasonable access at all reasonable times and upon reasonable advance notice to the offices, properties, books and records of the Sellers in order for the Buyer to have the opportunity to make such investigation as it reasonably desires to make of the affairs of the Sellers with respect to the Business, the Purchased Assets and Assumed Liabilities; provided, that such access does not unreasonably interfere with the normal operations of the Sellers; provided, further, that all requests for access will be directed to Roccat. Additionally, the Sellers will provide to the Buyer true and complete copies of all written Contracts that are required to be listed on Schedule 2.13(a), to the extent not provided prior to the date hereof, at least 10 Business Days prior to the Closing.

### **5.3 Regulatory Filings; Consents.**

(a) Each party hereto will, as promptly as possible, (i) make, or cause or be made, all filings and submissions required under any Law applicable to such party or any of its Affiliates; and (ii) use reasonable best efforts to obtain, or cause to be obtained, all consents, authorizations, orders and approvals from all Governmental Authorities that may be or become necessary for its execution and delivery of this Agreement and the performance of its obligations pursuant to this Agreement and the Ancillary Documents. Each party will cooperate fully with the other party and its Affiliates in promptly seeking to obtain all such consents, authorizations, orders



and approvals. The parties hereto will not willfully take any action that will have the effect of delaying, impairing or impeding the receipt of any required consents, authorizations, orders and approvals.

(b) The Sellers will use reasonable best efforts to give all notices to, and obtain all consents from, all third parties that are described in Schedule 2.3 by the Closing. During the Interim Period, the Sellers and Stockholders will use reasonable best efforts to take such actions as are necessary to expeditiously satisfy the closing conditions set forth in Section 8.1 hereof and the Buyer will use reasonable best efforts to take such actions as are necessary to expeditiously satisfy the closing conditions set forth in Section 8.2 hereof.

#### **5.4 Employee Covenants.**

(a) Transfer of Employment. In cases where applicable Law does not require the automatic transfer of employment of Business Employees in connection with the consummation of the Transactions, unless provided otherwise in this Agreement, the Buyer or any of its Affiliates may make an offer of employment to each such Business Employee, to be effective as of the Closing Date, at the same terms and conditions of employment provided by the applicable Seller (except to the extent they violate or do not comply with applicable Law) to such Business Employee immediately prior to the Closing Date. To the extent that applicable Law provides for the automatic transfer of employment of Business Employees in connection with the consummation of the Transactions, which the Parties understand will be the case with respect to all Business Employees based in the European Union (except for René Korte): (A) the applicable Seller and the Buyer or the applicable Affiliate will offer tripartite agreements reflecting such automatic transfer of employment to such Business Employees before Closing regardless of whether or not the above understanding of the Parties will turn out to be correct, (B) the Buyer or the applicable Affiliate will assume and honor all terms and conditions of employment with respect to each such Business Employee, regardless of whether or not such Business Employee has signed the above tripartite agreement, and (C) the Sellers and the Buyer agree to take such actions as are reasonably necessary such that the employment of each such Business Employee will transfer to the Buyer or any of its Affiliates as a matter of Law as of the Closing Date. Any Business Employee: (i) whose employment is to transfer, or was transferred, automatically from a Seller to the Buyer or any of its Affiliates other than those that object to such transfer of employment in accordance with applicable Law, or (ii) who accepts employment with the Buyer or any of its Affiliates is hereinafter referred to as a “**Transferring Employee.**”

(b) Employee Notifications. Where required under applicable Law, the Sellers and the Buyer will prior to the Closing Date properly and timely notify, or where appropriate, consult or negotiate with, employees, Unions, employee representatives, or any relevant governmental agencies concerning the transactions contemplated by this Agreement in accordance with applicable Law. Any required notifications to Business Employees will be timely provided by the Sellers, with such notifications subject to the prior review and reasonable timely comment of the Buyer. The Sellers and the Buyer will each contribute any information required for the notifications under applicable Law. The Sellers agree that the information they contribute to such notifications will be correct and complete information, and the Buyer agrees that the information it contributes to such notifications will also be correct and complete. The date of the notifications will be mutually agreed to by the Sellers and the Buyer. The notifications may be updated and/or amended upon the reasonable agreement of the Sellers and the Buyer.

(c) Objecting Employees. Should any Transferring Employee, whose employment is to transfer, or was transferred, automatically from a Seller to the Buyer or any of its Affiliates, object to such automatic transfer of employment to the Buyer or any of its Affiliates in accordance with applicable Law, such Transferring Employee will discontinue to be a Transferring Employee with effect from the Closing Date or the date of receipt of such objection by the applicable Seller or the Buyer or any of its Affiliates, whichever is earlier.

**5.5 Exclusive Dealing.** During the Interim Period, the Sellers and the Stockholders will not, and will cause their Representatives not to, take any action to encourage, initiate or engage in discussions or negotiations with, or provide any information to, any Person (other than the Buyer and its Affiliates and Representatives) concerning any acquisition or merger involving any of the Sellers, the sale of substantially all of the assets of any Seller, or a similar transaction.

**5.6 Transition Services and Distribution Agreement.** Prior to Closing, the parties will negotiate in good faith (x) a transition services agreement (the “**Transition Services Agreement**”) in customary form for comparable transactions reasonably acceptable to the parties thereto (a sample form is attached as Exhibit K-1) including the services identified on Exhibit K-2 and shall negotiate with respect to any additional services currently provided to the Sellers by affiliates or third parties that Buyer may request during the Interim Period; provided, that all such services will be available (i) until at least [\*\*] (at the Buyer’s option) and (ii) at a cost no greater, and on such other terms no less beneficial, than extended to the Sellers today or listed in Exhibit K-3 and (y) a distribution agreement in customary form and substance reasonably acceptable to the parties thereto and including those terms and conditions set forth in Exhibit K-4 and at no higher cost than as set forth on Exhibit K-5.

**5.7 True Up Disclosure.** During the Interim Period but no later than 10 Business Days prior to Closing, the Sellers will have the right (but not the obligation) to supplement or amend the Disclosure Schedules solely with respect to Section 2 hereto (other than

with respect to the Fundamental Representations) with respect to any matter that (i) first arises after the date hereof and of which the Sellers had no Knowledge prior to the date hereof, (ii) did not result from a breach of any of the covenants set forth herein, any Law or any Contract, (iii) if occurring or known at the date of this Agreement, would have been required to be set forth or described in the Disclosure Schedules and (iv) would, absent such supplement or amendment, result in the failure of the condition set forth in Section 8.1(a), by delivering a written notice thereof to the Buyer describing such matter in reasonable detail, identifying the specific representations and warranties to which such Schedule Supplement relates and stating that the Buyer has the right to terminate the Agreement pursuant to Section 9.1(b)(i) as a result of such matter (each a “**Schedule Supplement**”). No disclosure in any such Schedule Supplement will be deemed to cure any inaccuracy in or breach of any representation or warranty contained in this Agreement, including for purposes of the indemnification or termination rights contained in this Agreement or of determining whether or not the conditions set forth in Section 8.1(a) have been satisfied; provided, however, that if the Buyer has the right to, but does not elect to, terminate this Agreement within 10 Business Days of its receipt of such Schedule Supplement, then the Buyer will be deemed to have waived its right to terminate this Agreement with respect to such matter and its right to indemnification under Section 7.2(b)(i) (other than with respect to the Fundamental Representations) with respect to such matter.

## **6. Certain Post-Closing Covenants.**

### **6.1 Further Actions.**

(a) From and after the Closing Date, the Sellers and the Stockholders will cooperate with the Buyer and the Buyer’s Affiliates and Representatives, and will execute and deliver such documents and take such other actions as the Buyer may reasonably request, for the purpose of evidencing and consummating the Transactions and putting the Buyer and its designated assignees in possession and control of all of the Purchased Assets. Without limiting the generality of the foregoing, from and after the Closing Date, the Sellers will promptly remit to the Buyer or its designated assignees any funds that are received by the Sellers and that are included in, or that represent payment of receivables included in, the Purchased Assets. Each Seller: (i) hereby irrevocably authorizes the Buyer or its designated assignees, at all times on and after the Closing Date, to endorse in the name of such Seller any check or other instrument that is made payable to such Seller and that represents funds included in, or that represents the payment of any receivable included in, the Purchased Assets; and (ii) hereby irrevocably nominates, constitutes and appoints the Buyer or its designated assignees as the true and lawful attorney-in-fact of such Seller (with full power of substitution) effective as of the Closing Date, and hereby authorizes the Buyer or its designated assignees, in the name of and on behalf of such Seller, to execute, deliver, acknowledge, certify, file and record any document, to institute and prosecute any Proceeding and to take any other action (on or at any time after the Closing Date) that the Buyer may deem appropriate for the purpose of (A) collecting, asserting, enforcing or perfecting any claim, right or interest of any kind that is included in or relates to any of the Purchased Assets, (B) defending or compromising any claim or Proceeding relating to any of the Purchased Assets, or (C) otherwise carrying out or facilitating any of the Transactions. The power of attorney referred to in the preceding sentence is and will be coupled with an interest and will be irrevocable, and will survive the dissolution or insolvency of any such Seller.

(b) If, in the case of any Assigned Contract, a required Consent has not been obtained (or otherwise is not in full force and effect) as of the Closing, the Seller and the Stockholders will use their reasonable best efforts to obtain such Consent as promptly as practicable after the Closing. Buyer and its designated assignees will not be obliged to enter into or agree to a Consent which would make the rights or obligations of the Buyer in respect of the Contract concerned less favorable than those rights or obligations were before the Consent. Neither this Agreement nor any other Transaction Agreement will constitute a sale, assignment, assumption, transfer, conveyance or delivery, or an attempted sale, assignment, assumption, transfer, conveyance or delivery, of any Assigned Contract as to which a required Consent has not been obtained as of the Closing Date. From and after the Closing Date, until any such Consent is obtained, the Sellers and the Stockholder will cooperate and agree to act after the Closing as the agent of Buyer and its designated assignees and otherwise cooperate with the Buyer and its designated assignees in any lawful arrangement designed to provide the Buyer and its designated assignees with the benefits of such Assigned Contract at no cost to Buyer or its designated assignees in excess of the cost the Buyer or its designated assignees would have incurred (without modification of the terms of such Assigned Contract) if such Consent had been obtained prior to Closing, including by enabling Buyer and its designated assignees to enforce rights under such Assigned Contract. The Buyer shall perform the obligations of the applicable Seller under such Assigned Contracts (but only to the extent such obligations constitute Assumed Liabilities) on behalf of such Seller from and after the Closing Date and each Seller shall hold in trust for and pay to the Buyer promptly upon receipt thereof all income, proceeds and other monies received by such Seller under such Assigned Contracts. Sellers will continue to comply with such Assigned Contracts and will not amend, modify, terminate or otherwise take any action under such Assigned Contracts that could adversely affect the Buyer without the Buyer’s prior written consent. If and when such Consent is obtained, the transfer of such Assigned Contract will be effected in accordance with the terms of this Agreement as if such Consent had been obtained prior to the Closing.

**6.2 Confidentiality.** The Sellers, Jöllenbeck, and the Stockholders will ensure that, on and at all times after the Closing Date: (a) no press release or other publicity concerning any of the Transactions is issued or otherwise disseminated by or on behalf of the Sellers, Jöllenbeck, or the Stockholders without the Buyer’s prior written consent; (b) Sellers, Jöllenbeck, and the Stockholders continue to keep the terms of this Agreement and the other Transaction Agreements strictly confidential; and (c) the Sellers, Jöllenbeck,

and the Stockholders keep strictly confidential, and the Sellers, Jöllenbeck, and the Stockholders do not use or disclose to any other Person, any non-public document or other information that relates directly or indirectly to the Purchased Assets, the Assigned Contracts, the Assumed Liabilities, the Buyer or any Affiliate of the Buyer. The Sellers, Jöllenbeck, and the Stockholders acknowledge and agree that Buyer, as a subsidiary of a publicly traded company, will be permitted to make and file certain statements regarding the Transactions and Transaction Agreements.

**6.3 Change of Name.** Immediately after the Closing, in connection with the acquisition of the Purchased Assets, including with respect to rights in the “Roccat” Trademark, each Seller will (and will cause its Affiliates and licensees to) cease using and change its name to a name that does not include the word “Roccat,” any other Trademark included in the Seller Owned IP, or any similar variation of any of the foregoing, and that is reasonably satisfactory to the Buyer. For purposes of this Agreement, such Affiliates and licensees of Sellers include but are not limited to Team Roccat and Roccat Studio Games.

#### **6.4 Restrictive Covenants.**

(a) Each Seller, Stockholder, First Wise and Jöllenbeck (each, a “**Restricted Party**,” and collectively the “**Restricted Parties**”) hereby acknowledges and agrees that such Restricted Party is familiar with the Business, and that the Buyer and its Affiliates would be irreparably damaged if the Restricted Party were to provide services to any Person competing with the Business or a competing business and that such competition by the Restricted Party would result in a significant loss of goodwill by the Buyer and its Affiliates. Each Restricted Party further acknowledges and agrees that the covenants and agreements set forth in this Section 6.4 were and are a material inducement to the Buyer to enter into this Agreement and to perform its obligations hereunder, and that the Buyer would not obtain the benefit of the bargain set forth in this Agreement as specifically negotiated if any Restricted Party breached the provisions of this Section 6.4. Each Stockholder further acknowledges that such Stockholder’s services have been and will be of special, unique and extraordinary value to the Business. Therefore, in further consideration of the Purchase Price payable to the Sellers and the Stockholders hereunder (from which the Sellers and Stockholders will derive substantial direct and indirect benefit), and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, each Restricted Party hereby covenants and agrees as follows:

(i) From the Closing Date until [\*\*] (or [\*\*] with respect to Mr. Korte) after the Closing Date (the “**Non-compete Period**”), each Restricted Party will not (and each will cause each of its agents, Affiliates, which for the avoidance of doubt, includes First Wise, and each of its then-current employees, officers, directors, however not beyond the term of each such employee’s, officer’s or director’s employment, (collectively, the “**Controlled Persons**”) not to) directly or indirectly own any interest in, manage, control, participate in (whether as an officer, manager, employee, partner, agent, representative or otherwise), consult with, render services for, or in any other manner engage anywhere in the world, with any enterprise engaged in or competitive with the Business or engaged in the development, manufacture, distribution or sale of any products (including, but not limited to, any “Original Design Manufacturer” or “Contract Manufacturer” products) that are similar to or compete with products sold by the Business, including any Roccat Product or gaming headset (the “**Restricted Business**”); notwithstanding the foregoing:

- A. subject to compliance with the Positioning Guidelines during the Positioning Period, Jöllenbeck and First Wise may continue to distribute and sell the products listed on Schedule 6.4(a)(i)(A);
- B. subject to compliance with the Positioning Guidelines during the Positioning Period, Jöllenbeck and First Wise may have manufactured and may distribute and sell products under the “Speedlink” Trademark (or other Trademark then-owned by Jöllenbeck or First Wise), that are (x) manufactured and purchased from “Original Equipment Manufacturers,” (y) generally available from such manufacturers for purchase by third parties to be customized with their own branding and other superficial characteristics (but not functional or other custom specifications) and (z) [\*\*] (the “**OEM Products**”);
- C. subject to compliance with the Positioning Guidelines during the Positioning Period, Jöllenbeck and First Wise may distribute Corsair products, Imtron products, and Creative Labs products;
- D. following the conclusion of the Positioning Period, Jöllenbeck and First Wise may distribute products of unaffiliated third parties that may be competitive with the Business, but may not, for the avoidance of doubt, develop or manufacture (or be involved in the development or manufacture) of any products that may be competitive (other than the OEM Products).

(ii) During the Non-compete Period, each Restricted Party will not (and will cause each of its Controlled Persons not to) directly, or indirectly through another Person, solicit, aid or induce any employee, representative or agent of the Buyer or any of its subsidiaries or affiliates (each a, “**Covered Person**”) to leave such employment or retention or to accept

employment with or render services to or with any other person, firm, corporation or other Entity unaffiliated with the Buyer or hire or retain any such Covered Person, or take any action to materially assist or aid any other person, firm, corporation or other Entity in identifying, hiring or soliciting any such Covered Person. A Covered Person will be deemed subject to this Section 6.4(a)(ii) while so employed or retained by the Buyer or any of its Affiliates and for a period of [\*\*] thereafter.

(iii) During the Non-compete Period, each Restricted Party agrees that the Restricted Party will not (and will cause each of its Controlled Persons not to), directly or indirectly, individually or on behalf of any other Person, solicit, aid or induce any current or former customer, suppliers, or distributors of the Business to reduce or adversely alter the business conducted with the Buyer or its Affiliates in the operation of the Business.

(iv) From and after the Closing, each Restricted Party will not (and will cause each of its Controlled Persons not to) make, negative comments or otherwise disparage the Business, the Buyer and its Affiliates, the Purchased Assets, the Seller Products and any of officers, directors, employees, shareholders, agents or products of the Buyer and its Affiliates. The foregoing will not be violated by truthful statements in response to legal process, required governmental testimony or filings, administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings).

(v) During the Positioning Period, each Restricted Party will (and will cause its Controlled Persons to) comply with the Positioning Guidelines.

(b) After the Closing Date, the Sellers will promptly destroy all Excluded Inventory listed as “C3” Inventory and deliver a certificate executed by the respective officers of each Seller attesting to the destruction of such Excluded Inventory to the Buyer and be entitled to sell the remaining Excluded Inventory existing as of the Closing Date (the “**Limited Sale Products**”) a period of [\*\*] after the Closing Date (the “**Sell-Off Period**”), so long as such sales are conducted as follows: (i) any such sales will only be through online channels and not through any distributor or physical retail store; (ii) all such online channels will be disclosed to the Buyer; (iii) records of such sales will be provided to the Buyer at the Buyer’s request; (iv) no sale of a Limited Sale Product will reflect or be at a discount of more than [\*\*]; and (v) no Excluded Inventory with a history of quality problems, including any with return rates of [\*\*] will be a Limited Sale Product. In connection with such sales and solely during the Sell-Off Period, Seller may continue to use the “Roccat” Trademark and the other Trademarks included in the Seller Owned IP that are currently used in the Business as of the Closing Date, solely to the extent that such Trademark appears on any Limited Sale Product existing on the Closing Date. In no event will any of the Sellers increase the nature or scope of any use of such Trademarks during the Sell-Off Period. Upon the expiration of the Sell-Off Period, each Seller will destroy any remaining inventory bearing the “Roccat” Trademark (or any other Trademark included in the Seller Owned IP) then in such Seller’s possession or control and provide to the Buyer a certificate executed by the respective officers of each Seller attesting to the destruction or other disposal of the Authorized Products. Each Seller hereby agrees to indemnify the Buyer Indemnitees from and against any and all Damages incurred or suffered in connection with or resulting from, any use of such Trademarks during the Sell-Off Period.

(c) If, at the time of enforcement of the covenants contained in this Section 6.4 (the “**Restrictive Covenants**”), a court will hold that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances will be substituted for the stated duration, scope or area and that the court will be allowed and directed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by applicable Laws. The Restricted Parties have consulted with legal counsel regarding the Restrictive Covenants and based on such consultation have determined and hereby acknowledges that the Restrictive Covenants are reasonable in terms of duration, scope and area restrictions and are necessary to protect the goodwill of the Business and the substantial investment in the Business made by the Buyer hereunder and the nature of the Business is such that it is not conducted with respect to geographical boundaries.

(d) If any Restricted Party or any Affiliate of such Restricted Party breaches any of the Restrictive Covenants, the Buyer will have the right and remedy to have the Restrictive Covenants specifically enforced by any court of competent jurisdiction and obtain (i) a decree or order of specific performance to enforce the observance and performance of such Restrictive Covenant, and (ii) an injunction restraining such breach or threatened breach, in each case, the obligation to obtain, furnish or post any bond or similar instrument, it being agreed that any breach or threatened breach of the Restrictive Covenants would cause irreparable injury to the Buyer and that money damages would not provide an adequate remedy to the Buyer.

(e) In the event that the Buyer becomes aware of any breach or violation by any Restricted Party of any of the Restrictive Covenants, the Buyer agrees to provide such Restricted Party written notice of such breach or violation. If such Restricted Party (x) is not a Seller and (y) fails to cure any such breach or violation as soon as practicable upon receipt of any such notice from Buyer, the Buyer hereby agrees to seek specific performance with respect to such alleged breach or violation of the Restrictive Covenants consistent with Section 6.4(d) prior to asserting a claim for indemnification pursuant to Section 7 with respect to such breach.

(f) In the event of any breach or violation by any Restricted Party of any of the Restrictive Covenants, the time period of such covenant with respect to such Person will be tolled until such breach or violation is resolved.

## **6.5 Employee Related Covenants.**

(a) Notwithstanding any automatic transfer of employment, Sellers will be solely responsible, and Buyer will have no obligations whatsoever for, any compensation or other amounts payable to any current or former employee, officer, director, independent contractor or consultant of the Business, any Business Employee or Transferring Employee, including, without limitation, hourly pay, commission, bonus, salary, accrued vacation, fringe, pension or profit sharing benefits or severance pay for any period relating to the service with Seller at any time on or prior to the Closing Date. In the absence of an automatic transfer of employment of such Business Employee, the Sellers will pay all amounts to all such persons who may be entitled, on or prior to the Closing Date. In the event of an automatic transfer of employment of any Business Employee, the Sellers will reimburse the Buyer for the pro-rata share of any such amount paid by Buyer or any of its Affiliates to such Transferring Employee that relates to any period of service with a Seller on or prior to the Closing Date.

(b) Notwithstanding any automatic transfer of employment, the Sellers will remain solely responsible for the satisfaction of all claims for medical, dental, life insurance, health accident or disability benefits brought by or in respect of current or former employees, officers, directors, independent contractors or consultants of the Business or the spouses, dependents or beneficiaries thereof, which claims relate to events occurring on or prior to the Closing Date. Notwithstanding any automatic transfer of employment, the Sellers also will remain solely responsible for all worker's compensation claims of any current or former employees, officers, directors, independent contractors or consultants of the Business which relate to events occurring on or prior to the Closing Date. Sellers will pay, or cause to be paid, all such amounts as and when due.

(c) Effective as soon as practicable following the Closing Date, Sellers, or any applicable Affiliate, will effect a transfer of assets and liabilities from any defined contribution retirement plan that it maintains, to the defined contribution retirement plan maintained by the Buyer, with respect to those employees of the Business who become employed by Buyer, or an Affiliate of Buyer, in connection with the transactions contemplated by this Agreement.

**6.6 Access to Books and Records.** The Buyer and Sellers agree to furnish or cause to be furnished to each other, upon request, as promptly as practicable, such information and assistance relating directly to the Purchased Assets or the Business (including, in each case, access to books and records, employees, contractors and representatives) as is reasonably necessary for the making of any required filing with a Governmental Authority, the filing of all Tax Returns, the making of any election related to Taxes, the preparation for any audit by any Governmental Authority, and the prosecution or defense of any Proceeding, including those related to any Tax Return; provided, however, that if such requested information is contained within a document containing any unrelated information, only portions pertaining to such relevant information will be furnished.

## **6.7 Tax Matters.**

(a) The Buyer will prepare, or cause to be prepared, and file, or cause to be filed, all Tax Returns in respect of the Purchased Assets or the Business that are required to be filed after the Closing Date (other than Tax Returns of a Seller, which will be prepared exclusively by such Seller, and Seller will pay all Taxes shown as due on, or otherwise payable with respect to, any such Tax Return, excluding VAT and Transfer Taxes related to the signing and execution of this Agreement and which are to be borne by the Buyer).

(b) For purposes of this Section 6.7 and otherwise under this Agreement, other than with respect to Transfer Taxes or VAT imposed with respect to the acquisition of the Purchased Assets, in order to apportion appropriately any Taxes relating to the Purchased Assets or the Business for a taxable period that includes, but does not end on, the Closing Date (a "**Straddle Period**"), including refunds of, or credits in lieu thereof attributable to, such Taxes, the Parties will, to the extent permitted or required under applicable Law, treat the Closing Date as the last day of any taxable period beginning on or prior to such date for all Tax purposes. In any case where applicable Law does not permit any Seller (with respect to the Business) to treat the Closing Date as the last day of the taxable period, the amount of any Taxes for the portion of any Straddle Period ending on and including the Closing Date will (x), in the case of any Tax based upon or related to income, gains, receipts, employment, sales, use, or other Taxes imposed on a non-periodic basis, be based on an interim closing of the books as of the end of the Closing Date (and for such purpose, the taxable period of any pass-through entity or controlled foreign corporation (within the meaning of the Code) will be deemed to terminate at such time), provided, however, that exemptions, allowances or deductions that are calculated on an annual basis (including depreciation and amortization deductions) will be allocated between the period ending on and including the Closing Date and the period after the Closing Date in proportion to the number of days in each such period, and (y), in the case of property, ad valorem and other Taxes imposed on a periodic basis, be deemed to be the amount of such Taxes for the entire taxable period multiplied by a fraction the numerator of which is the number of days in the taxable period ending on and including the Closing Date and the denominator of which is the number of days in the entire taxable period.

## **7. Survival; Indemnification.**

### **7.1 Survival of Representations and Covenants.**

(a) Except as set forth in Sections 7.1(c) and 7.1(d), the representations and warranties of the Sellers, the Stockholders, and the Buyer will expire upon that date that is [\*\*] after the Closing Date (the “**Expiration Date**”); provided, however, that if an request for indemnification under this Section 7 relating to any such representation or warranty is given to the Indemnifying Party on or prior to the Expiration Date, then, notwithstanding anything to the contrary contained in this Section 7.1, the claims asserted in such request for indemnification will not so expire, but rather will remain in full force and effect until such time as such claims have been fully and finally resolved.

(b) The representations, warranties, covenants and obligations of any Indemnifying Party, and the rights and remedies that may be exercised by any Indemnitee, will not be limited or otherwise affected by or as a result of any information furnished to, or any investigation made by or any knowledge of, any Indemnitee or any of its Representatives.

(c) Subject to Section 7.1(d), the representations and warranties set forth in Sections 2.10 (Employees; Benefit Plans), 2.11 (Intellectual Property), and 2.16 (Compliance with Laws; Permits) will expire upon that date that is [\*\*] after the Closing Date (the “**Extended Date**”); provided, however, that if an request for indemnification under this Section 7 relating to any such representation or warranty is given to the Sellers on or prior to such date, then, notwithstanding anything to the contrary contained in this Section 7.1(b), the claims asserted in such request for indemnification will not so expire, but rather will remain in full force and effect until such time as such claims have been fully and finally resolved. The representations and warranties set forth in Sections 2.1 (Due Organization; Capitalization), 2.2 (Authority), 2.3(a) (Non-Contravention; Consents), 2.4 (Title to Assets; Sufficiency), 2.6 (Solvency), 2.20 (Related Party Transactions), 2.21 (Brokers), 3 (Representations and Warranties of the Stockholders) and 4 (Representations and Warranties of the Buyer) (the “**Fundamental Representations**”) will upon that date that is [\*\*] after the Closing Date.

(d) Notwithstanding anything to the contrary contained in Section 7.1(b) (and without limiting the generality of anything contained in Section 7.1(a)), if there is any fraudulent misrepresentation by the Sellers in Section 2 of this Agreement or fraudulent misrepresentation by a Stockholder in Section 3 of this Agreement, then such fraudulent misrepresentation will not expire, but rather will remain in full force and effect for an unlimited period of time (regardless of whether any request for indemnification under this Section 7 relating to such representation or warranty is ever given).

(e) It is the express intent of the parties that, if the applicable survival period for an item as contemplated by this Section 7.1 is shorter than the statute of limitations that would otherwise have been applicable to such item, then, by contract, the applicable statute of limitations with respect to such item shall be reduced to the shortened survival period contemplated hereby. The parties further acknowledge that the time periods set forth in this Section 7.1 for the assertion of claims under this Agreement are the result of arms'-length negotiation among the parties and that they intend for the time periods to be enforced as agreed by the parties.

### **7.2 Indemnification by the Sellers and the Stockholders.**

(a) Each Stockholder (collectively, the “**Stockholder Indemnifying Parties**”) and each of Jöllenbeck and First Wise, severally and not jointly, will hold harmless and indemnify each of the Buyer Indemnitees from and against, and will compensate and reimburse each of the Buyer Indemnitees for, any Damages that are suffered or incurred by any of the Buyer Indemnitees or to which any of the Buyer Indemnitees may otherwise become subject at any time (regardless of whether or not such Damages relate to any Third-Party Claim) and that arise from or are caused by any Breach of any representation or warranty made by such Stockholder in Section 3 of this Agreement or any Breach of any covenant or obligation of such Stockholder, Jöllenbeck or First Wise (as applicable) contained in any of the Transaction Agreements. The maximum aggregate liability of the Stockholders, Jöllenbeck and First Wise to Buyer Indemnitees pursuant to this Section 7 will be [\*\*].

(b) Subject to Section 7.2(e) hereof, the Sellers and each of Jöllenbeck and First Wise (collectively, the “**Seller Indemnifying Parties**”), jointly and severally, will hold harmless and indemnify each of the Buyer Indemnitees from and against, and will compensate and reimburse each of the Buyer Indemnitees for, any Damages that are suffered or incurred by any of the Buyer Indemnitees or to which any of the Buyer Indemnitees may otherwise become subject at any time (regardless of whether or not such Damages relate to any Third-Party Claim) and that arise from or are caused by:

(i) any Breach of any representation or warranty made by the Sellers in this Agreement, the disclosure schedule or any certificate delivered pursuant hereto or any agreement or other document contemplated hereby;

(ii) any Breach of any covenant or obligation of the Sellers contained in any of the Transaction Agreements;

(iii) any Excluded Liability;

(iv) any Liability of the Sellers other than the Assumed Liabilities;

(v) any Liabilities of a Seller with respect to any present or former employees, officers, directors, retirees, independent contractors or consultants of Sellers, including, without limitation, any Liabilities associated with any claims for wages or other benefits, bonuses, accrued vacation, pension, workers compensation, severance, retention, termination or other payments, other than with respect to bonuses payable for the portion of the assessment period following the Closing;

(vi) any Liabilities of a Seller arising under or in connection with any Benefit Plan of such Seller;

(vii) Any Liability related to non-compliance with GDPR by Sellers;

(viii) any successful Proceeding relating to any Breach, alleged Breach, Liability or matter of the type referred to in foregoing sub-clauses above (including any Proceeding commenced by any Buyer Indemnitee for the purpose of enforcing any of its rights under this Section 7.2(b)).

(c) The Buyer Indemnitees will not be entitled to recover under this Agreement for any Damages arising from or relating to Section 7.2(b)(i) (other than with respect to Breaches of the Fundamental Representations) unless the aggregate Damages for all such Breaches exceeds [\*\*] (the “**Basket**”) (at which point Buyer Indemnitees will be entitled to indemnification from and against all Damages) or with respect to any individual claim (or series of related claims) for Damages of less than [\*\*] (the “**Mini-Basket**”), and any Damages subject to the Mini-Basket shall not be included in the calculation of the Basket. The Buyer Indemnitees will not be entitled to recover under this Agreement for any Damages arising from or relating to Section 7.2(b)(i) for any Damages in excess of [\*\*] (the “**Cap**”), except that, to the extent any such Damages arise from a Breach of Fundamental Representations or from fraudulent representation by the Sellers in Section 2 of this Agreement, the maximum aggregate liability of the Sellers to Buyer Indemnitees pursuant to Section 7.2(b)(i) of this Agreement will be [\*\*]. The Buyer Indemnitees will not be entitled to recover under this Agreement for any Damages arising from or relating to Section 7.2(b)(i) with respect to any current liability to the extent it was included in the final calculation of Closing Working Capital.

(d) For purposes of Section 7.2(b)(i), in determining whether there has been a breach of any representation or warranty, and in calculating the amount of any Damages, (x) all qualifications in such representation or warranty referencing the terms “material,” “materiality,” or other terms of similar import or effect, and (y) the qualifications of “to the Sellers Knowledge” in the first two sentences of Section 2.11(k) will be disregarded.

(e) Notwithstanding anything to the contrary in this Agreement:

(i) In no event shall any Stockholder Indemnifying Party’s indemnity obligations for Damages under Section 7.2(a) exceed, in the aggregate, the portion of the Closing Purchase Price actually received by such Stockholder Indemnifying Party together with any amounts that, but for indemnity claims by any Buyer Indemnified Party satisfied out of the Escrow Amount, or the Contingent Payments (including, for the avoidance of doubt, the Adjustment Escrow Amount), would have been payable to such Stockholder Indemnifying Party out of the Escrow Amount or the Contingent Payments (including, for the avoidance of doubt, the Adjustment Escrow Amount), other than with respect to any claim against a Stockholder for misrepresentation by such Stockholder in Section 3 of this Agreement or any claim against a Stockholder for a Breach by such Stockholder of any covenant of such Stockholder set forth in any Transaction Agreement.

(ii) In no event shall Jöllenbeck’s and/or First Wise’s indemnity obligations for Damages under Section 7.2(b) exceed, in the aggregate, [\*\*].

(iii) In no event shall Mr. Korte’s indemnity obligations for Damages under Section 7.2(b) exceed, in the aggregate, [\*\*].

(iv) Subject to the final sentence of Section 7.8, recourse by the Buyer Indemnitees to the Indemnity Escrow Amount and the Contingent Payments (including, for the avoidance of doubt, the Adjustment Escrow Amount) shall be the Buyer Indemnitees’ sole and exclusive remedy and recourse against the Stockholders under this Agreement for Damages resulting from the matters referred to in Section 7.2(b). For the avoidance of doubt, absent actual fraud, no Person shall be liable to Buyer or any other Person with respect to any distribution of Closing Purchase Price, Escrow Amount, Holdback Amount or other Contingent Payments (including, for the avoidance of doubt, the Adjustment Escrow Amount) under any theory of “fraudulent conveyance” or other similar claims.

### **7.3 Indemnification by the Buyer.**

(a) The Buyer and the Parent, jointly and severally (collectively in such capacity, the “**Buyer Indemnifying Party**”), will hold harmless and indemnify each of the Seller Indemnitees from and against, and will compensate and reimburse each of the Seller Indemnitees for, any Damages that are suffered or incurred by any of the Seller Indemnitees or to which any of the Seller Indemnitees may otherwise become subject at any time (regardless of whether or not such Damages relate to any Third-Party Claim) and that arise from or are caused by:

(i) any Breach of any representation or warranty made by the Buyer in this Agreement, any disclosure schedule or certificate delivered pursuant hereto or any agreement or other document contemplated hereby;

(ii) any Breach of any covenant or obligation of the Buyer or Parent contained in any of the Transaction Agreements;

(iii) any Liability relating to any Assumed Liability;

(iv) any successful Proceeding relating to any Breach, alleged Breach, Liability or matter of the type referred to in sub-clauses above (including any Proceeding commenced by any Seller Indemnitee for the purpose of enforcing any of its rights under this Section 7.3(a)).

(v) For purposes of Section 7.3(a)(i), in determining whether there has been a breach of any representation or warranty, and in calculating the amount of any Damages, all qualifications in such representation or warranty referencing the terms “material,” “materiality,” or other terms of similar import or effect will be disregarded.

#### **7.4 Defense of Third-Party Claims.**

(a) In the event of the assertion or commencement by any Person (other than any Buyer Indemnitee or Seller Indemnitee) of any claim or Proceeding (whether against the Buyer, any other Buyer Indemnitee, the Sellers, the Stockholders, any other Seller Indemnitee, or against any other Person) with respect to which a Seller Indemnifying Party, a Stockholder Indemnifying Party or the Buyer Indemnifying Party, as applicable (the “**Indemnifying Party**”), may become obligated to indemnify, hold harmless, compensate or reimburse any Buyer Indemnitee or Seller Indemnitee, as applicable (the “**Indemnitee**”), pursuant to this Section 7 (a “**Third-Party Claim**”), the Indemnitee will promptly, but in no event more than thirty (30) days following such Indemnitee’s receipt of a Third-Party Claim, notify the Indemnifying Party (provided that where the Indemnifying Party is a Seller Indemnifying Party or a Stockholder Indemnifying Party, Indemnitee needs to provide such notice only to the Sellers Representative) in writing of such Third-Party Claim (“**Notice of Claim**”); provided, however, that a failure by an Indemnitee to provide timely notice will not affect the rights or obligations of such Indemnitee except to the extent that such failure results in material prejudice to the Indemnifying Party with respect to such Third-Party Claim. The Notice of Claim will (i) state that the Indemnitee has paid or properly accrued Damages or anticipates that it will incur liability for Damages for which such Indemnitee is entitled to indemnification pursuant to this Agreement (if applicable) and (ii) specify in reasonable detail each individual item of Damage included in the amount so stated (taking into account the information then known to the Indemnitee), the date such item was paid or properly accrued (if applicable), the basis for any anticipated Damage and the nature of the misrepresentation, breach of warranty, breach of covenant or claim to which each such item is related (taking into account the information then known to the Indemnitee) and the computation of the amount to which such Indemnitee claims to be entitled hereunder. The Indemnitee will enclose with the Notice of Claim a copy of all papers served with respect to such Third-Party Claim, if any, and any other available documents evidencing such Third-Party Claim.

(b) The Indemnifying Party will have the right, but not the obligation, upon notice delivered to the Indemnified Party, to assume the defense or prosecution of such Third-Party Claim and any litigation resulting therefrom with counsel of its choice and at its sole cost and expense (a “**Third-Party Defense**”); provided that the Indemnifying Party will not be entitled to undertake a Third-Party Defense and, if the Indemnified Party is entitled to indemnification under this Section 7 with respect to such Third-Party Claim, the Indemnifying Party will pay the fees and expenses of counsel retained by the Indemnitee in connection therewith, if (i) the claim or demand relates to or arises in connection with any criminal Legal Proceeding, indictment or allegation or regulatory enforcement action, (ii) the claim or demand seeks an injunction or equitable relief against the Indemnitee or any of its Related Parties, (iii) there are legal defenses available to the Indemnified Party that are different from or additional to those available to the Indemnifying Party, (iv) the claim or demand is asserted by or on behalf of a Person that is a supplier or customer of the Indemnitee, (v) the claim or demand alleges or relates to any product liability claims, (vi) the claim or demand relates to any Intellectual Property or Intellectual Property rights included in the Purchased Assets or (vii) the claim or demand would reasonably be expected to adversely affect the Business or the business or reputation of the Buyer Indemnitees.

(c) If the Indemnifying Party validly assumes the Third-Party Defense in accordance herewith, (i) the Indemnitee may retain separate co-counsel at its sole cost and expense (subject to the below) and participate in the defense of the Third-Party Claim, (ii) the Indemnifying Party will proceed to defend such claim or Proceeding in a diligent manner with counsel reasonably satisfactory to the Indemnitee; (iii) the Indemnifying Party will keep the Indemnitee informed of all material developments and events relating to such



claim or Proceeding; (iv) the Indemnitee will have the right to participate in the defense of such claim or Proceeding at its own cost; (v) the Indemnifying Party will not settle, adjust or compromise such claim or Proceeding without the prior written consent of the Indemnitee; and (vi) the Indemnitee may at any time (notwithstanding the prior designation of the Indemnifying Party to assume the defense of such claim or Proceeding) assume the defense of such claim or Proceeding if Indemnifying Party fails to diligently defend such claim or Proceeding.

(d) If the Indemnifying Party is entitled to, but does not, assume the Third-Party Defense, the Indemnitee will be entitled to assume the Third-Party Defense at the expense of the Indemnifying Party upon and delivery of notice to such effect to the Indemnifying Party (provided that where the Indemnifying Party is a Seller Indemnifying Party or Stockholder Indemnifying Party, Indemnitee needs to provide such notice only to the Sellers Representative).

**7.5 Indemnification Claims.** An Indemnitee will notify in writing the Indemnifying Party (provided that where the Indemnifying Party is a Seller Indemnifying Party, Indemnitee needs to provide such notice only to the Sellers Representative) of its discovery of any matter that does not involve a Third-Party Claim and with respect to which the Indemnifying Party may become obligated to indemnify, hold harmless, compensate or reimburse the Indemnitee and such notice will (i) state that the Indemnitee has paid or properly accrued Damages or anticipates that it will incur liability for Damages for which such Indemnitee is entitled to indemnification pursuant to this Agreement (if applicable) and (ii) specify in reasonable detail each individual item of Damages included in the amount so stated (taking into account the information then known to the Indemnitee), the date such item was paid or properly accrued (if applicable), the basis for any anticipated liability and the nature of the misrepresentation, breach of warranty, breach of covenant or claim to which each such item is related (taking into account the information then known to the Indemnitee) and the computation of the amount to which such Indemnitee claims to be entitled hereunder. The failure to give such written notice will not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party is materially harmed by reason of such failure.

**7.6 Payment of Damages.** Subject to the terms and conditions of this Section 7, any indemnification payment to which Buyer or Buyer Indemnitees is entitled under this Agreement as a result of any Damages incurred and subject to indemnification pursuant to this Section 7 may be satisfied (at the Buyer's election and without duplication) by (a) recouping such Damages from the Indemnification Escrow Amount or the Adjustment Escrow Amount in accordance with the terms of the Escrow Agreement, (b) setting off such Damages against any Contingent Payments, (c) seeking recourse for such Damages directly against the Sellers, (d) seeking recourse for such Damages directly against the Stockholder Indemnifying Parties or (e) any combination of the foregoing; provided, that, with respect to any Damages arising from or relating to Section 7.2(b), the Buyer and Buyer Indemnitees agree to seek recourse directly against the Stockholder Indemnifying Parties only to the extent that sub-clauses (a) through (c) above have not provided them the full amount of indemnification for such Damages to which they may be entitled under this Section 7. In addition to the foregoing, with respect to any claim against a Stockholder for misrepresentation by such Stockholder in Section 3 of this Agreement or any claim against a Stockholder, Jöllenbeck and/or First Wise (as applicable) for a Breach by such Stockholder, Jöllenbeck and/or First Wise (as applicable) of any covenant of such Stockholder, Jöllenbeck and/or First Wise (as applicable) set forth in any Transaction Agreement, Buyer may elect to seek recourse for such Damages directly against such Stockholder, Jöllenbeck and/or First Wise (as applicable).

**7.7 Tax Treatment of Indemnity Payments.** The Parties will treat any indemnity payment made under this Agreement as an adjustment to the Purchase Price for all Tax purposes unless otherwise required pursuant to a final determination within the meaning of Section 1313 of the Code, or any analogous provision of applicable state, local or non-U.S. Law.

**7.8 Sole Remedy.** Other than with respect to any claim against a Seller for fraudulent misrepresentation in Section 3 of this Agreement by such Seller or any claim against a Stockholder for fraudulent misrepresentation in Section 4 of this Agreement by such Stockholder and subject to Section 6.4(d), the right to indemnification under this Section 7, subject to all of the terms, conditions and limitations hereof, will constitute the sole and exclusive right and remedy available to any party hereto (or any specified third-party beneficiary) with respect to all damages or losses of whatever kind and nature, in law, equity or otherwise, known or unknown, which the Buyer has now or may have in the future, including without limitation for any damages or losses attributable to any inaccuracy or breach of any representation or warranty, or any failure to perform the covenants, agreements or undertakings contained in any Transaction Agreement, any disclosure schedule or certificate delivered pursuant hereto or any agreement or other document contemplated hereby, and no party (and no Affiliate of any party) may commence any suit, action or proceeding against any other party hereto or any of their respective Affiliates with respect to the subject matter of this Agreement, whether in contract, tort or otherwise, except to enforce such party's express rights under this Section 7. Nothing in this Section 7 limits any Person's right to seek and obtain any equitable relief to which any Person may be entitled, including specific performance to enforce the observance and performance of any covenants contained herein, or to seek any remedy on account of any party's fraudulent or criminal conduct.

**7.9 Disclaimer.** None of the parties hereto, their respective affiliates or any of their respective officers, directors, employees, advisors or representatives have made any representations or warranties, express or implied, of any nature whatsoever in connection to the transactions contemplated hereby other than those representations and warranties expressly set forth in this Agreement.

**7.10 Set-Off.** Subject to the applicable terms and conditions of this Section 7 and the Transaction Agreements, the Buyer shall be entitled to set-off any amounts due to any other party hereto against amounts due from such other party, including from the Contingent Payments (including, for the avoidance of doubt, the Adjustment Escrow Amount). Upon the occurrence of any event or existence of any condition has resulted in a claim for indemnification under this Section 7, such party may, subject to the applicable terms and conditions of this Section 7 and the Transaction Agreements, withhold from amounts otherwise due hereunder an amount equal to such party's reasonable estimate of the amount of such indemnification claim until such time as the actual amount of such claim, the right of indemnification and the right of set-off hereunder is determined.

**7.11 Indemnification Escrow.**

(a) The parties agree that the Indemnification Escrow shall be released as contemplated by this Section 7.11. Within five (5) Business Days after the Expiration Date, the Buyer and Roccat will deliver joint written instructions to the Escrow Agent directing the Escrow Agent to release to the Sellers any amounts in the Indemnification Escrow Account in excess of the sum of (x) **[\*\*]** (being **[\*\*]** of the original Indemnification Escrow Amount) plus (y) the aggregate amount of all unresolved indemnification claims by Buyer Indemnitees and within five (5) Business Days after the Extended Date, the Buyer and Roccat will deliver joint written instructions to the Escrow Agent directing the Escrow Agent to release to the Sellers the remaining amounts of the Indemnification Escrow subject to the following conditions.

(b) For the avoidance of doubt, the Buyer and Roccat agree that no joint instructions contemplated by this Section 7.11 shall be delivered to the Escrow Agent with respect to any amount that is subject to a claim for indemnification which has been delivered in accordance with this Section 7.11. Upon the resolution of any such claim, either by mutual agreement of the parties or upon a final determination of an arbitrator as contemplated by Section 11.8, then the Buyer and Roccat shall deliver a joint written instruction to the Escrow Agent regarding (i) any Damages to be paid to the Buyer from the Indemnification Escrow Account or (ii) any portion of the Indemnification Escrow Account to be paid to the Sellers which otherwise should have been released to such parties on the Expiration Date or Extended Date, but for such claim.

(c) Prior to Closing, the parties will negotiate in good faith an escrow agreement (the "**Escrow Agreement**") in customary form for comparable transactions reasonably acceptable to the parties thereto (the draft currently under negotiation is attached as Exhibit L) reflecting the provisions of this Section 7.11. The parties agree that they will issue any joint instructions to the Escrow Agent that are required to issue under this Agreement or under the Escrow Agreement promptly and without undue delay.

**8. Conditions to Closing.**

**8.1 Conditions Precedent to Obligations of the Buyer.** The obligation of the Buyer to consummate the transactions contemplated by this Agreement is subject to the fulfillment, at or prior to the Closing, of the following conditions, any one or more of which may be waived in writing by the Buyer (in its sole and absolute discretion), it being understood that such conditions are included for the exclusive benefit of the Buyer:

(a) (i) the Fundamental Representations are true and correct in all respects as of the date of this Agreement and the Closing Date as of the Closing Date as if made on such date (except that those representations and warranties which refer to facts existing at a specific date need only be true and correct as of such date) and (ii) the representations and warranties set forth in Sections 2 and 3 (other than the Fundamental Representations) are true and correct as of the date of this Agreement and as of the Closing Date as if made on such date (except that those representations and warranties which refer to facts existing at a specific date need only be true and correct as of such date) other than for any failures to be true and correct (disregarding any references to "material" or "materiality" contained in such representations and warranties) as of the Closing Date that would not reasonably be expected to result in Damages, including lost profits, in excess of **[\*\*]** in the aggregate;

(b) the Sellers and Stockholders have performed, as applicable, in all material respects all of the covenants and agreements required to be performed by the Sellers and Stockholders under this Agreement at or prior to the Closing; it being understood that for the purposes of this Section 8.1(b), the Sellers and the Stockholders will not be deemed to have failed to perform a covenants in all material respects if the applicable party cures such failure prior to the Closing;

(c) Jöllenbeck has sold, assigned, transferred, conveyed, and delivered to Roccat, pursuant to transfer documents in form and substance reasonably satisfactory to the Buyer, all of Jöllenbeck's right, title and interest in the Accounts Receivable, Inventory, and Product Kiosks owned or held by Jöllenbeck and relating to the Business (the "**Internal Asset Transfer**");

(d) the Sellers have delivered to the Buyer duly executed counterparts to the Ancillary Documents and such other documents and deliveries set forth in Section 8.1(d);

(e) the receipt of any regulatory approvals set forth on Schedule 8.1(e) and delivery of evidence thereof reasonably

satisfactory to the Buyer;

(f) the receipt of those certain consents and approvals set forth on Schedule 8.1(f) and delivery of evidence thereof reasonably satisfactory to the Buyer;

(g) the acceptance of employment with the Buyer or its Affiliates by at least [\*\*] of the Business Employees that are not administrative employees or European sales representatives;

(h) the receipt of an employment agreement between the Buyer or any of its Affiliates and René Korte in form and substance reasonably acceptable to the parties thereto and generally consistent with the draft currently being negotiated by the parties thereto;

(i) all Encumbrances relating to the Purchased Assets have been released in full and the Sellers have delivered to the Buyer written evidence, in form satisfactory to the Buyer, of the release of such Encumbrances;

(j) the successful achievement (as reasonably determined by the Buyer) by the Sellers of the implementation targets set forth on Schedule 8.1(j) with respect to the business enterprise system software selected by the Buyer;

(k) the satisfactory establishment and expansion (as reasonably determined by the Buyer) of the capabilities of the financial reporting group of the Business;

(l) the full and complete termination of all intercompany agreements, arrangements and transactions, other than those set forth on Schedule 8.1(l) (which schedule may be amended at the sole discretion of the Buyer at any time prior to the Closing), and the delivery by of a full release with respect to any related claims;

(m) entry into written replacements with respect to existing oral Contracts set forth on Schedule 8.1(m) (which schedule may be amended at the sole discretion of the Buyer at any time prior to the Closing to add oral Contracts for which the complete terms and conditions were not disclosed in writing to the Buyer prior to the date) in form and substance reasonably satisfactory to the Buyer and delivery of evidence thereof to the Buyer;

(n) the amendment, termination or replacement of the Contracts set forth on Schedule 8.1(n) (which schedule may be amended at the sole discretion of the Buyer at any time prior to Closing), in form and substance reasonably satisfactory to the Buyer and delivery of evidence thereof to the Buyer;

(o) a physical inventory of all Inventory included in Purchased Assets by the Buyer and its Representatives or a balance confirmation for the Inventory which is stored in ships;

(p) the Buyer has received all Permits that are necessary for it and its Affiliates to conduct the Business as conducted by the Sellers as of the Closing Date;

(q) the completion and delivery to the Buyer of the unaudited, consolidated pro forma financial statements (including balance sheet) of the Sellers as of, and for the nine-month period ending, February 28, 2019, in form and substance reasonably satisfactory to the Buyer and in accordance with German GAAP (*Bilanzrechtsmodernisierungsgesetz – BilMoG*);

(r) Winspeed has sold, assigned, transferred, conveyed, and delivered to Roccat, pursuant to transfer documents in form and substance reasonably satisfactory to the Buyer, all of Winspeed's right, title and interest in any Intellectual Property that Winspeed owns as a result of the services it provided to, or the work that it undertook on behalf of, the Sellers (the "**Winspeed IP Transfer**"); and

(s) there has not occurred a material adverse change to the financial condition or results of operations of the Sellers and the Business since the date of this Agreement, and no event or events has occurred that, individually or in the aggregate, with or without the lapse of time, could reasonably be expected to result in a such a change.

**8.2 Conditions Precedent to Obligations of the Sellers and Stockholders.** The obligations of the Sellers and Stockholders to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or prior to the Closing, of the following conditions (any one or more of which may be waived in writing by Roccat), it being understood that such conditions are included for the exclusive benefit of the Sellers and the Stockholders:

(a) the representations and warranties set forth in Section 4 are true and correct in all respects as of the date of this Agreement and as of the Closing Date as if made on such date (except that those representations and warranties which refer to facts existing at a specific date need only be true and correct as of such date);

(b) the Buyer has performed in all material respects all of the covenants and agreements required to be performed by the Buyer under this Agreement at or prior to the Closing; it being understood that for the purposes of this Section 8.2(b), the Buyer will not be deemed to have failed to perform a covenants in all material respects if the Buyer cures such failure prior to the Closing; and

(c) the Buyer has delivered to Seller duly executed counterparts to the Ancillary Documents and such other documents and deliveries set forth in Section 1.11(b); and

(d) the Buyer has established affiliated entities in Germany and Taiwan.

## **9. Termination.**

**9.1 Termination.** This Agreement may be terminated at any time prior to the Closing Date as follows and in no other manner:

(a) by mutual written consent of the Buyer, on the one hand, and the Sellers Representative, on the other hand;

(b) by the Buyer by written notice to the Sellers Representative if:

(i) the Buyer is not then in material breach of any provision of this Agreement and there has been a material breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by a Seller or Stockholder pursuant to this Agreement that would give rise to the failure of any of the conditions specified in Section 8.1 (including under Section 8.1(a)(ii), as determined, for the avoidance of doubt, with reference to the [\*\*] condition set forth therein to the extent applicable) and such breach, inaccuracy or failure has not been cured within ten days of the Sellers Representative receipt of written notice of such breach from the Buyer; or

(ii) any of the conditions set forth in Section 8.1 have not been, or if it becomes apparent that any of such conditions will not be, fulfilled by May 31, 2019, unless such failure is due to the failure of the Buyer to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing;

(c) by the Sellers Representative by written notice to the Buyer if:

(i) no Seller or Stockholder is then in material breach of any provision of this Agreement and there has been a breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by the Buyer pursuant to this Agreement that would give rise to the failure of any of the conditions specified in Section 8.2 and such breach, inaccuracy or failure has not been cured by the Buyer within ten days of the Buyer's receipt of written notice of such breach from the Sellers Representative; or

(ii) any of the conditions set forth in Section 8.2 have not been, or if it becomes apparent that any of such conditions will not be, fulfilled by May 31, 2019, unless such failure is due to the failure of the Sellers or Stockholders to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by them prior to the Closing; or

(d) by the Buyer or Sellers Representative in the event that (i) there is any Law that makes consummation of the transactions contemplated by this Agreement illegal or otherwise prohibited or (ii) any Governmental Authority has issued an Order restraining or enjoining the transactions contemplated by this Agreement, and such Order has become final and non-appealable.

**9.2 Effect of Termination.** In the event this Agreement is terminated pursuant to Section 9.1, all rights and obligations of the parties will terminate without any liability of a party to the other parties; provided, however, that the provisions set forth in Sections 9.2, 11.7 and 11.8 will survive the termination of this Agreement indefinitely; provided, however, that termination will not relieve any party from Liability for any intentional or willful breaches of this Agreement prior to the date of termination.

## **10. Parent.**

**10.1** Parent will cause the Buyer to perform its obligations under this Agreement and will be liable for any payment obligations hereunder to the extent the Buyer fails to satisfy such payment obligations.

## **11. Miscellaneous Provisions.**

**11.1 Appointment of Sellers Representative.** By their execution and delivery of this Agreement, each Seller and Stockholder hereby appoint LUTZ ABEL Rechtsanwalts PartG mbB as their agent, representative and attorney-in-fact (the "**Sellers Representative**") and Sellers Representative agrees to act as the Sellers Representative. Sellers Representative will, on behalf of the

Sellers and Stockholders: (i) give and receive notices and communications, and (ii) perform other functions specified in this Agreement. Any notices delivered to Sellers Representative pursuant to this Agreement will be deemed delivered to all of the Sellers and Stockholders. The Buyer may rely upon any such decision, act, consent or instruction of the Sellers Representative as being the decision, act, consent or instruction of all of the Sellers and Stockholders, and the Buyer is hereby relieved from any liability to any Person for any acts done in accordance with such decision, act, consent or instruction of the Sellers Representative.

**11.2 Press Releases and Communications.** No press release or public announcement related to this Agreement or the Transaction, or, prior to the Closing, any other announcement or communication (other than by the Buyer, its Affiliates, or any of their respective officers, employees, representatives and agents in the Ordinary Course of Business) will be issued or made without the approval of the Buyer; provided, however, in connection with the press release or other public announcement to be made by the Buyer announcing the execution of this Agreement or announcing the Closing of the Transaction, the Sellers Representative will have the right to review and comment on such press release or announcement prior to publication, and the Buyer will take into account all reasonable comments provided thereby.

**11.3 Fees and Expenses.** Each party to this Agreement will bear and pay all fees, costs and expenses (including legal fees and accounting fees) that have been incurred or that are incurred by such party in connection with the transactions contemplated by this Agreement.

**11.4 Attorneys' Fees.** If any legal action or other legal proceeding relating to any of the Transaction Agreements or the enforcement of any provision of any of the Transaction Agreements is brought against any party to this Agreement, the prevailing party will be entitled to recover reasonable attorneys' fees, costs and disbursements (in addition to any other relief to which the prevailing party may be entitled) subject to Section 7.2.

**11.5 Notices.** Any notice or other communication required or permitted to be delivered to any party under this Agreement will be in writing and be deemed properly delivered, given and received (a) upon receipt when delivered by hand, (b) upon transmission, if sent by electronic transmission (in each case with receipt verified by electronic mail), or (c) one (1) business day after being sent by overnight courier or express delivery service (with proof of delivery), provided that in each case the notice or other communication is sent to the address or facsimile telephone number set forth beneath the name of such party below (or to such other address or facsimile telephone number as such party specifies in a written notice given to the other parties hereto):

if to the Sellers, the Stockholders, Jöllenbeck and First Wise Media to the Sellers Representative:

LUTZ ABEL Rechtsanwalt PartG mbB  
Caffamacherreihe 8  
20355 Hamburg – Germany  
Attn: Dr. Lorenz Jellinghaus

Facsimile: 0049-040-300699699  
Email: [Jellinghaus@lutzabel.com](mailto:Jellinghaus@lutzabel.com)

with a copy to:  
Jöllenbeck GmbH  
Kreuzberg 2  
27404 Weertzen - Germany  
Email: [tim.joellenbeck@jb.eu](mailto:tim.joellenbeck@jb.eu)

if to the Buyer:

Turtle Beach Corporation  
11011 Via Frontera, Suite A  
San Diego, CA 92127

with a copy to:

Morgan, Lewis & Bockius LLP  
1111 Pennsylvania Avenue, NW  
Washington, D.C. 20004  
Attn: Tony Chan  
Facsimile: 202.739.3001  
Email: tony.chan@morganlewis.com

**11.6 Captions.** All section titles or captions contained in this Agreement and the table of contents hereof are for convenience of reference only, will not be deemed to be a part of this Agreement and will not be referred to in connection with the construction or interpretation of this Agreement.

**11.7 Counterparts.** This Agreement may be executed in several counterparts, each of which will constitute an original and all of which, when taken together, will constitute one agreement.

**11.8 Governing Law; Jurisdiction.** All issues and questions concerning the construction, validity, interpretation and enforceability of this Agreement and the exhibits and schedules hereto, and all claims and disputes arising hereunder or thereunder or in connection herewith or therewith, whether purporting to be sound in contract or tort, or at law or in equity, will be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of New York. If any dispute, controversy or claim arises out of or in connection with this Agreement, including any question regarding its existence, validity, termination, breach or interpretation or any dispute regarding the validity, amount or liability for any claim arising hereunder, the Buyer, the Sellers, and the Stockholders will use all commercially reasonable efforts to resolve the matter amicably. If, within twenty (20) days of written notice of dispute arising in connection with the Agreement, the applicable parties are unable to resolve such dispute, then dispute will be, upon the application of any applicable party, referred to and finally resolved by arbitration under the Rules of Arbitration (the Rules) in force at the date of this Agreement of the International Chamber of Commerce International Court of Arbitration (ICC) and will be administered by the ICC. The seat, or legal place, of arbitration will be Paris, France. The language to be used in the arbitration proceedings will be English and all submissions will be made in English. New York law will be applicable to the merits of such dispute. The tribunal will consist of one arbitrator mutually agreed to by the applicable parties. Each party hereto acknowledges and agrees that the arbitrator will have the power to grant any legal or equitable remedy or relief available, including injunctive relief, whether interim and/or final, and specific performance, and any measures ordered by the arbitrator may be specifically enforced by any court of competent jurisdiction. Each party hereto retains the right to seek interim or provisional measures, including injunctive relief and including pre-arbitral attachments or injunctions, from any court of competent jurisdiction, and any such request will not be deemed incompatible with the agreement to arbitrate. In furtherance of the foregoing, each of the parties hereto (a) waives the defense of inconvenient forum, (b) agrees not to commence any suit, action or other proceeding arising out of this Agreement or any transactions contemplated hereby other than in any such court, and (c) agrees that a final judgment in any such suit, action or other proceeding will be conclusive and may be enforced in other jurisdictions by suit or judgment or in any other manner provided by law.

**11.9 Successors and Assigns.** This Agreement will be binding upon each of the parties hereto and the respective successors and assigns (if any) of the foregoing. This Agreement will inure to the benefit of each of the parties hereto and the respective successors and assigns (if any) of the foregoing. Notwithstanding the foregoing, neither the Sellers nor the Stockholders may assign this Agreement or any rights or obligations hereunder to any other Person without the prior written consent of the Buyer and any attempt to do so will be null and void. The Buyer may assign any or all of its rights and delegate any or all of its obligations hereunder, including its rights to purchase any portion of the Purchased Assets or its obligations to assume any Assumed Liability, in whole or in part, to any of its Affiliates or to a purchaser of all or substantially all of the assets of the Buyer, in which case, such assignment and delegation will constitute a novation of all duties, obligations and Liabilities of the Buyer with respect to such delegation.

**11.10 Waiver.**

(a) Except as specifically set forth herein, the rights and remedies of the parties are cumulative and not alternative. No failure on the part of any Person to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of any Person in exercising any power, right, privilege or remedy under this Agreement, will operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy will preclude any other or further exercise thereof or of any other power, right, privilege or remedy.

(b) No Person will be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written

instrument duly executed and delivered on behalf of such Person; and any such waiver will not be applicable or have any effect except in the specific instance in which it is given.

**11.11 Amendments.** This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of the Buyer, each of the Sellers, and each of the Stockholders.

**11.12 Severability.** Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction will not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of the arbitrator declares that any term or provision hereof is invalid or unenforceable, the parties hereto agree that the arbitrator making such determination will have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement will be enforceable as so modified. In the event such arbitrator does not exercise the power granted to it in the prior sentence, the parties hereto agree to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term.

**11.13 Entire Agreement.** The Transaction Agreements set forth the entire understanding of the parties relating to the subject matter thereof and supersede all prior agreements and understandings among or between any of the parties relating to the subject matter thereof. This Agreement will not confer any rights or remedies upon any Person other than the parties hereto and their respective successors and permitted assigns, other than Section 7 (which will be for the benefit of the Persons set forth therein).

**11.14 Construction.**

(a) For purposes of this Agreement, whenever the context requires: the singular number will include the plural, and vice versa; the masculine gender will include the feminine and neuter genders; the feminine gender will include the masculine and neuter genders; and the neuter gender will include the masculine and feminine genders.

(b) The parties hereto agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party will not be applied in the construction or interpretation of this Agreement.

(c) As used in this Agreement, the words “include” and “including,” and variations thereof, will not be deemed to be terms of limitation, but rather will be deemed to be followed by the words “without limitation.”

(d) Except as otherwise indicated, all references in this Agreement to “Sections” and “Exhibits” are intended to refer to Sections of this Agreement and Exhibits to this Agreement.

(e) The paragraph headings in this Agreement are for convenience of reference only and will not be deemed to alter or affect any provision of this Agreement.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

The parties to this Agreement have caused this Agreement to be executed and delivered as of the date first written above.

**SELLERS:**

**ROCCAT GMBH  
ROCCAT STUDIOS TAIPEI CO.,  
LTD.  
ROCCAT ASIA PACIFIC CO., LTD.  
ROCCAT INC.**

By: \_\_

Name: René Korte

Title: Managing Director of each Seller

**STOCKHOLDERS:**

Name: René Korte

Name: Tim Jöllenbeck

Name: Michael Eisenblatter

**BUYER:**

**TBC HOLDING COMPANY LLC**

By: \_\_

Name:

Title:

**TURTLE BEACH CORPORATION**

By: \_\_

Name:

Title:

**JÖLLENBECK GMBH**



By: \_\_  
Name: Tim Jöllenbeck  
Title: Managing Director

## **FIRST WISE MEDIA GMBH**

By  
Name: Tim Jöllenbeck and Michael  
Eisenblätter  
Title: CEO

### **EXHIBIT A**

#### **CERTAIN DEFINITIONS**

For purposes of the Agreement (including this Exhibit A):

“**Accounts Receivable**” has the meaning set forth in Section 2.7.

“**Adjustment Escrow Amount**” means an amount equal to [\*\*].

“**Affiliate**” of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“**Agreement**” means the Asset Purchase Agreement to which this Exhibit A is attached, as it may be amended from time to time.

“**Allocation**” has the meaning specified in Section 1.10.

“**Ancillary Documents**” means the Escrow Agreement, the Transfer Documents, the Transition Services Agreement, and the other agreements, instruments and documents required to be delivered at the Closing.

“**AR Period**” has the meaning set forth in Section 1.7(e).

“**Assigned Contracts**” has the meaning set forth in Section 1.1.

“**Assumed Liabilities**” has the meaning set forth in Section 1.2(a).

“**Authorized Products**” has the meaning set forth in Section 6.4(b).

“**Authorized Sales Period**” has the meaning set forth in Section 6.4(b).

“**Basket**” has the meaning set forth in Section 7.2(c).

“**Benefit Plan**” has the meaning set forth in Section 2.10(d).

“**Books and Records**” has the meaning set forth in Section 1.1(a).

“**Breach**” of a representation, warranty, covenant, obligation or other provision means any inaccuracy in or breach (including any inadvertent or innocent breach) of, or any failure (including any inadvertent failure) to comply with or perform, such representation, warranty, covenant, obligation or other provision, and the term “Breach” will be deemed to refer to any such inaccuracy, breach, failure, claim or circumstance.

“**Business**” has the meaning set forth in the recitals.

“**Business Employee**” has the meaning set forth in Section 2.10(a).

“**Business IP Agreements**” has the meaning set forth in Section 2.11(e).

“**Buyer**” has the meaning specified in the preamble.

“**Buyer Adjustment Amount**” has the meaning specified in Section 1.5(g)(i)(A).

“**Buyer Indemnifying Party**” has the meaning set forth in Section 7.3(a).

“**Buyer Indemnitees**” means the following Persons: (a) the Buyer; (b) the Buyer’s current and future Affiliates; (c) the respective Representatives of the Persons referred to in clauses “(a)” and “(b)” above; and (d) the respective successors and assigns of the Persons referred to in clauses “(a)”, “(b)” and “(c)” above.

“**Cap**” has the meaning set forth in Section 7.2(c).

“**Closing**” has the meaning specified in Section 1.11(a).

“**Closing Date**” has the meaning specified in Section 1.11(a).

“**Closing Purchase Price**” means €14,500,000 in cash, minus Indebtedness to be paid by the Buyer in accordance with Section 1.11(b)(iv) of the Agreement, minus the amount (if any) by which Closing Working Capital is less than the Target Working Capital, plus the amount (if any) by which Closing Working Capital is greater than the Target Working Capital, minus the Adjustment Escrow Amount, minus the Indemnification Escrow Amount, and minus the Holdback Amount.

“**Closing Statement**” has the meaning set forth in Section 1.5(b).

“**Closing Working Capital**” means Working Capital as of 12:01 a.m. Eastern Time on the Closing Date.

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Consent**” means any approval, consent, ratification, permission, waiver or authorization (including any Permit).

“**Contract**” means any written, oral, implied or other agreement, contract, understanding, arrangement, instrument, note, guaranty, indemnity, representation, warranty, deed, assignment, power of attorney, certificate, purchase order, work order, insurance policy, benefit plan, commitment, covenant, assurance or undertaking of any nature.

“**Controlled Persons**” has the meaning set forth in Section 6.4(a)(i).

“**Covered Person**” has the meaning set forth in Section 6.4(a)(i).

“**Damages**” means any loss, damage, injury, decline in value, Liability, claim, demand, settlement, judgment, award, fine, penalty, Tax, fee (including any legal fee, expert fee, accounting fee or advisory fee), charge, cost (including any cost of investigation) or expense of any nature, other than any punitive damages (except to the extent paid or payable to a third party).

“**Disclosure Schedules**” has the meaning set forth in Section 2.

“**Encumbrance**” means any lien, pledge, hypothecation, charge, mortgage, security interest, equitable interest, claim, preference, right of possession, encroachment, covenant, infringement, interference, Order, proxy, option, right of first refusal, preemptive right, community property interest, legend, defect, impediment, exception, reservation, limitation, impairment, imperfection of title or similar restriction.

“**Entity**” means any corporation (including any non-profit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, cooperative, foundation, society, political party, union, company (including any limited liability company or joint stock company), firm or other enterprise, association, organization or entity.

“**Escrow Account**” has the meaning set forth in Section 1.11(b)(vi).

“**Escrow Agent**” means Citibank N.A.

“**Estimated Closing Working Capital**” has the meaning set forth in Section 1.5(a).

“**Estimated Purchase Price**” has the meaning set forth in Section 1.5(a).

“**Euro**,” etc. The terms “euros” or “€” mean dollars in the lawful currency of the European Union. All payments made pursuant to this Agreement will be in Euros. Whenever payments or calculations to be made pursuant to this Agreement require the conversion or comparison of Euros and United States dollar sums, the exchange rate to be applied as between Euro and United States dollar sums will be the Euro foreign-exchange rates published by *The Wall Street Journal* Eastern Edition on the Business Day immediately preceding the Closing Date. If no such exchange rate is published by *The Wall Street Journal*, then the exchange rate published by *The Financial Times* on the Business Day immediately preceding the Closing Date will be used.

“**Excluded Assets**” has the meaning set forth in Section 1.2(b).

“**Excluded Contracts**” has the meaning set forth in Section 1.2(b)(iii).

“**Excluded Inventory**” has the meaning set forth in Section 1.2(b)(vi).

“**Excluded Liabilities**” has the meaning set forth in Section 1.2(a).

“**Expiration Date**” has the meaning set forth in Section 7.1(a).

“**Extended Date**” has the meaning set forth in Section 7.1(b).

“**Financial Statements**” has the meaning set forth in Section 2.5.

“**Fundamental Representations**” has the meaning set forth in Section 7.1(b).

“**GDPR**” has the meaning set forth in Section 2.18(d).

“**Governmental Authority**” means any: (a) nation, principality, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental division, subdivision, department, agency, bureau, branch, office, commission, council, board, instrumentality, officer, official, representative, organization, unit, body or Entity and any court or other tribunal); (d) multi-national organization or body; or (e) individual, Entity or body exercising, or entitled to exercise, any executive, legislative, judicial, administrative, regulatory, police, military or taxing authority or power of any nature.

“**Holdback Amount**” means an amount equal to [\*\*].

“**IFRS**” has the meaning set forth in Section 2.5.

“**Indebtedness**” means, without duplication, as of any particular time, (a) the amount of indebtedness for borrowed money of the Sellers and their respective subsidiaries (including any unpaid principal, premium, accrued and unpaid interest, related expenses, prepayment penalties, commitment and other fees, reimbursements, indemnities and all other amounts payable in connection therewith), and (b) liabilities of the Sellers and their respective subsidiaries evidenced by bonds, debentures, notes, or other similar instruments or debt securities.

“**Indemnification Escrow Account**” means that certain account for the deposit of the Indemnification Escrow Amount.

“**Indemnification Escrow Amount**” means an amount equal to [\*\*].

“**Indemnifying Party**” has the meaning set forth in Section 7.4(a).

“**Indemnitee**” has the meaning set forth in Section 7.4(a).

“**Insolvent**” means if the present fair saleable value of an Entity’s assets do not and will not exceed its debts and other probable Liabilities.

“**Insurance Policy**” has the meaning set forth in Section 2.19.

“**Intellectual Property**” means in any jurisdiction worldwide, all intellectual property rights of any kind, including rights in, to and concerning (a) all patents (including utility and design patents), statutory invention registrations and applications for any of the foregoing (including provisional applications), and all related continuations, continuations-in-part, divisionals, reissues, re-examinations, substitutions, and extensions thereof; (b) all trademarks, service marks, names, corporate names, trade names, Internet domain names, URLs and any other addresses for use on the Internet or any other computer network or communication system,

websites and website content, and social media, including social media accounts and handles, logos, slogans, trade dress, and other similar designations of source or origin (and all translations, adaptations, derivations and combinations of the foregoing), together with the goodwill symbolized by any of the foregoing (all of the foregoing in (b), collectively “**Trademarks**”); (c) all copyrights (including copyrights in Software) and copyrightable subject matter, works of authorship, publications, audio-visual works, and rights in fonts and typefaces; (d) all software (including any and all software implementations of algorithms, whether in source code, executable code, or object code), assemblers, applets, compilers, compiled code, binaries, design tools, development tools, user interfaces, operating systems, design documents, website code and specifications, data and databases related to any of the foregoing, user manuals and training materials and other documentation related to the foregoing and any translations thereof, data, databases and compilations of information; (e) all confidential and proprietary information, inventions, formulas, processes, research and developments, technology, research, trade secrets and know-how, concepts, ideas, rights in financial, marketing and business data, pricing and cost information, business and marketing plans, algorithms, inventions, processes, techniques, technical data, designs, drawings, specifications, and customer and supplier lists and information, in each case, whether patentable or not and whether or not reduced to practice (“**Trade Secrets**”); (f) all design rights, including industrial design rights and community design rights; (g) rights of publicity, rights of privacy and moral rights; and (h) all applications and registrations for any and all of the foregoing, copies and tangible embodiments of any and all of the foregoing; and (i) all rights and remedies against past, present, and future infringement, misappropriation or other violation thereof.

“**Intellectual Property Assignments**” means one or more assignments of the Seller Owned IP substantially in the form of Exhibit H duly executed by the applicable Sellers.

“**Interim Financial Statements**” has the meaning set forth in Section 2.5.

“**Interim Period**” has the meaning set forth in Section 5.1(a).

“**Inventory**” has the meaning set forth in Section 2.8.

“**Knowledge**” means the [\*\*] knowledge of [\*\*].

“**Law**” means any federal, state, local, municipal, foreign or other law, statute, legislation, constitution, principle of common law, resolution, ordinance, code, edict, decree, proclamation, treaty, convention, rule, regulation, ruling, directive, pronouncement, requirement, specification, determination, decision, opinion or interpretation issued, enacted, adopted, passed, approved, promulgated, made, implemented or otherwise put into effect by or under the authority of any Governmental Authority.

“**Liability**” means any debt, obligation, duty or liability of any nature (including any unknown, undisclosed, unmatured, unaccrued, unasserted, contingent, indirect, conditional, implied, vicarious, derivative, joint, several or secondary liability), regardless of whether such debt, obligation, duty or liability would be required to be disclosed on a balance sheet prepared in accordance with generally accepted accounting principles and regardless of whether such debt, obligation, duty or liability is immediately due and payable.

“**Material Customer**” has the meaning set forth in Section 2.15(a)(i).

“**Material Supplier**” has the meaning set forth in Section 2.15(b)(i).

“**Net Revenue**” means the net revenue of the Business as calculated, without duplication, in accordance with Exhibit I.

“**Non-compete Period**” has the meaning set forth in Section 6.4(a)(i).

“**Notice of Claim**” has the meaning set forth in Section 7.4(a).

“**Objection Notice**” has the meaning set forth in Section 1.5(d).

“**Off-the-Shelf License**” has the meaning set forth in Section 2.11(c).

“**Open Source Code**” means any software code that is distributed as “free software” or “open source software” or is otherwise distributed publicly in source code form under terms that permit modification and redistribution of such software. Open Source Code includes software code that is licensed under the GNU General Public License, GNU Lesser General Public License, Mozilla License, Common Public License, Apache License, BSD License, Artistic License, or Sun Community Source License.

“**Order**” means any: (a) order, judgment, injunction, edict, decree, ruling, pronouncement, determination, decision, opinion, verdict, sentence, subpoena, writ or award issued, made, entered, rendered or otherwise put into effect by or under the authority of any court, administrative agency or other Governmental Authority or any arbitrator or arbitration panel; or (b) Contract with any Governmental Authority entered into in connection with any Proceeding.

**“Ordinary Course of Business”** means an action taken by or on behalf of the Sellers that is (a) recurring in nature, is consistent with the past practices of the Sellers and is taken in the ordinary course of the normal day to day operations of the Sellers; (b) taken in accordance with sound and prudent business practices; (c) not required to be authorized by the Stockholders, the board of directors of the Sellers or any committee of the board of directors of the Sellers and does not require any other separate or special authorization of any nature; and (d) similar in nature and magnitude to actions customarily taken, without any separate or special authorization, in the ordinary course of the normal day to day operations of Entities (other than the Sellers) that are engaged in businesses similar to the business of the Sellers as of the Closing.

**“Parent”** means has the meaning set forth in the Preambles.

**“Past Due Receivables”** has the meaning set forth in Section 1.1(a)(ii).

**“Permit”** means any: (a) permit, license, certificate, franchise, concession, approval, consent, ratification, permission, clearance, confirmation, endorsement, waiver, certification, designation, rating, registration, qualification or authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Authority or pursuant to any Law; or (b) right under any Contract with any Governmental Authority.

**“Permitted Encumbrance”** means any: (a) Liens for Taxes not yet due and payable; (b) statutory Liens to secure obligations to landlords or lessors under leases or rental agreements, the obligations secured by which are not yet due and payable; (c) inchoate statutory Liens in favor of carriers and warehousemen to secure claims for labor, the obligations secured by which are not yet due and payable; and (d) zoning, entitlement, building and other land use regulations imposed by a Governmental Authority having jurisdiction over the Leased Real Property that are not violated by the current use and operation thereof.

**“Person”** means any individual, Entity or Governmental Authority.

**“Personal Information”** has the meaning set forth in Section 2.18(a).

**“Positioning Guidelines”** has the meaning set forth in Section 1.7(d).

**“Positioning Period”** has the meaning set forth in Section 1.7(d).

**“Privacy Policy”** has the meaning set forth in Section 2.18(d).

**“Proceeding”** means any action, suit, litigation, arbitration, proceeding (including any civil, criminal, administrative, investigative or appellate proceeding and any informal proceeding), prosecution, contest, hearing, inquiry, inquest, audit, examination or investigation commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental Authority or any arbitrator or arbitration panel.

**“Product Kiosks”** has that meaning set forth in Section 1.1(a)(iv).

**“Purchase Price”** has the meaning set forth in Section 1.3.

**“Purchased Assets”** has the meaning set forth in Section 1.1.

**“Registered IP”** means all Seller Owned IP that are registered, filed, or issued under the authority of any Governmental Authority or domain name registrar, including all patents, registered copyrights, registered mask works, and registered Trademarks, registered domain names, and all applications for any of the foregoing.

**“Related Party”** has the meaning set forth in Section 2.20.

**“Related Party Transaction”** has the meaning set forth in Section 2.20.

**“Related Person”** means with respect to a particular individual (a) each other member of such individual’s Family, (b) any Person that is directly or indirectly controlled by any one or more members of such individual’s Family, and (c) any Person with respect to which one or more members of such individual’s Family serves as a director, officer, partner, executor or trustee (or in a similar capacity). For purposes of this definition, “Family” of an individual includes the individual, the individual’s spouse, any other natural person who is related to the individual or the individual’s spouse within the second degree and any other individual who resides with such individual.

**“Representatives”** means officers, directors, employees, agents, attorneys, accountants, advisors and representatives.

**“Restricted Business”** has the meaning set forth in Section 6.4(a)(i).

“**Restricted Party**” has the meaning set forth in Section 6.4(a).

“**Restrictive Covenants**” has the meaning set forth in Section 6.4.

“**Return Expense**” has the meaning set forth in Section 1.6.

“**Roccat Subsidiaries**” has the meaning set forth in Section 2.1(b).

“**Schedule**” has the meaning set forth in Section 2.

“**Schedule Supplement**” has the meaning set forth in Section 5.7.

“**Security Incident**” has the meaning set forth in Section 2.18.

“**Seller Adjustment Amount**” has the meaning set forth in Section 1.5(g)(ii).

“**Seller Indemnifying Parties**” has the meaning set forth in Section 7.2(a).

“**Seller Indemnitees**” means the following Persons: (a) any Seller or Stockholder; (b) any Seller’s or Stockholder’s current and future Affiliates; (c) the respective Representatives of the Persons referred to in clauses “(a)” and “(b)” above; and (d) the respective successors and assigns of the Persons referred to in clauses “(a),” “(b)” and “(c)” above.

“**Seller IP**” means (a) the Seller Owned Registered IP, (b) all Intellectual Property of any other Person used or held for use by one or more of the Sellers under the Business IP Agreements set forth on Schedule 2.11(c) and Schedule 2.11(d).

“**Seller Owned IP**” means all Intellectual Property (i) including all Intellectual Property embodied in or arising out of the Seller Products, owned or purported to be owned by one or more of the Sellers and (ii) Intellectual Property owned by Winspeed and to be transferred to Roccat pursuant to the Winspeed IP Transfer.

“**Seller Product**” means any product designed, developed, manufactured, marketed, distributed, provided, licensed, or sold at any time by any of the Sellers or under the “Roccat” brand.

“**Seller Software**” has the meaning set forth in Section 2.11(l).

“**Sellers**” has the meaning set forth in the introductory paragraph.

“**Sellers Knowledge**” or any similar expression with regard to the knowledge or awareness of Sellers, means the knowledge after reasonable investigation of the Stockholders and the directors and officers of the Sellers.

“**Sellers Representative**” has the meaning set forth in Section 11.1.

“**Stock Consideration**” means €800,000 worth of shares of Parent (with such number of shares calculated using the 10-day volume weighted average price per share of Parent stock immediately prior to the Closing Date).

“**Stockholder Indemnifying Parties**” has the meaning set forth in Section 7.2(a).

“**Stockholders**” has the meaning specified in the introductory paragraph to the Agreement.

“**Target Working Capital**” means an amount calculated in accordance with Exhibit J.

“**Tax**” means any tax of any kind or nature (including any income tax, alternative or add-on minimum tax, franchise tax, capital gains tax, estimated tax, gross receipts tax, value-added tax, surtax, excise tax, ad valorem tax, transfer tax, stamp tax, sales tax, use tax, property tax, business tax, occupation tax, inventory tax, occupancy tax, withholding tax, payroll tax, employment tax, excise tax, severance tax, real or personal property tax, or social security contributions (whether computed on a separate or consolidated, unitary or combined basis, or in any other manner)), deficiency, customs, duties and assessments, charges or fees of any similar nature, and for the avoidance of doubt, including, but not limited to, taxes within the meaning of Sec. 3 of the German General Tax Code (*Abgabenordnung*), and any related charge or amount (including any fine, penalty or interest or addition thereto), that is, has been or may in the future be (a) imposed, assessed or collected by or under the authority of any Governmental Authority, or (b) payable pursuant to any tax-sharing agreement or similar Contract, as a transferee or successor, by Contract, or otherwise.

“**Tax Return**” means any return (including any information return), report, statement, declaration, estimate, schedule, notice, notification, form, election, certificate or other document or information that is, has been or may in the future be filed with or submitted

to, or required to be filed with or submitted to, any Governmental Authority in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of or compliance with any Law relating to any Tax.

“**Team Roccat**” means Team Roccat GmbH, a private limited company organized under the laws of Germany.

“**Third-Party Claim**” has the meaning set forth in Section 7.4(a).

“**Third-Party Defense**” has the meaning set forth in Section 7.4(a).

“**Transaction Agreements**” means: (a) the Agreement; and (b) the Ancillary Documents.

“**Transactions**” means (a) the execution and delivery of the respective Transaction Agreements, and (b) all of the transactions contemplated by the respective Transaction Agreements, including: (i) the sale of the Purchased Assets to the Buyer in accordance with this Agreement; (ii) the assumption of the Assumed Liabilities by the Buyer pursuant to the Assumption Agreement; and (iii) the performance by the Sellers, the Stockholders and the Buyer of their respective obligations under the Transaction Agreements, and the exercise by the Sellers, the Stockholders and the Buyer of their respective rights under the Transaction Agreements.

“**Transfer Documents**” has the meaning set forth in Section 1.11(b)(i).

“**Transfer Tax**” exclusively means the following Taxes: real estate transfer Tax, sales Tax, use Tax, stamp Tax, stamp duties other similar Taxes, charges or fees occasioned solely by the signing of or consummation of the Transaction contemplated by this Agreement, it being understood that such term does not include any income, profit, or capital gain related Tax levied on the Sellers, other Parties to this Agreement or any third party upon the transfer of the title or the beneficial ownership in or the assignment or assumption of the Purchased Assets or Assumed Liabilities or the Business.

“**Transferring Employee**” has the meaning set forth in Section 5.4(a).

“**Union**” has the meaning set forth in Section 2.10(b) of the Agreement.

“**Valuation Firm**” has the meaning set forth in Section 1.5(d).

“**VAT**” means (i) any Tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (Directive 2006/112/EC) and the applicable Laws, regulations and rules in the applicable jurisdiction, and (ii) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such Tax referred to in paragraph (i) above, or imposed elsewhere (including, for the avoidance of doubt, Swiss value-added tax and Taiwan business tax); in all cases of (i) or (ii) above, including any additions for late payments (*Säumniszuschläge*) and interest (*Zinsen*) as well as secondary liabilities in relation thereto.

“**Winspeed**” means Winspeed Co., Ltd, doing business as Jiezhi and certain other business names.

“**Winspeed IP Transfer**” has that meaning set forth in Section 8.1(r).

“**Working Capital**” means the current assets included in the Purchased Assets less the current liabilities included in the Assumed Liabilities, in each case, determined and calculated in accordance with Exhibit C.







