

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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2017

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 92127
(Address of principal executive offices) (Zip Code)

(888) 496-8001

(Registrant's telephone number, including area code)

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

Common Stock, par value \$0.001
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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 aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of June 30, 2017 was \$15,636,261.

The number of shares of Common Stock, \$0.001 par value, outstanding on February 28, 2018 was 49,386,006.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report is incorporated herein by reference from the registrant's definitive proxy statement or annual report on Form 10-K/A to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year.

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PART I

Statement Regarding Forward-Looking Disclosures

This Annual Report on Form 10-K (this “Report”) includes, and incorporates by reference, certain forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words “may,” “could,” “will,” “would,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “intend,” “predict,” “seek,” “contemplate,” “potential” or “continue” and similar expressions. These forward-looking statements reflect the current expectations of Turtle Beach Corporation concerning future events and actual results may differ materially from current expectations or historical results. Any such forward-looking statements are subject to various risks and uncertainties, including without limitation those discussed in the sections of this Report entitled “Business Overview,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management’s beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the expansion of product offerings geographically or through new marketing applications, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. In addition, even if our actual results are consistent with the forward-looking statements contained in this Report, those results may not be indicative of results or developments in subsequent periods. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- The availability of capital under our revolving credit facility and term loan;
- Our dependence on the success and availability of third-party platforms and software to drive sales of our headset products;
- Continued relationships with our largest customers;
- Our ability to adapt to new technologies and introduce new products on a timely basis;
- The impact of competitive products, technologies and pricing;
- The impact of seasonality on our business;
- Manufacturing capacity constraints and difficulties;
- Current and future transitions in video gaming console platforms and the potential impact on our business;
- The scope of protection we are able to establish and maintain for intellectual property rights covering our technology;
- Our ability to forecast demand for our products;
- Estimates of our future revenues, expenses, capital requirements and our needs for additional financing;
- Cybersecurity and other information technology risks;
- Our success at managing the risks involved in the foregoing items;
- Our ability to maintain our listing on the Nasdaq Stock Exchange;
- Our financial performance; and
- Other factors discussed under Item 1A - Risk Factors or elsewhere in this Report.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission (“SEC”), we undertake no obligation to publicly update or revise any forward-looking statements after we file this Annual Report on Form 10-K, whether as a result of any new information, future events or otherwise. Investors, potential investors and other readers are urged to consider the above mentioned factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results or performance.

Unless the context indicates otherwise, all references in this Report to “we,” “our,” “us,” “the Company,” and “Turtle Beach” refer to Turtle Beach Corporation and its wholly-owned subsidiaries.

Item 1 - Business Overview

Turtle Beach Corporation, headquartered in San Diego, California is the global leader in gaming headsets and has been an innovator in premier audio technology for over 40 years. The Turtle Beach® brand is highly regarded among the over 700 million gamers in North America and Europe where the company has a dominant market share in gaming headsets for Xbox and PlayStation® consoles. In addition to its gaming headset business, the company acquired and developed an innovative and patent-protected sound technology that delivers immersive, directional audio called HyperSound® via a reverse merger with Parametric Technologies in January 2014.

Turtle Beach Corporation was incorporated in the state of Nevada in 2010 and the company's stock is traded on the Nasdaq Global Market under the symbol HEAR.

VTB Holdings, Inc. ("VTBH"), the subsidiary of Turtle Beach and the parent holding company of Voyetra Turtle Beach, Inc. ("VTB") and Turtle Beach Europe Limited ("TB Europe"), together the historical headset business, was incorporated in the state of Delaware in 2010 with operations principally located in Valhalla, New York. VTB was incorporated in the state of Delaware in 1975.

Headset Business

Turtle Beach launched its first gaming headset in 2005 and has grown to be the leading brand in console gaming headsets. The Company designs and markets premium audio peripherals for both Xbox and PlayStation® game consoles, as well as for PC, Mac® and mobile/tablet devices. Additionally, Turtle Beach is an officially-licensed partner of Microsoft, delivering innovative and groundbreaking first-to-market products for their latest family of consoles including the latest Xbox One X. Turtle Beach headsets are distributed internationally across North America, South America, Europe, the Middle East, Africa, Australia, and Asia, and are sold at thousands of storefronts, including major retailers such as Amazon, Argos, Best Buy, Game, GameStop, EB Games, Target, and Walmart.

The Company offers a variety of headsets, spanning multiple retail price points ranging from \$20 to \$300, with offerings compatible across all major gaming platforms. Our price tiers correspond to customer profiles, beginning with "Entry-Level" gamers and progressing through "Casual," "Enthusiast," "Core," and professional gamers including eSports players and fans. Each successive price tier incorporates a higher level of finish, features and technology, progressing from passive mono to amplified stereo, surround sound, and programmable surround sound. Premium headsets have padded leather headbands, accent stitching, and noise-isolating memory foam ear cups. Other features found in select premium headset models include removable microphones, breakaway cables and "charge-and-play" batteries that allow gamers to continue playing even as they recharge their batteries. As gaming consoles have evolved from dedicated video game platforms to home entertainment hubs, and as mobile and tablet devices have become mainstay platforms for entertainment, we have continued to evolve our headsets to reflect how content is consumed.

Each Turtle Beach headset is designed for a "primary" platform, such as a specific console or for the personal computer platform, though many can be used with multiple platforms, and most are compatible with mobile/tablet devices via a standard 3.5mm jack and Bluetooth® connectivity. A primary platform designation paired with our unique, platform-specific packaging designs often result in our products being assorted in multiple sections in-store by retailers, increasing the prominence of the Turtle Beach brand and its products in physical retail locations and online catalogs.

In 2017, Turtle Beach was the leading console gaming headset manufacturer in North America with a 42.1% dollar share of the market, as noted by the December 2017 sales tracking data from The NPD Group, Inc ("NPD Group"), holding six of the top ten selling Xbox One models and four of the top ten selling PlayStation®4 models by revenue. Market share in the UK was 51.8% in 2017 as reported by GFK. The company has achieved these high global market shares by delivering high quality products that often include first-to-market innovations and robust features, in addition to superior sound and unmatched comfort - all key factors gamers look for when shopping for a gaming headset.

HyperSound Business

HyperSound technology is a pioneering audio solution that projects sound in a highly directional manner. HyperSound directs a beam of audio to targeted listeners in a specific spot, delivering an immersive, 3D-like audio experience as well as benefits for people with hearing loss. The Company has also developed and patented the capability to create directed audio from a transparent "speaker" using a set of layered materials on glass. The technology has applications in multiple verticals including retail displays where isolated audio is desired, personal or business audio where a directed beam of audio offers privacy benefits, and living room audio solutions for people with hearing loss.

Our business model for HyperSound has evolved into a licensing strategy, focusing on out licenses to companies in the retail aspect for more precise marketing. In October 2017, we signed a licensing contract with Waves Systems to incorporate

HyperSound technology for customer contact points such as retail point of sales, kiosks, digital signage, wayfinding, museum exhibits, meeting halls and more.

Industry Overview

Gaming Headset Market

Gaming headsets are part of a global, growing gaming market sized at over \$100 billion. Global gaming now exceeds both global cinema and global music market sizes with over 2.1 billion active gamers worldwide. Gaming peripherals are a \$2 billion business globally with over 75%, over \$800 million, of that market in the Americas and Europe where the company's business is focused. Gaming headsets are nearly half of that, at over \$1 billion in global market size.

eSports is a global phenomena where professional gamers train, compete, win prize money and attract fans similar to other professional sports. There are over 140 million eSports enthusiasts globally and growing quickly. Gaming headsets are a must-have piece of equipment for competitive gaming.

Xbox and PlayStation® consoles are the dominant gaming platforms in North America and Europe. Many gamers play online where gaming headsets - which include a microphone and allow players to communicate with one another in real time - provide the ability to jump in and engage in the industry's most popular games and franchises. Gaming headsets also create a more immersive and rich gaming experience. In addition to consoles, personal computers are a key platform for gaming and utilize similar style headsets with the requisite benefits. Gaming on mobile/tablet devices represents about a third of the global gaming market and headsets can be used for mobile gaming, but Xbox, PlayStation®, and PC gaming are by far the largest drivers of gaming headset use. Nintendo Switch™ has emerged as a popular gaming platform, although much less of a driver of gaming headset sales.

Historically, Microsoft and Sony go through cycles where their respective console platform is changed and/or updated to a significant new version. In holiday 2013, Microsoft launched Xbox One to replace Xbox 360, while Sony launched Playstation®4 to replace Playstation®3. Those console transitions created a major disruption for gaming headsets and other accessories because the fundamental connectivity to the new platforms changed. From 2013 to 2015, that disruption negatively impacted the gaming accessory market as the old generation headset business rapidly declined and new headsets had to be developed for the new consoles. In 2016 and 2017, respectively, both Microsoft and Sony launched "Pro" versions of their latest console platforms which didn't create any disruption for the gaming headset business and the Company believes this is a good indication that any potential future console changes will not be as disruptive.

In addition to console sales, the Xbox, PlayStation®, and PC gaming markets are driven by major games which encourage players to buy equipment and accessories. On Xbox and PlayStation®, tentpole games like Call of Duty®, Destiny, Battlefield, Grand Theft Auto and more recently Fortnite and PlayerUnknown's Battlegrounds are examples of major franchises that feature online multiplayer modes, which drive gaming headset sales. Many of these established franchises launch new titles annually leading into the holidays, which furthers the popularity of gaming headsets as gift items. As a result, the gaming headset business is highly seasonal, often with 45%-55% of the business occurring in the fourth quarter. The gaming headset business can also expand or contract based on the success of these major game launches.

During 2017, PlayerUnknown's Battlegrounds introduced a new style of multiplayer game known as "Battle Royal," where players compete in a large, but shrinking maps until there is a single winner left. Players can play on teams, and audio cues are very helpful to surviving, making headsets a key accessory for this type of game. Epic Games introduced Fortnite which includes a similar format in late 2017, but with a more kid-friendly feel. Both games have soared in popularity over the past months with large and continually growing audiences of both players and spectators via content sharing platforms like Twitch, YouTube, Xbox's Mixer, and PlayStation® Now.

Gaming headsets are sold through major retailers such as Argos, Best Buy, GameStop, Target and Walmart as well as online retailers such as Amazon and NewEgg. Brick and mortar retailers often have "kiosks" which enable shoppers to "try before they buy," offering consumers the opportunity to experience each headset's specific fit, feel and overall audio quality.

Over the past few years, retail channel inventory levels have varied significantly. At the end of 2016, channel inventories were much higher than normal in North America and Europe due to weaker than expected performance of the major holiday game releases. This impacted revenues for the Company in the first half of 2017 given lower than normal retail replenishment. Additionally, retailers steadily reduced their run-rate inventory levels as part of increasing their competitiveness with online retailers. And in late 2017 many retailers were extremely conservative in their ordering which resulted in sporadic stock-outs at least for Turtle Beach given robust holiday demand. Coming into 2018, demand for gaming headsets has been very strong in North America and Europe resulting in the retailers needing to rapidly replenish. Currently, retail inventory levels are at a low but sustainable level and the Company expects sales in the near term to more closely reflect sell through.

Business Strategy

We intend to further build upon Turtle Beach's brand awareness, superior audio technology and high-quality products to grow the core console business as well as enter the personal computer casual gaming business to increase sales and profitability.

- **Continue to Advance Our Brand.** We believe that our brand's image among consumers is a competitive advantage and that our success is attributable to our emphasis on delivering the highest quality, most innovative headsets.

To maintain our competitive position in our markets, we are focused on the following:

- continuing to deliver innovative, high quality gaming headsets that incorporate advanced audio and wireless technology; while delivering a superior game and chat audio experience and unmatched comfort.
- maintaining our strategic relationships and furthering investment in social media and eSports partnerships, which we believe provide our brand a larger presence with consumers and create opportunities for retailers to carry our products;
- leveraging high-quality technical support/customer service to exceed consumer expectations and develop brand loyalty.
- **Expand Our Product Lines.** We continue to invest in the resources necessary to maintain and expand our technical capability to manufacture multiple product lines that incorporate the latest technologies. In 2017, we launched an industry-first Xbox One headset that wirelessly connects directly to the console.
- **Grow Revenue in New Channels.** We intend to increase our sales by continuing to develop internally, or through potential acquisitions, products that we offer to our customers with an enhanced focus on growth in the personal computer gaming sector. In order to meet emerging consumer habits, we will continue to invest in and remodel our website to drive direct sales expansion.

Product Development

We continue to innovate, make improvements to our technology and develop new products, and anticipate that we will continue to devote substantial resources to research and development in the near future. Our product management team takes a disciplined approach to product design that balances iteration, incremental improvement and innovation to achieve a blend of differentiated technology designed to attract customers, maintain product design continuity and exceed expectations as to quality, reliability and profitability. For the year ended December 31, 2017, we invested \$5.6 million in the continued expansion of our new generation headset portfolio including the launch of the Recon Chat, and the Stealth 600 and Stealth 700 series. For the years ended December 31, 2016 and 2015, we expended \$8.3 million and \$11.6 million, respectively, reflective of certain HyperSound investments.

Intellectual Property

We operate in industries where innovations, investment in new ideas and protection of resulting intellectual property rights are critical to success. We have a substantial base of intellectual property assets to protect our current and future product development, such as key innovations in gaming headsets as well as all of the core technology areas behind HyperSound, and intend to vigorously enforce such rights.

As a third-party gaming headset company certain technology used in the new generation of consoles, such as integrated voice and chat audio from the Xbox One, requires a license to enable products to connect to that platform. While Playstation®4 does not require any license to produce headsets that can connect, certain connections on the Xbox One require the purchase of proprietary chips to integrate into the locked chat audio.

While we currently believe that we have the necessary licenses, or can obtain the necessary licenses to produce compatible products, there is no guarantee that licenses will be renewed or granted. Moreover, if these licensing parties enter into exclusive 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.

Supply Chain and Operations

We have a global network of suppliers that manufacture products to meet our cost objectives and quality standards sought by our customers. We have worked closely with component, manufacturing and global logistic partners to build a supply chain that we consider predictable, scalable and consistent to provide high-quality, reliable products and leading cost management

practices. The use of outsourced manufacturing facilities is designed to take advantage of specific expertise and allow for flexibility and scalability to respond to seasonality and changing demands for our products.

In anticipation of new product development and incremental growth, we made additional investments with a focus on making advancements to our planning systems. In connection with our initiative to improve our operating efficiency and reduce costs, we have continued efforts to focus on company-wide overhead reduction activities including right-sizing our supply chain, consolidation of warehouses with our global logistics partnership with Keuhne & Nagel and transitioned our European warehouse to a third-party logistics provider.

We believe we have solid relationships with our suppliers and that, subject to the discussion in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources,” we will continue to have a sufficient supply of quality products on satisfactory terms.

Retail Distribution

Our headsets are sold in over 40 countries, by retailers such as Amazon, Best Buy, Game, GameStop, EB Games, Target, and Walmart. We often have a broader assortment and more shelf space than competitors at video game and electronics retailers such as GameStop and Best Buy, which we believe reinforces the brand’s authenticity with gaming enthusiasts, and our presence in mass channel retailers such as Walmart and Target enables the brand to reach a wider audience of casual gamers. Our established presence on Amazon.com and other online retail sites, and positive consumer product ratings on those sites, increases the search visibility of our products and helps to influence both online and in-store sales.

Turtle Beach Europe serves as a primary sales office for the European market, and has strengthened our international operations with support for sales, marketing, customer service and distribution.

TurtleBeach.com is an important focal point for our marketing efforts serving as a destination for paid and earned media. Earned media is favorable publicity gained through promotional efforts other than advertising, as compared with paid media, which refers to publicity gained through advertising. The website acts as a hub for both online and offline activity, and provides a direct sales channel for new and refurbished products.

Customers

The following tables show net revenues by product type:

Net Revenues	December 31,		
	2017	2016	2015
	(in thousands)		
Headset	\$ 148,828	\$ 173,323	\$ 161,835
HyperSound	307	655	912
Total	<u>\$ 149,135</u>	<u>\$ 173,978</u>	<u>\$ 162,747</u>

The Headset business customer base is comprised primarily of large retailers and distributors, both domestic and international. In 2017, net sales to our major market channels consisted of \$89.7 million to North American retail customers, \$41.4 million to European customers, \$9.8 million to North American distributors and \$7.9 million to other customers.

Our three largest individual customers accounted for approximately 43% of our gross sales in 2017, 49% of our gross sales in 2016 and 47% of our gross sales in 2015. During 2017, our three largest customers, Best Buy, Walmart and Game Stop, each accounted for between 13% to 16% of our consolidated net sales.

Geographic Information

In addition to the traditional markets of the United States and United Kingdom, we have pursued growth in countries such as Germany and France and believe that additional long-term growth opportunities exist in Asia Pacific and Latin America.

During 2016, we began to improve our international structure by taking retailers across Europe direct, leveraging off our new warehousing facility and simplifying our distribution model to provide less risk and lower infrastructure costs. In 2017, the Company gained market share in most of our major European markets, particularly in the United Kingdom.

The following table presents total net revenues, and percentage of total, based on where customers are physically located for each of the three years ended December 31, 2017:

	2017		2016		2015				
	(in thousands)								
North America	\$	103,159	69.2%	\$	130,371	74.9%	\$	117,526	72.2%
United Kingdom		21,113	14.2%		21,778	12.5%		20,881	12.8%
Europe		20,277	13.6%		15,729	9.0%		17,329	10.6%
Other		4,586	3.0%		6,100	3.6%		7,011	4.4%
Total revenues	\$	<u>149,135</u>		\$	<u>173,978</u>		\$	<u>162,747</u>	

Long-lived assets are largely held in the United States, refer to Note 12, “Geographic Information” in the Notes to the Consolidated Financial Statements.

Seasonality

Our gaming headset business is seasonal with a significant portion of sales and profits typically occurring around the holiday period. Historically, more than 45% of headset business revenues are generated during the period from September through December as new headsets are introduced and consumers engage in holiday shopping. In addition, launches of major new online multiplayer games and specific retailer purchasing behavior can drive significant revenue shifts between months and quarters in a given year.

Employees

As of December 31, 2017, Turtle Beach had 135 employees, of which 116 were full-time salaried employees. None of our employees are represented by a labor union. We believe that our relationship with our employees is good.

Available Information

We make available free of charge on or through our website, <http://corp.turtlebeach.com>, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Information contained on our website is not incorporated by reference unless specifically stated therein.

In addition, the public may read or copy any materials filed with the SEC at the SEC’s Public Reference Room located at 100 F Street NE, Washington, D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These reports and other information are also available, free of charge, at www.sec.gov.

Item 1A - Risk Factors

Set forth below is a summary of certain material risks related to an investment in our securities, which should be considered carefully in evaluating such an investment. Our business, financial condition, operating results and cash flows can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause the Company's actual results of operations and financial condition to vary materially from past, or from anticipated future, results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, results of operations, cash flows and common stock price. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations.

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. Please also see "Statement Regarding Forward-Looking Disclosures" in the section immediately preceding Item 1 of this Report.

Risks Related to Liquidity

We depend upon the availability of capital under our revolving credit facility and term loan 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 revolving credit facility (the "Credit Facility") provided by Bank of America, as Agent, Sole Lead Arranger and Sole Bookrunner and our term loan (the "Term Loan Due 2019") provided by Crystal Financial LLC ("Crystal"), 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 or the Term Loan Due 2019 (collectively, the "Loan Documents") and are unable to obtain a waiver under the applicable Loan Documents, Bank of America or Crystal, as applicable, may declare the outstanding borrowings under the applicable Loan Documents 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 Loan Documents 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 Loan Documents contain financial and other covenants that we are obligated to maintain. If we violate any of these covenants, we will be in default under the applicable Loan Documents. These covenants include restrictions that prohibit or otherwise limit our ability to pay dividends, incur additional indebtedness, acquire assets or engage in certain other types of transactions, and also require that we maintain certain financial ratios and EBITDA levels during specified periods. If a default occurs and is not timely cured or waived, Bank of America or Crystal, as applicable, 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 Loan Documents. 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. As of the date of this Report, we were in compliance with our covenants under the Loan Documents.

The Credit Facility and Term Loans provide our lenders with a first-priority lien against substantially all of our working capital assets, including trade accounts receivable, inventories, and intellectual property and contains certain restrictions on our ability to take certain actions.

The Credit Facility and Term Loan Due 2019 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.

In addition, we have granted the lenders a first-priority lien against substantially all of our assets, including trade accounts receivable, inventories and our intellectual property. Failure to comply with the operating restrictions or financial covenants could result in a default which could cause the lenders 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 result in further loss of confidence, which, in turn, 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 Our Operations

We depend upon the success and availability of third-party gaming platforms and software 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.

In order for certain of our headsets to connect to the Xbox One 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.

In addition, 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 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 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 2017, our three largest individual customers accounted for approximately 43% 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 or support of 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.

Future 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 such as those sold by us, 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 headset 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 more 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. For example, Sony and Microsoft have announced hardware upgrades to the current console generations with the PS®4 Pro and Xbox One X, respectively. In addition, competing technologies such as tablet-based gaming and virtual reality may result in further disruption to the overall console gaming market.

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 13, "Commitments and Contingencies," we are involved in legal proceedings related to the merger of VTBH and Paris Acquisition Corp. involving certain of our stockholders, including the holder of VTBH's Series B Redeemable Preferred Stock, (the "Series B Holder"), filing a complaint in New York state court alleging breach of contract against VTBH and seeking a declaratory judgment that he is entitled to damages and specific performance, including the redemption of his stock. The redemption value of VTBH's Series B Redeemable Preferred Stock was \$18.9 million as of December 31, 2017.

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 from time-to-time 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, 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. If we are not able to 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 ("NASDAQ"), 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.

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 December 31, 2017. However, 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.

The affirmative vote in the United Kingdom to withdraw from the European Union may adversely affect our business.

On June 23, 2016, the United Kingdom ("UK") held a referendum in which voters approved a potential exit from the European Union ("EU"), commonly referred to as "Brexit." As a result of the referendum, the UK is expected to exit the EU in March 2019. The Brexit vote, and the UK's expected exit from the EU, may result in regulatory uncertainty throughout the region and could adversely affect business activity, political stability and economic conditions in the UK, the Eurozone, the EU and elsewhere. Any of these developments could have a material adverse effect on business activity in the UK, the Eurozone, or the EU.

The uncertainty concerning terms of the exit could also have a negative impact on the growth of the UK and/or EU economies and cause greater volatility in the pound sterling, euro and/or other currencies.

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

Our competitive position will be seriously 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 and 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; and as a consequence, 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.

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. As of December 31, 2017 and the date of this Report, the Company has not received notice of any lawsuits against the Company in connection with any recall actions.

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”). For example, under Section 1502 of the Dodd-Frank Act, the SEC has adopted additional disclosure requirements related to the source of certain “conflict minerals” for issuers for which such “conflict minerals” are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by that issuer. The metals covered by the rules include tin, tantalum, tungsten and gold. Our suppliers may use some or all of these materials in their production processes. The rules require us to conduct a reasonable country of origin inquiry to determine if we know or have reason to believe any of the minerals used in the production process may have originated from the Democratic Republic of the Congo or an adjoining country. If we are not able to determine the minerals did not originate from a covered country or conclude that there is no reason to believe that the minerals used in the production process may have originated in a covered country, we would be required to perform supply chain due diligence on members of our supply chain. Global supply chains can have multiple layers, thus the costs of complying with these new requirements could be substantial. These new requirements may also reduce the number of suppliers who provide conflict free metals, and may affect our ability to obtain products in sufficient quantities or at competitive prices. Compliance costs such as these could have a material adverse effect on our results of operations.

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.

The current administration has called for substantial change to fiscal and tax policies, which include comprehensive tax reform and may include changes to the implementation of the Dodd-Frank Act and related or similar regulations. The “Tax Cuts and Jobs Act,” enacted in December 2017, reduces the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. We cannot predict whether in total we benefit from, or are negatively affected by, the changes.

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, but it has not done so to date. We also are required to notify the FDA in writing 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, it is possible that we, or one of our customers, could be required to modify the technology, or a product incorporating the technology, to comply with requirements that may be imposed by the FDA. 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. In connection with the recent restructuring of the HyperSound business, we terminated sales of HyperSound Clear 500P products, and in March 2017 we deactivated our FDA listing of these devices. We also did not renew our 2017 European Union certifications for HyperSound Clear 500P devices. Any future sales of regulated products would require new registrations and certifications.

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 or 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. The environmental laws and regulations applying to our business include those governing the discharge of pollutants into the air and water, the management, disposal and labeling of, and exposure to, hazardous substances and wastes and the cleanup of contaminated sites. 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.

We operate in 44 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 Ownership of our Common Stock

If we cannot meet Nasdaq's continuing listing requirements and Nasdaq rules, Nasdaq may delist our securities, which could negatively affect us, the price of our securities and your ability to sell our securities.

Although our shares are currently listed on Nasdaq, we may not be able to meet the continued listing requirements of Nasdaq, which require, among other things, a minimum bid price of \$1.00 per share for common shares listed on the exchange and minimum levels of stockholders' equity and the market value of our common stock outstanding. As previously disclosed, on May 9, 2017, we received a written notice from the Listing Qualifications Department of Nasdaq indicating that the Company was not in compliance with Nasdaq Listing Rule 5450(a)(1) (the "Bid Price Rule") because the bid price for our common stock had closed below \$1.00 per share for the previous 30 consecutive business days. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company was provided 180 calendar days, or until November 6, 2017, to regain compliance with the Bid Price Rule. Also as previously disclosed, on November 9, 2017, the Company made a request to the Nasdaq hearing panel to provide the Company an additional 180 calendar days to regain compliance with the Bid Price Rule, which stayed the potential delisting of the Company's common stock under Nasdaq Listing Rule 5815(a)(1) pending the hearing panel's decision. On January 17, 2018, the hearing panel approved the Company's request for an additional 180 calendar days, or until May 7, 2018, to regain compliance with the Bid Price Rule.

In addition, on January 16, 2018, the Company received a written notice from the Nasdaq Listing Qualifications Department indicating that the Company is not in compliance with Nasdaq Listing Rule 5450(b)(2)(C) (the "Market Value Rule") because the market value of publicly held shares of its common stock was less than \$15 million for 30 consecutive business days. In accordance with Nasdaq Listing Rule 5810(c)(3)(D), the Company has 180 calendar days, or until July 16, 2018, to regain compliance with the Market Value Rule. To regain compliance, the market value of publicly held shares of the Company's common stock must meet or exceed \$15 million for a minimum of 10 consecutive business days.

While we are actively considering implementation of customary resolutions, including a reverse stock split, if we are unable to regain compliance with the Bid Price Rule and/or the Market Value Rule, if our efforts are unsuccessful or we are otherwise unable to satisfy the Nasdaq criteria for maintaining our listing, our securities could be subject to delisting. As a consequence of any such delisting, our stockholders would likely find it more difficult to dispose of, or to obtain accurate quotations as to the prices of, our securities. In the event of a delisting, we could face significant material adverse consequences including limited liquidity for our securities, a limited amount of news and analyst coverage for our Company and a decreased ability to issue additional securities or obtain additional financing in the future.

Ownership of our common stock is highly concentrated, and we are a "controlled company" within the meaning of the corporate governance standards of Nasdaq and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements.

Certain Turtle Beach stockholders acting as a group beneficially own or control approximately 51% of our common stock. Accordingly, these stockholders, acting as a group pursuant to a stockholder agreement, have substantial influence over the outcome of our corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction. These stockholders also may exert influence in delaying or preventing a change in control of the Company, even if such change in control would benefit our other stockholders. In addition, the significant concentration of stock ownership may adversely affect the market value of our common stock due to investors' perception that such conflicts of interest may exist or arise.

Additionally, we have elected to be treated as a "controlled company" under Nasdaq rules. A "controlled company" under Nasdaq rules is a listed company more than 50% of the voting power of which is held by an individual, a group or another company (and which elects to be treated as a "controlled company"). Certain stockholders of Turtle Beach constitute a group controlling more than 50% of the voting power of our voting stock. As a "controlled company," we are permitted to, and have, opted out of certain Nasdaq rules that would otherwise require (i) a majority of the members of our board to be independent, (ii) that our compensation committee be comprised entirely of independent directors and (iii) that we establish a nominating and governance committee comprised entirely of independent directors, or otherwise ensure that director nominees are determined or recommended to our board by the independent members of our board. Accordingly, our stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of Nasdaq.

If the stockholder group ceases to own at least 50% of our outstanding common stock, we will no longer be eligible to be treated as a controlled company. Pursuant to Nasdaq's listing rules, upon ceasing to be a controlled company, we would be required to regain compliance with Nasdaq's listing standards applicable to non-controlled companies, including (i) within 90 days, reconfiguring the Nominating and Governance Committee of our board of directors such that a majority of the members of the committee would be independent and (ii) within 12 months, (x) reconfiguring our board of directors such that a majority of the directors would be independent and (y) reconfiguring the Compensation and Nominating and Governance Committees of the board of directors such that all members of such committees would be independent.

Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

The table below describes our principal facilities as of December 31, 2017.

Location	State or Country	Principal Business Activity	Approx. Square Feet	Owned or Expiration Date of Lease
San Diego	CA	Corporate Headquarters	13,450	2021
Valhalla	NY	Administration	11,800	2019
Basingstoke	U.K.	Administration	3,650	2027
San Jose	CA	Research & Development	3,500	2018

Item 3 - Legal Proceedings

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.

On August 5, 2013, VTBH and the Company (f/k/a Parametric) 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 cases 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. That denial was appealed to the Nevada Supreme Court. 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 did provide a limited basis upon which plaintiffs could seek to amend their complaint. Plaintiffs filed an amended complaint on December 1, 2017, and motions to dismiss were filed on January 2, 2018. The court will hear those motions on March 12, 2018. The Company believes that Plaintiffs' claims are without merit.

On February 18, 2015, Dr. John Bonanno, a minority shareholder of Series B Preferred Stock of VTBH, filed a complaint in Delaware Chancery Court alleging breach of contract against VTBH. According to the complaint, the Merger purportedly triggered a contractual obligation for VTBH to redeem Dr. Bonanno's preferred stock. Dr. Bonanno requests a declaratory judgment stating that he is entitled to damages including a redemption of his stock for the redemption value of \$15.1 million (equal to the original issue price of his stock plus accrued dividends) as well as other costs and expenses. On February 8, 2016, the Delaware Chancery Court granted VTBH's motion to dismiss for improper venue, and Dr. Bonanno's complaint was dismissed without prejudice. In January of 2017, Dr. Bonanno filed a complaint in New York state court alleging breach of

contract against VTBH and seeking a declaratory judgment that he is entitled to damages and specific performance, including redemption of his stock. VTBH answered the complaint on March 7, 2017. At the order of the Court, the parties filed cross-motions for summary judgment on March 31, 2017, on the sole question of whether the Merger was a defined event in the purported contract entitling Dr. Bonnano to redemption of his shares. The cross-motions for summary judgment were fully briefed and heard on July 6, 2017. On September 1, 2017, the Court denied Defendant's motion for summary judgment and granted Plaintiff's motion for partial summary judgment. On October 5, 2017, a status conference was held that set a pre-trial schedule such that all merits and expert discovery will conclude on May 3, 2018 and a trial readiness conference will be held on May 4, 2018. On October 11, 2017, VTBH filed a motion to reargue plaintiff's motion for summary judgment in the trial court, specifically seeking clarification that Defendant's affirmative defenses to liability remain available, which was granted. On the same day, VTBH filed a notice of appeal of the Court's decision on summary judgment in its entirety. The plaintiff's ability to recover any damages is subject to certain limitations, including, but not limited to, legally available funds. VTBH maintains that the Merger did not trigger any obligation to redeem Mr. Bonanno's preferred stock.

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 served 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 interests 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. VTB maintains that its termination of the agreement was valid and that BigBen's claims against it are without merit. VTB's statement of defense was submitted to the plaintiff and the court has granted the option to submit a further written statement in reply to the statement of defense.

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 December 31, 2017 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. An 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.

Item 4 - Mine Safety Disclosures

Not applicable.

PART II

Item 5 - Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company’s stock is traded on the NASDAQ Global Market under the symbol “HEAR.” The following table sets forth the high and low sale prices per share of our common stock on the NASDAQ for the period indicated:

	Market Price	
	High	Low
Fiscal Year 2017		
First Quarter	\$ 1.74	\$ 0.87
Second Quarter	0.96	0.65
Third Quarter	0.99	0.56
Fourth Quarter	0.86	0.42
	High	Low
Fiscal Year 2016		
First Quarter	\$ 2.07	\$ 0.91
Second Quarter	1.42	0.83
Third Quarter	1.55	0.91
Fourth Quarter	2.00	1.21

The closing price of our common stock on February 28, 2018 was \$0.45 per share. The number of holders of record of common stock at February 28, 2018 was 947.

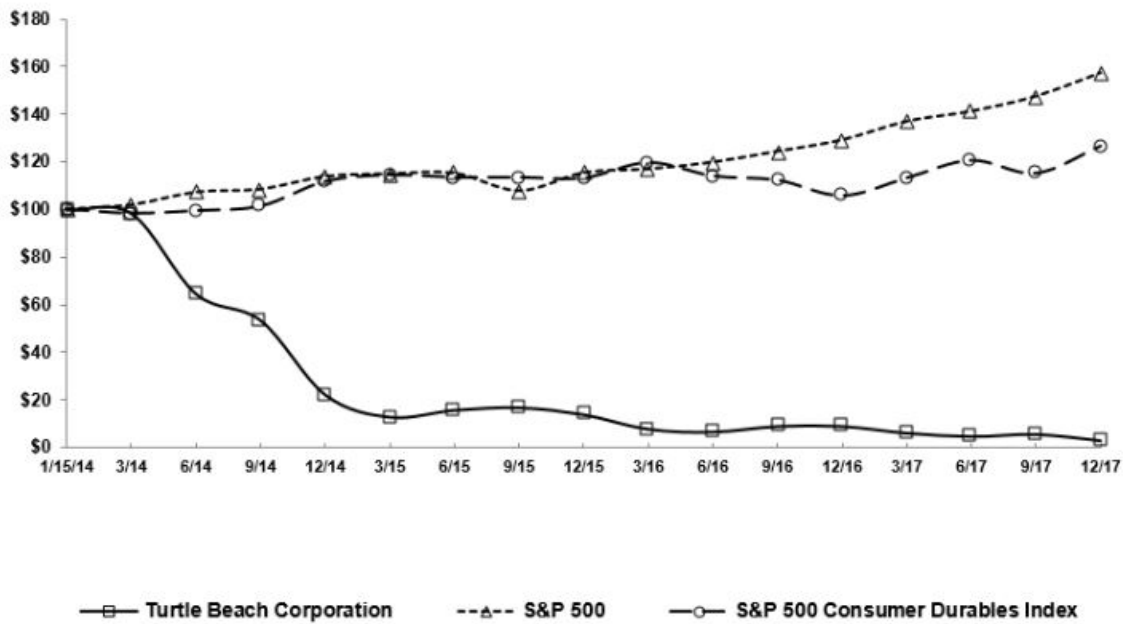
Stock Performance Graph

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, the following information relating to the price performance of our common stock shall not be deemed to be “filed” with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), to be “soliciting material” or subject to Rule 14A of the Exchange Act, or to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended (the “Securities Act”) or the Exchange Act whether made before or after the date of this Report, except to the extent we specifically incorporate it by reference into such filing.

The following graph shows a comparison from January 15, 2014, the date following the Merger (as defined in Item 6) through December 31, 2017 of the cumulative total return assuming a \$100 investment in our common stock, the S&P 500 Index and the S&P 500 Consumer Durables Index. In accordance with the rules of the Securities and Exchange Commission, the returns are indexed to a value of \$100 at December 31, 2013 and assume that all dividends, if any, were reinvested. The comparisons in this graph below are based on historical data and are not intended to forecast or be indicative of future performance of our common stock.

COMPARISON OF 4 YEAR CUMULATIVE TOTAL RETURN*

Among Turtle Beach Corporation, the S&P 500 Index,
and S&P 500 Consumer Durables Index



*\$100 invested on 1/15/14 in stock or 12/31/13 in index, including reinvestment of dividends.
Fiscal year ending December 31.

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Dividend Policy

We have not paid regular cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements and such other factors as our board of directors deems relevant.

Unregistered Sale of Equity Securities and Issuer Purchases of Equity Securities

In February 2016, concurrent with the completion of the Offering, SG VTB Holdings, LLC, the Company's largest shareholder, purchased 1,700,000 shares of our common stock for \$1.00 per share in a private placement, resulting in total gross proceeds of approximately \$1.7 million. The sale of these shares was not registered under the Securities Act of 1933, as amended, in reliance on the exemptions set forth under Section 4(2) thereof and Rule 506 of Regulation D thereunder.

Securities Authorized for Issuance under Equity Compensation Plans

See Part III, Item 12 - *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* in this annual report for disclosure relating to our equity compensation plans. Such information will be included in our Proxy Statement or an amendment to this Form 10-K, which is incorporated herein by reference.

Item 6 - Selected Financial Data

The merger (the “Merger”) between VTB Holdings, Inc. (“VTBH”) and Parametric Sound Corporation (“Parametric”) was treated as a “reverse acquisition” with VTBH considered the accounting acquirer. Accordingly, VTBH’s historical results of operations on a stand-alone basis replace Parametric’s historical results of operations for all periods on or prior to January 15, 2014, and for all periods following the Merger, the results of operations of both companies have been included.

The following table sets forth selected consolidated financial data for each of the five years ended December 31, 2017. This selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the notes thereto included in this Report.

	Year Ended December 31,				
	2017	2016 (3)	2015 (2)	2014 (1)	2013
	(in thousands, except per share data)				
Net Revenue	\$ 149,135	\$ 173,978	\$ 162,747	\$ 186,176	\$ 178,470
Cost of Revenue	98,132	131,368	122,056	135,509	128,141
Gross Profit	51,003	42,610	40,691	50,667	50,329
Gross Margin	34.2%	24.5%	25.0%	27.2%	28.2%
Operating income (loss)	4,798	(77,701)	(74,399)	(13,825)	1,589
Operating Margin	3.2%	(44.7)%	(45.7)%	(7.4)%	0.9%
Net income (loss)	\$ (3,248)	\$ (87,182)	\$ (82,907)	\$ (15,486)	\$ (6,163)
Net earnings (loss) per share:					
Basic	\$ (0.07)	\$ (1.79)	\$ (1.96)	\$ (0.39)	\$ (0.49)
Diluted	\$ (0.07)	\$ (1.79)	\$ (1.96)	\$ (0.39)	\$ (0.49)
Weighted average number of shares:					
Basic	49,343	48,592	42,269	39,665	12,700
Diluted	49,343	48,592	42,269	39,665	12,700
Balance Sheet Data					
Cash and cash equivalents	5,247	6,183	7,114	7,908	6,509
Total Assets	94,251	94,800	172,460	249,968	127,307
Total Debt	70,265	66,875	64,806	44,555	64,587
Series B Redeemable Preferred Stock	18,921	17,480	16,145	14,916	13,713
Series A Convertible Preferred Stock	—	—	—	—	24,345

(1) In 2014, we completed the merger with Parametric, which contributed revenue of \$0.7 million in the year and \$129.1 million of total assets on date of the merger.

(2) Includes goodwill impairment charge of \$49.8 million.

(3) Includes a \$7.1 million charge for inventory reserves associated with the HyperSound restructuring and goodwill and other intangibles impairment charges of \$63.2 million.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto. This discussion summarizes the significant factors affecting our results of operations and the financial condition of our business during each of the fiscal years in the three-year period ended December 31, 2017.

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 operating under two reportable segments, Turtle Beach® (“Headset”) and HyperSound®.

- Turtle Beach is a worldwide leading provider of feature-rich gaming headset solutions for use across multiple platforms, including video game and entertainment consoles, handheld consoles, personal computers, mobile and tablet devices.
- HyperSound technology is an innovative patent-protected sound technology that delivers immersive, directional audio with applications in digital signage and kiosks, consumer electronics and hearing healthcare.

Business Trends

Gaming Headset Market

Based on sales tracking data from The NPD Group, Inc (“NPD Group”), the gaming headset market in our largest market, North America, declined just over 4% in 2017 vs. 2016 driven by a weaker overall console gaming market for the first nine months of the year followed by an increase of nearly 3% in the fourth quarter with almost 6% in both November and December reflecting strong launches of several major games. The company gained share in North America to 42.1% from 41.9% in 2016.

In the United Kingdom, our second largest market, the gaming headset market increased by 1.9% in 2017 driven by a strong Q4 which grew by 3.6%. Behind the strength of our new launches, Turtle Beach outpaced the market in the holiday season and, for the full year grew by 12.5% over the prior year. The company gained share in the UK to 51.7% from 46.9% in 2016.

Major retailers of gaming headsets entered 2017 with a higher than normal level of inventory due to a weaker 2016 holiday in the gaming market than expected. This resulted in lower sales in the first half of the year as the usual level of replenishment orders were not needed until the higher channel inventories were reduced. In addition, many major retailers reduced their run-rate inventory levels as part of their efforts to improve their overall business operations. Several retailers further reduced their run-rate inventories during holiday causing sporadic stock-outs of certain of our products. These retailers restocked aggressively early in 2018.

Seasonality

Our gaming headset business is seasonal with a significant portion of sales and profits typically occurring around the holiday period. Historically, more than 45% of headset business revenues are generated during the period from September through December as new headsets are introduced and consumers engage in holiday shopping.

HyperSound

HyperSound technology is a pioneering audio solution that provides an effective means of projecting sound in a highly directional manner, without use of large speaker arrays, to a specific location creating a precise audio zone. HyperSound directs a beam of audio to targeted listeners in a specific spot, delivering an immersive, 3D-like audio experience. In June 2016, we unveiled HyperSound Glass, transparent directional speakers, and have started exploration of potential commercial licensing opportunities.

Our business model for HyperSound has evolved into a licensing strategy, focusing on out licenses to companies in the retail space for more precise marketing. In October 2017, we signed a licensing contract with Waves Systems to incorporate HyperSound technology for customer contact points such as retail point of sales, kiosks, digital signage, wayfinding, museum exhibits, meeting halls and more.

Results of Operations

Management Overview

Due to higher-than-normal channel inventory entering the year and sustained overly cautious ordering by several large retailers, some of which were sporadically out-of-stock, net revenues decreased \$24.8 million, or 14.3%, to \$149.1 million. Despite this challenging environment, Turtle Beach grew its leading revenue share to 42.2% for 2017, based on recent NPD Group North American data, holding the majority stake for leading headsets.

Our Recon series, which is the leading model for both Playstation® and Xbox increased to 45.2% market share. This growth is partially attributable to the Recon Camo, which has gained popularity and momentum from the Call of Duty return to World War II theme, compounded with the steady sales of our Recon 50X and Recon 50P models. While our new additions, the Stealth 600 and Stealth 700, finished as the top model by market share for their respective tiers.

Additionally, Turtle Beach Europe, which relocated its warehouse and storage locations to streamline logistics, improving both delivery time and costs, delivered a successful year with revenues in the Europe and the United Kingdom up to \$41.4 million, or an increase of 10.4% over the prior year.

For 2017, our reported net loss decreased to \$3.2 million, or diluted net loss per share of \$0.07, and cash from operating activities increased to \$3.4 million, which we believe reflects the underlying profit potential as the leading console gaming headset brand and provider with the removal of HyperSound marketing and development costs, which declined to \$1.0 million from \$10.4 million in 2016.

Forward looking, we see opportunities to refine and improve on our high quality headsets to accelerate growth in the global personal computer gaming headset market and will continue to evaluate opportunities to expanding our headset portfolio to that market. Additionally, we intend to continue to develop our eSports presence and lay the groundwork for future growth opportunities internationally and in new categories such as mobile gaming and virtual reality. Our long-term objective is to leverage these additional growth opportunities to drive double-digit revenue growth given our expectation that the console gaming headset market will grow in the low to mid-single digits over the coming years.

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) it is one of the measures used by our board of directors and management team to evaluate our operating performance; (ii) it is one of the 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) it is 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 measure, 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 Margins* is defined as gross margin excluding depreciation, amortization and stock-based compensation.

Adjusted EBITDA

Adjusted EBITDA (and a reconciliation to Net loss, the nearest GAAP financial measure) for the years ended December 31, 2017, 2016 and 2015 are as follows:

	Year Ended		
	December 31,		
	2017	2016	2015
	(in thousands)		
Net loss	\$ (3,248)	\$ (87,182)	\$ (82,907)
Interest expense	7,916	7,447	5,099
Depreciation and amortization	4,422	9,194	7,916
Stock-based compensation	1,430	3,960	5,897
Income tax expense (benefit)	593	(387)	2,393
Impairment charge	—	63,236	49,822
Business transaction costs	—	—	—
Restructuring charges	533	664	399
HyperSound business transition charge	(79)	7,079	—
Adjusted EBITDA	<u>\$ 11,567</u>	<u>\$ 4,011</u>	<u>\$ (11,381)</u>

Comparison of the Year Ended December 31, 2017 to the Year Ended December 31, 2016

Net loss for the year ended December 31, 2017 was \$3.2 million compared to a net loss of \$87.2 million in the prior year period, including \$1.9 million and \$0.9 million of net loss attributable to the Headset segment, for the year ended December 31, 2017 and the prior year, respectively.

For the year ended December 31, 2017, Adjusted EBITDA on a consolidated basis was \$11.6 million, including investments of \$1.0 million in the HyperSound business, compared to Adjusted EBITDA on a consolidated basis of \$4.0 million, including investments of \$10.4 million in the HyperSound business from the year ended December 31, 2016.

Headset Adjusted EBITDA totaled approximately \$12.6 million in the year ended December 31, 2017 compared to \$14.4 million in the prior year that excluded \$2.9 million of allocated costs, primarily due to improved margins driven by product and logistical costs savings, certain initiatives to reduce overhead costs, a reduction in marketing spend and a foreign exchange benefit.

Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015

Net loss for the year ended December 31, 2016 was \$87.2 million compared to a net loss of \$82.9 million in the prior year period, including \$0.2 million and \$17.2 million of net loss attributable to the Headset segment, for the year ended December 31, 2016 and the prior year, respectively.

For the year ended December 31, 2016, Adjusted EBITDA on a consolidated basis was \$4.0 million, including investments of \$10.4 million in the HyperSound business, compared to Adjusted EBITDA on a consolidated basis of \$(11.4) million, including investments of \$13.8 million in the HyperSound business from the year ended December 31, 2015.

Headset Adjusted EBITDA totaled approximately \$14.4 million in the year ended December 31, 2016 compared to \$2.4 million in the prior year, despite the negative impacts of \$2.4 million related to foreign currency, as new-gen headset consumer demand on both platforms continued to drive higher North American and United Kingdom retailer sales volumes and product mix driven margin improvement.

Financial Results

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

	Year Ended		
	December 31,		
	2017	2016	2015
	(in thousands)		
Net Revenue	\$ 149,135	\$ 173,978	\$ 162,747
Cost of Revenue	98,132	131,368	122,056
Gross Profit	51,003	42,610	40,691
<i>Gross Margin</i>	34.2%	24.5%	25.0%
Operating expenses	46,205	120,311	115,090
Operating income (loss)	4,798	(77,701)	(74,399)
Interest expense	7,916	7,447	5,099
Other non-operating (income) expense, net	(463)	2,421	1,016
Loss before income tax expense (benefit)	(2,655)	(87,569)	(80,514)
Income tax expense (benefit)	593	(387)	2,393
Net loss	\$ (3,248)	\$ (87,182)	\$ (82,907)

Net Revenue and Gross Profit

Headset Segment

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

	December 31,		
	2017	2016	2015
	(in thousands)		
Net Revenue	\$ 148,828	\$ 173,323	\$ 161,835
Gross Profit	51,217	55,221	42,832
<i>Gross Margin</i>	34.4%	31.9%	26.5%
<i>Cash Margin (1)</i>	34.8%	32.5%	27.5%

(1) Excludes non-cash charges of \$0.6 million, \$1.1 million and \$1.7 million, respectively.

Comparison of the Year Ended December 31, 2017 to the Year Ended December 31, 2016

Net revenues for year ended December 31, 2017 decreased \$24.8 million, or 14.3%, as a result of the negative impact of 2016 holiday channel overhang that depressed sales in the first half of the year and business model initiatives to reduce on-hand inventory levels that caused under-ordering by several North American retailers, some of which were sporadically out-of-stock, during the 2017 holiday.

For the year ended December 31, 2017, gross profit as a percentage of net revenue increased to 34.4% from 31.9% in the prior year. In 2017, with no further old-gen inventory overhang, margins were positively impacted by product and logistical costs savings, lower obsolescence reserves and a shift to non-royalty models, partially offset by negative fixed costs leveraging on lower sales volumes.

Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015

Net revenues for year ended December 31, 2016 increased \$11.2 million, or 6.9%, with 28.8% increase in new-gen headset sales on robust North American retailer sales (up 10.9%) and less promotional activity as a result of continued stronger-than-expected demand for our entry-level Recon series headsets, positive consumer response to the introduction and sales of the Stealth 420X+ and Playstation compatible headset market gains across all price points lead by the Ear Force PX24 and the introduction of the Stealth 520.

For the year ended December 31, 2016, gross profit as a percentage of net revenue increased to 31.9% from 26.5% in the prior year. The year-over-year improved margin was primarily due to product mix, as heavily discounted old-gen products are no longer a significant portion of revenues with new-gen headsets up to 92.3% of net revenues, a channel mix shift to higher margin North America retailers as well as an operational move away from branded headsets that reduced third party licensing and royalty costs.

Operating Expenses

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Selling and marketing	\$ 24,385	\$ 28,572	\$ 31,829
Research and development	5,587	8,259	11,556
General and administrative	15,700	19,580	21,484
Business transaction costs	—	—	—
Goodwill and other intangible asset impairment	—	63,236	49,822
Restructuring charges	533	664	399
Total operating expenses	\$ 46,205	\$ 120,311	\$ 115,090
<i>By Segment:</i>			
<i>Headset</i>	\$ 45,093	\$ 46,588	\$ 51,530
<i>HyperSound</i>	\$ 1,112	\$ 73,723	\$ 63,560

Selling and Marketing

Selling and marketing expense for the year ended December 31, 2017 totaled \$24.4 million, or 16.4% as a percentage of net revenues, compared to \$28.6 million, or 16.4% as a percentage of net revenues, for the prior year. This decrease was attributable to the reduction of HyperSound business related sales force and marketing campaigns, and lower Headset marketing spend as compared to the prior year that included additional support for certain new product introductions.

Selling and marketing expense for the year ended December 31, 2016 totaled \$28.6 million, or 16.4% as a percentage of net revenues, compared to \$31.8 million, or 19.6% as a percentage of net revenues, for the prior year. This decrease was attributable to headcount reductions in connection with our marketing department realignment (\$0.7 million), lower retail marketing and depreciation, as certain of our major retail customers have shifted away from independent in-store displays.

Research and Development

Our Headset business continued to invest in patent protections and new product innovations, such as the industry-first direct to Xbox connectivity in the recent Stealth 700, however, as a result of our product development realignment in connection with the HyperSound business transition (\$3.0 million), research and development expenses decreased for the year ended December 31, 2017 versus the comparable prior year period.

For the year ended December 31, 2016, despite the continued development initiatives such as the Stealth 350VR headset, Stream Mic and HyperSound Glass, research and development expenses decreased versus the prior year on cost reductions following the launch of the HyperSound Clear 500P product (\$3.0 million).

General and Administrative

General and administrative expenses for the year ended December 31, 2017 decreased \$3.9 million to \$15.7 million compared to \$19.6 million for the year ended December 31, 2016. The year over year decrease was primarily due to a reduction in HyperSound related expenses (\$2.6 million), headcount reductions in the Headset business (\$0.8 million) and lower non-cash stock compensation charges.

General and administrative expenses for the year ended December 31, 2016 decreased \$1.9 million to \$19.6 million compared to \$21.5 million for the year ended December 31, 2015. The year over year decrease was primarily due to a lower non-cash

stock compensation charges as compared to incremental expense in connection with our stock option exchange in the prior year (\$1.1 million), a reduction in HyperSound related expenses (\$0.4 million) and lower legal expenses (\$0.3 million).

Goodwill and Other Intangibles Impairment

As a result of interim and annual impairment tests, for the years ended December 31, 2016 and 2015, respectively, we recorded a \$63.2 million and \$49.8 million goodwill impairment charge, respectively, in connection with the decline in implied fair value of the HyperSound reporting unit. There were no such charges in 2017.

Restructuring Charges

In connection with continued efforts to improve our operating efficiency, we completed certain operating expense cost reduction activities, such as the closure of certain production operations at one of our contract manufacturing operations in China in 2015, consolidated certain operational functions in 2016 and most recently, restructured our HyperSound business.

Interest Expense

Interest expense increased \$0.5 million for the year ended December 31, 2017 due to additional compound interest related to the Subordinated Notes and Series B Redeemable Preferred Stock, and non-cash amortization of related debt issuance costs.

Interest expense increased \$2.3 million for the year ended December 31, 2016 primarily due to \$1.6 million of additional interest related to the Term Loan Due 2019 and the Subordinated Notes, and non-cash amortization of related debt issuance costs.

Income Taxes

Income tax benefit for the year ended December 31, 2017 was \$0.6 million at an effective tax rate of (22.3)% compared to income tax expense of \$0.4 million for the year ended December 31, 2016 at an effective tax rate of 0.4%. 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 "Tax Cuts and Jobs Act," enacted in December 2017, reduces the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. Consequently, we have re-measured our deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21% and recorded a decrease in its net deferred tax assets of \$10.5 million with a corresponding decrease to its valuation allowance to account for this rate reduction. The Act also requires a deemed repatriation of foreign earnings and profits, determined as of either November 2, 2017 or December 31, 2017, whichever amount is greater. As such, the Company reported a deemed repatriation of foreign earnings totaling \$0.5 million as of December 31, 2017 related to its European subsidiary.

Income tax benefit for the year ended December 31, 2016 was \$0.4 million at an effective tax rate of 0.4% compared to income tax expense of \$2.4 million for the year ended December 31, 2015 at an effective tax rate of (3.0)%. The effective tax rate was primarily impacted by the full valuation allowance on domestic earnings, foreign entity tax benefits and certain state tax expense.

Other Non-Operating (Income) Expenses

Other non-operating income totaled \$0.5 million as a result of the U.S. dollar weakening compared to other non-operating expense for the year ended December 31, 2016 to \$2.4 million due to negative effect of the Brexit vote on exchange rates as it relates to our United Kingdom operations.

Liquidity and Capital Resources

Our primary sources of working capital are cash flow from operations and availability of capital 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:

	2017	2016	2015
	(in thousands)		
Cash and cash equivalents at beginning of period	\$ 6,183	\$ 7,114	\$ 7,908
Net cash provided by (used for) operating activities	3,418	(1,830)	(15,133)
Net cash used for investing activities	(4,411)	(3,229)	(6,693)
Net cash provided by (used for) financing activities	(162)	4,213	21,134
Effect of foreign exchange on cash	219	(85)	(102)
Cash and cash equivalents at end of period	<u>\$ 5,247</u>	<u>\$ 6,183</u>	<u>\$ 7,114</u>

Operating activities

Cash provided by operating activities for the year ended December 31, 2017 was \$3.4 million, an increase of \$5.2 million as compared to cash used for operating activities of \$1.8 million for the year ended December 31, 2016. The year-over-year increase is primarily the result of lower HyperSound investment, Company-wide reduction in force and deferred marketing spend, partially offset by lower gross receipts and inventory turnover due to reduced sales volumes.

Cash used for operating activities for the year ended December 31, 2016 was \$1.8 million, a decline of \$13.3 million as compared to \$15.1 million for the year ended December 31, 2015. The year-over-year decrease is primarily the result of certain operational actions to lower net cash burn in the HyperSound business and better align costs with our revenue, and increased Headset cash flows on the strength of our new-gen portfolio, product cost improvements and certain operating expense cost reduction efforts.

Investing activities

Cash used for investing activities was \$4.4 million during the year ended December 31, 2017 compared to \$3.2 million in 2016, as the Company refreshed its advertising displays in certain major retailers.

Cash used for investing activities was \$3.2 million during the year ended December 31, 2016 compared to \$6.7 million in 2015, primarily due to lower capital expenditures compared to certain tooling purchases in connection with the expansion of our headset portfolio and the initial production line for HyperSound Clear 500P in the prior year. In 2016, capital expenditures primarily related to interactive display purchases and certain website costs.

Financing activities

Net cash provided by financing activities was \$0.2 million during the year ended December 31, 2017 compared to \$4.2 million and \$21.1 million during the years ended December 31, 2016 and 2015, respectively. Financing activities in 2017 included net borrowings on our revolving credit facilities of \$2.6 million, term loan repayments of \$2.6 million of term loan repayments and \$0.1 million in debt issuance costs related to recent debt amendments.

Financing activities in 2016 included \$6.0 million of proceeds from the sale of common stock and net borrowings on our revolving credit facilities of \$3.4 million, partially offset by \$4.0 million of term loan repayments and \$1.2 million in debt issuance costs related to recent debt amendments.

Financing activities in 2015 included the issuance of a \$15 million term loan and \$16.3 million principal amount of subordinated notes, partially offset by repayments of term loans and net payments on our revolving credit facilities of \$8.8 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 12 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.

We believe the combination of our revolving credit facility, long-term debt and cash flow generated by our gaming headset business and reduced costs related to the HyperSound business will provide the necessary liquidity to fund our annual working capital needs.

Foreign cash balances at December 31, 2017 and December 31, 2016 were \$0.1 million and \$0.2 million, respectively.

Revolving Credit Facility

On March 31, 2014, Turtle Beach and certain of its subsidiaries entered into a new asset-based revolving credit agreement (“Credit Facility”) with Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner, which replaced the then existing loan and security agreement. The Credit Facility, which expires on March 31, 2019, provides for a line of credit of up to \$60 million inclusive of a sub-facility limit of \$10 million for TB Europe, a wholly owned subsidiary of Turtle Beach. The Credit Facility may be used for working capital, the issuance of bank guarantees, letters of credit and other corporate purposes.

The Company and its subsidiaries are required to comply with various customary covenants including, (i) maintaining minimum EBITDA in each trailing twelve month period, (ii) maintaining a Consolidated Leverage Ratio to be measured on the last day of each month, (iii) maintaining certain cash flow levels, in the aggregate and with respect to its HyperSound segment, during each rolling four week period beginning with the period ended October 31, 2016 through December 31, 2018, (iv) limitation on capital expenditures in excess of \$5 million in each of the years ending December 31, 2018 and 2019 and (v) in the event the Company’s availability is less than certain specified amounts, obtaining additional funding from the issuance of a subordinated promissory note provided by SG VTB (the “Promissory Note”).

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.

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 1.00% to 1.50% for U.S. base rate loans and between 2.00% to 2.50% for U.S. LIBOR loans and U.K. loans. As of December 31, 2017, interest rates for outstanding borrowings were 5.75% for base rate loans and 3.74% for LIBOR rate loans. 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.

If certain availability thresholds are not met, meaning that the Company does not have receivables and inventory which are eligible to borrow on under the Credit Facility in excess of amounts borrowed, the Credit Facility requires the Company and its restricted subsidiaries to maintain a fixed charge coverage ratio. The fixed charge ratio is defined as the ratio, determined on a consolidated basis for the most recent four fiscal quarters, of (a) EBITDA minus capital expenditures, excluding those financed through other instruments, and cash taxes paid, and (b) Fixed Charges defined as the sum of cash interest expense plus scheduled principal payments. The current fixed charge coverage ratio of at least 1.15 to 1.00 on the last day of each month while a Covenant Trigger Period (as defined in the Credit Facility) is in effect will become effective again after the Company has complied with such ratio for six consecutive months.

The Credit Facility also contains affirmative and negative covenants that, subject to certain exceptions, limit our ability to take certain actions, including our 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 December 31, 2017, the Company was in compliance with all the amended financial covenants, and excess borrowing availability was approximately \$9.7 million, net of the outstanding Term Loan Due 2018 (as defined below) that is considered to be an additional outstanding amount under the Credit Facility.

Term Loans

Term Loan Due 2018

On December 29, 2014, the Company amended the Credit Facility with Bank of America to enter in to an additional loan (the “Term Loan Due 2018”) for the repayment of \$7.7 million of then existing subordinated debt and accrued interest. The Term Loan Due 2018 resulted in modified financial covenants while it is outstanding, will bear interest at a rate of LIBOR for the applicable interest period plus 5% and will be repaid in equal monthly installments beginning on April 1, 2015 and ending on

October 1, 2018, reflecting a six month waiver. Amounts so repaid are recognized by lowering the balance of the term loan tranche and increasing the lower interest rate base revolver amount, with no net impact on borrowing availability.

As of December 31, 2017, the outstanding principal balance was \$1.9 million.

Term Loan Due 2019

On July 22, 2015, the Company and its subsidiaries, entered into a term loan, guaranty and security agreement (the “Term Loan Due 2019”) with Crystal Financial LLC, as agent, sole lead arranger and sole bookrunner, Crystal Financial SPV LLC and the other persons party thereto (“Crystal”), which provides for an aggregate term loan commitment of \$15 million that bears interest at a rate per annum equal to the 90-day LIBOR rate plus 10.25%. Under the terms of the Term Loan Due 2019, we are required to make payments of interest in arrears on the first day of each month beginning August 1, 2015 and will repay the principal in monthly payments beginning January 1, 2016, inclusive of a nine month waiver, with a final payment on June 28, 2019, the maturity date.

The Term Loan Due 2019 is secured by a security interest in substantially all of the Company and each of its subsidiaries' working capital assets and is subject to the first-priority lien of Bank of America , N.A., as agent, under the Credit Facility, other than with respect to equipment, fixtures, real property interests, intellectual property, intercompany property, intercompany indebtedness, equity interest in their subsidiaries, and certain other assets specified in an inter-creditor agreement between Bank of America and Crystal.

The Company and its subsidiaries are required to comply with various customary covenants including, (i) maintaining minimum EBITDA (as defined in the Term Loan Due 2019) in each trailing twelve month period, (ii) maintaining a Consolidated Leverage Ratio (as defined in the Term Loan Due 2019) to be measured on the last day of each month, (iii) maintaining certain cash flow levels, in the aggregate and with respect to its HyperSound segment, during each rolling four week period beginning with the period ended October 31, 2016 through December 31, 2018, (iv) limitation on capital expenditures in excess of \$5 million in each of the years ending December 31, 2018 and 2019, (v) in the event the Company’s availability is less than certain specified amounts, obtaining additional funding from the issuance of a subordinated promissory note provided by SG VTB (the “Promissory Note”), and (vi) restrictions on the Company’s and its subsidiaries ability to prepay its subordinated notes, pay dividends, incur debt, create or suffer liens and engage in certain fundamental transactions. The agreement permits certain equity holders of the Company to contribute funds to the Company to cure certain financial covenant defaults.

The Term Loan Due 2019 contains customary representations, mandatory prepayment events and events of default, including defaults triggered by the failure to make payments when due, breaches of covenants and representations, material impairment in the perfection of Crystal’s security interest in the collateral and events related to bankruptcy and insolvency of the Company and its subsidiaries. Upon an event of default, Crystal may declare all outstanding obligations immediately due and payable (along with a prepayment fee), a default rate of an additional 2.0% may be applied to amounts outstanding and may take other actions including collecting or taking such other action with respect to the collateral pledged in connection with the term loan.

As of December 31, 2017, the Company was in compliance with the amended financial covenants, and the outstanding principal balance was \$9.8 million.

Subordination Agreement

On November 16, 2015, as a condition precedent to our lenders permitting certain subordinated notes, we entered into a subordination agreement with and between certain parties that our obligations under any such notes would be subordinated in right of payment in full of all the Company's obligations under the Credit Facility and Term Loan Due 2019.

Subordinated Notes - Related Party

Concurrently with the completion of the Term Loan Due 2019, the Company amended and restated each of its outstanding subordinated notes (the “Amended Notes”). The \$18.5 million obligation of the Company under the Amended Notes is subordinate and junior to the prior payment of amounts due under the Credit Facility and Term Loan Due 2019. In addition, the stated maturity date of the Amended Notes was extended to September 29, 2019, subject to acceleration in certain circumstances, such as a change of control in the Company. The Amended Notes bear interest at a rate per annum equal to LIBOR plus 10.5% and shall be paid-in-kind by adding the amount to the principal amount due. Further, as consideration for the concessions in the Amended Notes, the Company issued warrants to purchase 1.7 million shares of the Company’s common stock at an exercise price of \$2.54 per share.

On November 16, 2015, the Company issued a \$2.5 million subordinated note (the “November Note”) to SG VTB, the proceeds of which, as set forth in the amendment to the Term Loan Due 2019, were applied against the outstanding balance of the Term Loan Due 2019. The November Note will bear interest at a rate of 15% per annum until its maturity date, which is September 29, 2019, and is subordinated to all senior debt of the Company. In connection with the November Note, the Company issued a warrant to purchase 1.4 million shares of the Company’s common stock at an exercise price of \$2.00 per share.

On October 31, 2016, in connection with certain amendments to the Credit Facility and Term Loan Due 2019, the Company and SG VTB entered into the Promissory Note, which states that in the event the Company’s availability under the Credit Facility is less than certain specified amounts, the Company may, upon request, at any time until September 29, 2019 require that SG VTB provide a \$2 million subordinated loan. Upon issuance, the loan would bear interest at a rate of either (i) LIBOR plus 10.5% per annum or (ii) 12.0%, dependent upon the Company’s compliance with certain financial covenants and would be subordinated to all senior debt of the Company.

In addition, under the terms of the Promissory Note, if and when the funding occurs, as additional consideration the Company would issue to SG VTB a warrant, exercisable for a period of ten years beginning on the date of issuance, to purchase an amount of shares of the Company’s common stock equal to 2.4% of the Company’s then fully diluted shares outstanding at an exercise price equal to the closing price on that date. The warrant would not entitle the holder to any voting rights or other rights as a stockholder of the Company prior to exercise.

SG VTB is an affiliate of Stripes Group LLC (“Stripes”), a private equity firm focused on internet, software, healthcare IT and branded consumer products businesses. Kenneth A. Fox, one of our directors, is the managing general partner of Stripes and the sole manager of SG VTB and Ronald Doornink, our Chairman of the Board, is an operating partner of Stripes.

March 2018 Amendment

On March 5, 2018, we amended and restated its existing Credit Facility, Term Loan Due 2019 and subordinated notes. The amended agreements, among other things, (i) reduce the applicable margin on borrowings, (ii) modify existing financial covenants under the credit facility and term loan with financial maintenance covenants including a customary consolidated leverage ratio, fixed charge coverage ratio and certain limitations on capital expenditures and disbursements and (iii) provide for the ability to borrow additional terms loans in the future to be used for general working capital purposes (including, the ability to use the delayed draw term loans to pay down the principal amount of the subordinated notes, subject to the satisfaction of certain conditions described therein.

The Credit Facility, which extended a line of credit of up to \$60 million to March 5, 2023, reduced the applicable margin to 0.50% to 1.25% for base rate loans and 1.50% to 2.25% for LIBOR loans. The Term Loan Due 2019 provides for an aggregate term loan facility of \$12.5 million and extends the maturity date to March 2023, including a delayed draw commitment, and bears interest at a rate per annum equal to the 90-day LIBOR rate plus 6.75%. The subordinated notes will bear in-kind interest at a rate of (i) LIBOR plus 9.1% per annum for the first twenty-four months (or six months (or such date dated provided that the amount of such note is reduced by a specified amount by the six month anniversary of the restatement effective date) with respect to the November Note) and (ii) LIBOR plus 10.5% per annum (or 15.0% with respect to the November Note if the prepayment described above does not occur) thereafter until September 2024.

Series B Redeemable Preferred Stock

In September 2010, VTBH issued 1,000,000 shares of its Series B Redeemable Preferred Stock with a fair value of \$12.4 million. We are required to redeem the Series B Redeemable Preferred Stock on the earlier to occur of September 28, 2030 or the occurrence of a liquidation event (as defined in VTBH's Certificate of Incorporation) at its original issue price of

\$12.425371 per share plus any accrued but unpaid dividends. The redemption value was \$18.9 million and \$17.5 million as of December 31, 2017 and December 31, 2016, respectively.

As further described in Item 3, “Legal Proceedings,” and Note 13, “Commitments and Contingencies,” we are involved in legal proceedings related to the merger of VTBH and Paris Acquisition Corp. involving certain of our stockholders, including the holder of VTBH’s Series B Redeemable Preferred Stock, (the “Series B Holder”), filing a complaint in New York state court alleging breach of contract against VTBH and seeking a declaratory judgment that he is entitled to damages and specific performance, including the redemption of his stock.

Critical Accounting Estimates

Our discussion and analysis of our results of operations and capital resources are based on our condensed consolidated financial statements, which have been prepared in conformity with GAAP. The preparation of these condensed 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.

Based on the above, we have determined that our most critical accounting policies are those related to revenue recognition and sales return reserve, inventory valuation, asset impairment, and income taxes.

Revenue Recognition and Sales Return Reserve

Revenue is recognized when products are shipped and title has been transferred to a customer, the sales price is fixed and determinable, and collection is reasonably assured. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. Net revenue for on-line purchases is recognized when products are shipped from our distribution facilities.

Provisions for cash discounts, quantity rebates, and sales returns in the period the sale is recorded, based upon our prior experience and current trends, as a reduction of revenue. These revenue reductions are established based upon management’s best estimates at the time of sale following the historical trend, adjusted to reflect known changes in the factors that impact such reserves and allowances, and the terms of agreements with customers.

Inventory Valuation

Inventories are valued at the lower of weighted average cost or market, at the individual item level. Market is determined based on the estimated net realizable value, which is generally the selling price. Inventory levels are monitored to identify slow-moving items and markdowns are used to clear such product. Physical inventory counts are performed annually in January and estimates are made for any shortage between the date of the physical inventory count and the balance sheet date.

Asset Impairment

We have significant long-lived tangible and intangible assets, including goodwill with indefinite lives, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. We assess the potential impairment of intangible and fixed assets whenever events or changes in circumstances indicate that full recoverability of net asset balances through future cash flows is in question. Goodwill and indefinite-lived intangible assets are assessed at least annually, but also whenever events or changes in circumstances indicate the carrying values may not be recoverable. Factors we consider important, which could trigger an impairment of such assets include significant underperformance relative to historical or projected future operating results; significant changes in the manner of or use of the acquired assets or the strategy for our overall business; significant negative industry or economic trends; significant decline in our stock price for a sustained period; and a decline in our market capitalization below net book value.

Management estimates future pre-tax cash flows based on historical experience, knowledge and market data. Estimates of future cash flows require that we make assumptions and apply judgment, including forecasting future sales and expenses and estimating useful lives of the assets. These estimates can be affected by factors such as future product development and economic conditions that can be difficult to predict, as well as other factors such as those outlined in “Risk Factors.” If the expected future cash flows related to the long-lived assets are less than the assets’ carrying value, an impairment loss would be recognized for the difference between estimated fair value and carrying value.

There are inherent assumptions and estimates used in developing future cash flows requiring management judgment including projecting revenues, interest rates and the cost of capital. Many of the factors used in assessing fair value are outside our control and it is reasonably likely that assumptions and estimates will change in future periods. These changes can result in future impairments.

Income Taxes

We account for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates and laws expected to be in effect when the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Inherent in the measurement of these deferred balances are certain judgments and interpretations of existing tax law and other published guidance as applied to our operations. Our effective tax rate considers our judgment of expected tax liabilities in the various jurisdictions within which we are subject to tax.

The determination of the need for a valuation allowance on deferred tax assets requires management to make assumptions and to apply judgment, including forecasting future earnings, taxable income, and the mix of earnings in the jurisdictions in which we operate. During 2015, as a result of cumulative losses in recent years primarily due to incremental costs associated with the console transition, acquisition costs and initial investments in the HyperSound business, the Company concluded that a full valuation allowance is required on its net deferred tax assets.

The tax effects of uncertain tax positions taken or expected to be taken in income tax returns are recognized only if they are “more likely-than-not” to be sustained on examination by the taxing authorities, based on the technical merits as of the reporting date. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. We recognize estimated accrued interest and penalties related to uncertain tax positions in income tax expense.

We are currently under examination by certain state and local taxing jurisdictions. Further, at any given time, multiple tax years may be subject to examination by various taxing authorities. The recorded amounts of income tax are subject to adjustment upon examination, changes in interpretation and changes in judgment utilized in determining estimates.

See Note 1, “Summary of Significant Accounting Policy,” in the notes to the consolidated financial statements 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.

Off-Balance Sheet Arrangements

Off balance sheet arrangements are transactions, agreements, or other contractual arrangements with an unconsolidated entity for which we have an obligation to the entity that is not recorded in the consolidated financial statements. As of December 31, 2017, there are no significant off-balance sheet arrangements.

Contractual Obligations

Our principal commitments primarily consist of obligations for minimum payment commitments to leases for office space, redeemable preferred stock, term loans and the revolving credit facility. As of December 31, 2017, the future non-cancelable minimum payments under these commitments were as follows:

<i>(in thousands)</i>	Payments Due by Period				
	Total	Less Than One Year	1 - 3 Years	3 - 5 Years	More Than Five Years
Contractual Obligations: (1)					
Operating lease obligations (2)	\$ 2,663	\$ 984	\$ 1,294	\$ 385	—
Series B Redeemable Preferred Stock (3)	52,256	—	—	—	52,256
Long term debt (4)	72,098	42,639	29,459	—	—
Interest payments on long-term debt (5)	12,010	1,038	10,972	—	—
Total	<u>\$ 139,027</u>	<u>\$ 44,661</u>	<u>\$ 41,725</u>	<u>\$ 385</u>	<u>\$ 52,256</u>

- (1) Contractual obligations exclude tax liabilities of \$1.5 million related to uncertain tax positions because we are unable to make a reasonably reliable estimate of the timing of settlement, if any, of these future payments.
- (2) Operating lease agreements represent obligations to make payments under non-cancelable lease agreements for its facilities.
- (3) In September 2010, VTBH issued shares of its Series B Redeemable Preferred Stock. If the Series B Redeemable Preferred Stock is still outstanding as of October 2030 or if the Company experiences a liquidation event as defined in VTBH's Certification of Incorporation, the Company will be required to redeem the shares for an aggregate of \$52.3 million, which is comprised of the aggregate purchase price of \$12.4 million plus cumulative preferred dividends of 8.0% per annum, or \$39.5 million in the aggregate. See Note 13, "Commitments and Contingencies", for further information.
- (4) On March 31, 2014, the Company entered into the Credit Facility that expires March 31, 2019. However, due to certain terms of the facility, the indebtedness is required to be classified as a current liability. Long term debt includes scheduled principal payments only. See Note 7, "Credit Facilities and Long-Term Debt" for further information.
- (5) These amounts reflect estimated interest payments under our outstanding long-term debt agreements based on the applicable rates in effect as of December 31, 2017, except for interest payments under our Credit Facility because the amount that will be borrowed in future years is uncertain.

Item 7A - 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.

To date, the Company has used derivative financial instruments, specifically foreign currency forward and option contracts, to manage exposure to foreign currency risks, by hedging a portion of its forecasted expenses denominated in British Pounds expected to occur within a year. The effect of exchange rate changes on foreign currency forward and option contracts is expected to offset the effect of exchange rate changes on the underlying hedged item. The Company does not use derivative financial instruments for speculative or trading purposes. As of December 31, 2017, we do not have any derivative financial instruments.

Interest Rate Risk

The Company's total variable rate debt is comprised of \$38.5 million outstanding under the Credit Facility, \$11.7 million presented as term loans and \$18.5 million of Subordinated Notes. A hypothetical 10% increase in borrowing rates at December 31, 2017 would have resulted in a \$0.4 million annual increase in interest expense on the existing principal balance.

Foreign Currency Exchange Risk

The Company has exchange rate exposure, primarily, with respect to the British Pound. As of December 31, 2017, 2016 and 2015, our monetary assets and liabilities which 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 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Turtle Beach Corporation
San Diego, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Turtle Beach Corporation (the “Company”) and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive loss, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. In situations in which management is required to report on the company’s internal control over financial reporting but such report is not required to be audited, and we have not been engaged to perform an audit of management’s assessment of the effectiveness of internal control over financial reporting, include the following three sentences. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2014.

New York, New York
March 6, 2018

Turtle Beach Corporation
Consolidated Balance Sheets

	December 31, 2017	December 31, 2016
	(in thousands, except par value and share amounts)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,247	\$ 6,183
Accounts receivable, less allowances of \$13,155 and \$12,783 in 2017 and 2016, respectively	50,534	54,633
Inventories	27,518	21,698
Prepaid expenses and other current assets	3,467	4,121
Total Current Assets	86,766	86,635
Property and equipment, net	4,677	4,311
Intangible assets, net	1,404	1,618
Deferred income taxes	362	543
Other assets	1,042	1,693
Total Assets	\$ 94,251	\$ 94,800
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Revolving credit facilities	\$ 38,467	\$ 35,905
Term loans	4,173	2,647
Accounts payable	13,459	11,927
Other current liabilities	11,451	16,414
Total Current Liabilities	67,550	66,893
Term loans, long-term portion	6,789	10,442
Series B redeemable preferred stock	18,921	17,480
Subordinated notes - related party	20,836	17,881
Other liabilities	2,312	2,800
Total Liabilities	116,408	115,496
Commitments and Contingencies		
Stockholders' Equity (Deficit)		
Common stock, \$0.001 par value - 100,000,000 shares authorized; 49,386,006 and 49,251,336 shares issued and outstanding as of December 31, 2017 and 2016, respectively	49	49
Additional paid-in capital	148,045	146,615
Accumulated deficit	(170,048)	(166,800)
Accumulated other comprehensive loss	(203)	(560)
Total Stockholders' Equity (Deficit)	(22,157)	(20,696)
Total Liabilities and Stockholders' Equity (Deficit)	\$ 94,251	\$ 94,800

See accompanying Notes to the Consolidated Financial Statements

Turtle Beach Corporation
Consolidated Statements of Operations

	Year Ended		
	December 31, 2017	December 31, 2016	December 31, 2015
	(in thousands, except share and per share data)		
Net Revenue	\$ 149,135	\$ 173,978	\$ 162,747
Cost of Revenue	98,132	131,368	122,056
Gross Profit	51,003	42,610	40,691
Operating expenses:			
Selling and marketing	24,385	28,572	31,829
Research and development	5,587	8,259	11,556
General and administrative	15,700	19,580	21,484
Goodwill and other intangible asset impairment	—	63,236	49,822
Restructuring charges	533	664	399
Total operating expenses	46,205	120,311	115,090
Operating income (loss)	4,798	(77,701)	(74,399)
Interest expense	7,916	7,447	5,099
Other non-operating (income) expense, net	(463)	2,421	1,016
Loss before income tax expense (benefit)	(2,655)	(87,569)	(80,514)
Income tax expense (benefit)	593	(387)	2,393
Net loss	\$ (3,248)	\$ (87,182)	\$ (82,907)
Net loss per share :			
Basic	\$ (0.07)	\$ (1.79)	\$ (1.96)
Diluted	\$ (0.07)	\$ (1.79)	\$ (1.96)
Weighted average number of shares:			
Basic	49,343	48,592	42,269
Diluted	49,343	48,592	42,269

See accompanying Notes to the Consolidated Financial Statements

Turtle Beach Corporation
Consolidated Statements of Comprehensive Income (Loss)

	Year Ended		
	December 31, 2017	December 31, 2016	December 31, 2015
	(in thousands)		
Net loss	\$ (3,248)	\$ (87,182)	\$ (82,907)
Other comprehensive income (loss):			
Foreign currency translation adjustment	357	(94)	(237)
Other comprehensive income (loss)	357	(94)	(237)
Comprehensive loss	\$ (2,891)	\$ (87,276)	\$ (83,144)

See accompanying Notes to the Consolidated Financial Statements

Turtle Beach Corporation
Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2017	2016	2015
(in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (3,248)	\$ (87,182)	\$ (82,907)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	4,074	5,066	5,901
Amortization of intangible assets	348	4,128	2,015
Amortization of deferred financing costs	1,593	1,342	360
Stock-based compensation	1,430	3,960	5,897
Accrued interest on Series B redeemable preferred stock	1,441	1,335	1,230
Paid in kind interest	2,508	2,156	947
Deferred income taxes	181	(547)	5,414
Provision for (Reversal of) sales returns reserve	942	(1,677)	2,113
Provision for doubtful accounts	48	144	2
Provision for obsolete inventory	1,676	11,414	1,107
Loss on disposal of property and equipment	9	15	76
Loss on impairment of HyperSound assets	—	63,236	49,822
Changes in operating assets and liabilities:			
Accounts receivable	3,109	4,092	1,752
Inventories	(7,496)	(6,966)	11,147
Accounts payable	1,494	(5,057)	(17,287)
Prepaid expenses and other assets	755	245	(712)
Income taxes payable	89	395	(1,700)
Other liabilities	(5,535)	2,071	(310)
Net cash provided by (used for) operating activities	<u>3,418</u>	<u>(1,830)</u>	<u>(15,133)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(4,411)	(3,229)	(6,693)
Net cash used for investing activities	<u>(4,411)</u>	<u>(3,229)</u>	<u>(6,693)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings on revolving credit facilities	172,694	208,920	217,644
Repayment of revolving credit facilities	(170,132)	(205,468)	(222,054)
Repayment of capital leases	(4)	(41)	(40)
Borrowings on term loan	—	—	15,110
Repayment of term loan	(2,647)	(4,011)	(4,423)
Proceeds from sale of common stock, net of issuance costs	—	5,968	—
Proceeds from exercise of stock options	—	—	731
Debt financing costs	(73)	(1,155)	(2,134)
Proceeds from issuance of subordinated notes	—	—	16,300
Net cash provided by (used for) financing activities	<u>(162)</u>	<u>4,213</u>	<u>21,134</u>
Effect of exchange rate changes on cash and cash equivalents	219	(85)	(102)
Net decrease in cash and cash equivalents	(936)	(931)	(794)
Cash and cash equivalents - beginning of period	6,183	7,114	7,908
Cash and cash equivalents - end of period	<u>\$ 5,247</u>	<u>\$ 6,183</u>	<u>\$ 7,114</u>
SUPPLEMENTAL DISCLOSURE OF INFORMATION			
Cash paid for interest	\$ 1,975	\$ 2,053	\$ 1,731
Cash paid for income taxes	\$ —	\$ —	\$ 16
Accrual for purchases of property and equipment	\$ 183	\$ 145	\$ 841
Issuance of warrants	\$ —	\$ —	\$ 1,983

See accompanying Notes to the Consolidated Financial Statements

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

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at December 31, 2014	42,028	\$ 42	\$ 128,084	\$ 3,289	\$ (229)	\$ 131,186
Net loss	—	—	—	(82,907)	—	(82,907)
Other comprehensive loss	—	—	—	—	(237)	(237)
Stock options exercised	502	1	729	—	—	730
Issuance of warrants	—	—	1,983	—	—	1,983
Stock-based compensation	—	—	5,897	—	—	5,897
Balance at December 31, 2015	42,530	43	136,693	(79,618)	(466)	56,652
Net loss	—	—	—	(87,182)	—	(87,182)
Other comprehensive loss	—	—	—	—	(94)	(94)
Sale of common stock, net of issuance costs	6,700	6	5,962	—	—	5,968
Stock-based compensation	22	—	3,960	—	—	3,960
Balance at December 31, 2016	49,252	49	146,615	(166,800)	(560)	(20,696)
Net loss	—	—	—	(3,248)	—	(3,248)
Other comprehensive income	—	—	—	—	357	357
Stock-based compensation	134	—	1,430	—	—	1,430
Balance at December 31, 2017	49,386	\$ 49	\$ 148,045	\$ (170,048)	\$ (203)	\$ (22,157)

See accompanying Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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”), the parent holding company of the historical business of the headset business, was incorporated in the state of Delaware in 2010 with operations principally located in Valhalla, New York. Voyetra Turtle Beach, Inc. (“VTB”) was incorporated in the state of Delaware in 1975.

In October 2012, VTB acquired Lygo International Limited (“Lygo”), a private limited company organized under the laws of England and Wales, which was subsequently renamed Turtle Beach Europe Limited (“TB Europe”).

Basis of Presentation

The accompanying 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.

Uses of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to use estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. The significant estimates and assumptions used by management affect: sales return reserve, allowances for cash discounts, warranty reserve, valuation of inventory, valuation of long-lived assets, goodwill and other intangible assets, depreciation and amortization of long-lived assets, valuation of deferred tax assets, determination of fair value of stock-based awards, stock warrants and share based compensation. The Company evaluates estimates and assumptions on an ongoing basis using historical experience and other factors and adjusts those estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from these estimates, and those differences could be material to the consolidated financial statements.

Revenue Recognition and Sales Return Reserve

Net revenue consists primarily of revenue from the sale of gaming headsets and accessories to wholesalers, retailers and to a lesser extent, on-line customers. Revenue from products is recognized when the product has been delivered to a customer, the sales price is fixed and determinable, and collection is reasonably assured. Product is considered delivered to the customer upon passage of title and risk of loss to the customer. Change in title to the product and recognition of revenue occurs upon delivery to the customer when sales terms are free on board (“FOB”) destination and at the time of shipment when the sales terms are FOB shipping point and there is no right of return. Net revenue for on-line purchases is recognized when products are shipped from the Company’s distribution facilities. The Company excludes sales taxes collected from customers from “Net Revenue” in its Consolidated Statements of Operations.

Provisions for cash discounts, quantity rebates, and sales returns are recognized in the period the sale is recorded, based upon our prior experience and current trends, as a reduction of revenue. These revenue reductions are established by the Company based upon management’s best estimates at the time of sale following the historical trend, adjusted to reflect known changes in the factors that impact such reserves and allowances, and the terms of agreements with customers.

Cost of Revenue and Operating Expenses

The following table illustrates the primary costs classified in each major expense category:

Cost of Revenue	Operating Expenses
Cost to manufacture products;	Payroll, bonus and benefit costs;
Freight costs associated with moving product from suppliers to distribution center and to customers;	Costs incurred in the research and development of new products and enhancements to existing products;
Costs associated with the movement of merchandise through customs;	Depreciation related to demonstration units;
Costs associated with material handling and warehousing;	Legal, finance, information systems and other corporate overhead costs;
Global supply chain personnel costs;	Sales commissions, advertising and marketing costs.
Product royalty costs.	

Product Warranty Obligations

The Company provides for product warranties in accordance with the contract terms given to various customers by accruing estimated warranty costs at the time of revenue recognition. Warranties are generally fulfilled by replacing defective products with new products.

Marketing Costs

Costs associated with the production of advertising, such as print and other costs, as well as costs associated with communicating advertising that has been produced, such as magazine ads, are expensed when the advertising first appears in public. Advertising costs were approximately \$4.2 million, \$6.2 million and \$5.3 million for the years ended December 31, 2017, 2016 and 2015.

The Company also incurs co-operative advertising costs that represent reimbursements to customers for shared marketing expenses for sale of its products. These reimbursements are recorded as reductions of net revenue based on a percentage of sales for all period presented. Co-operative advertising reimbursements were approximately \$3.1 million, \$4.0 million and \$3.6 million for the years ended December 31, 2017, 2016 and 2015.

Deferred Financing Costs

Deferred financing costs represent costs incurred in conjunction with our debt financing activities and are capitalized and amortized over the life of the related financing arrangements. If the debt is retired early, the related unamortized deferred financing costs are written off in the period the debt is retired and are recorded in the statement of operations under the caption "Other non-operating (income) expense, net."

Stock-Based Compensation

Compensation costs related to stock options and restricted stock grants are calculated based on the fair value of the stock-based awards on the date of grant, net of estimated forfeitures. The grant date fair value of awards is determined using the Black-Scholes option-pricing model and the related stock-based compensation is recognized on a straight-line basis, over the period in which an employee is required to provide service in exchange for the award, which is generally four years.

The Company estimates its forfeiture rate based on an analysis of actual forfeitures and will continue to evaluate the adequacy of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior, and other factors. The impact from any forfeiture rate adjustment would be recognized in the period of adjustment and if the actual number of future forfeitures differs from estimates, the Company might be required to record adjustments to stock-based compensation expense.

For stock-based awards issued to non-employees, including consultants, compensation expense is based on the fair value of the awards calculated using the Black-Scholes option-pricing model over the service performance period. The fair value of options

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

granted to non-employees for each reporting period is re-measured over the vesting period and recognized as an expense over the period the services are received.

Exit and Disposal Costs

Management-approved restructuring activities are periodically initiated to achieve cost savings through reduced operational redundancies and to position the Company strategically in the market in response to prevailing economic conditions and associated customer demand. Costs associated with restructuring actions can include severance, infrastructure charges to vacate facilities or consolidate operations, contract termination costs and other related charges. For involuntary separation plans, a liability is recognized when it is probable and reasonably estimable. For one-time termination benefits, such as additional severance pay or benefit payouts, and other exit costs, such as lease termination costs, the liability is measured and recognized initially at fair value in the period in which the liability is incurred, with subsequent changes to the liability recognized as adjustments in the period of change.

Net Earnings (Loss) per Common Share

Basic earnings (loss) per share is calculated by dividing net income (loss) associated with common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share assumes the issuance of additional shares of common stock by the Company upon exercise of all outstanding stock options, stock warrants and contingently issuable securities if the effect is dilutive, in accordance with the treasury stock method.

Cash Equivalents

Cash and short-term highly liquid investments with original maturity dates of three months or less at time of purchase and no redemption restrictions are considered cash and cash equivalents.

Inventories

Inventories consist primarily of finished goods and related component parts, and are stated at the lower of weighted average cost or market value (estimated net realizable value) using the first in, first out ("FIFO") method. The Company maintains an inventory allowance for returned goods, slow-moving and unused inventories based on the historical trend and estimates. Inventory write-downs, once established, are not reversed as they establish a new cost basis for the inventory. Inventory write-downs are included as a component of cost of revenues in the accompanying consolidated statements of operations.

Property and Equipment, net

Property and equipment are presented at cost less accumulated depreciation and amortization. Repairs and maintenance expenditures are expensed as incurred. Depreciation and amortization are computed on a straight-line basis over the following estimated useful lives:

	<u>Estimated Life</u>
Machinery and equipment	3 years
Software and software development	2-3 years
Furniture and fixtures	5 years
Tooling	2 years
Leasehold improvements	Term of lease or economic life of asset, if shorter
Demonstration units and convention booths	2 years

Valuation of Long-Lived and Intangible Assets and Goodwill

At acquisition, we estimate and record the fair value of purchased intangible assets, which primarily consists of in-process research and development, customer relationships, trademarks and trade names, and patents. The fair values of these intangible assets are estimated based on our assessment. Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill and certain other intangible assets having indefinite lives are not amortized

to earnings, but instead are subject to periodic testing for impairment. Intangible assets determined to have definite lives are amortized over their remaining useful lives.

Long-lived and intangible assets and goodwill are assessed for the potential impairment of intangible and fixed assets whenever events or changes in circumstances indicate that full recoverability of net asset balances through future cash flows is in question. Goodwill and indefinite-lived intangible assets are assessed at least annually, but also whenever events or changes in circumstances indicate the carrying values may not be recoverable. Factors that could trigger an impairment review, include (a) significant underperformance relative to historical or projected future operating results; (b) significant changes in the manner of or use of the acquired assets or the strategy for our overall business; (c) significant negative industry or economic trends; (d) significant decline in our stock price for a sustained period; and a decline in our market capitalization below net book value.

Assessment for possible impairment is based on the Company's ability to recover the carrying value of the long-lived asset from the expected future pre-tax cash flows. The expected future pre-tax cash flows are estimated based on historical experience, knowledge and market data. Estimates of future cash flows require the Company to make assumptions and to apply judgment, including forecasting future sales and expenses and estimating the useful lives of assets. If the expected future cash flows related to the long-lived assets are less than the assets' carrying value, an impairment charge is recognized for the difference between estimated fair value and carrying value.

When performing our evaluation of goodwill for impairment, if we conclude qualitatively that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is not required. If we are unable to reach this conclusion, then we would perform the two-step impairment test. Initially, the fair value of the reporting unit is compared to its carrying amount. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; we are required to perform a second step, as this is an indication that the reporting unit goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill and recognize a charge for impairment to the extent the carrying value exceeds the implied fair value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. In addition, identifiable intangible assets having indefinite lives are reviewed for impairment on an annual basis using a methodology consistent with that used to evaluate goodwill.

There are inherent assumptions and estimates used in developing future cash flows requiring management judgment including projecting revenues, interest rates and the cost of capital. Many of the factors used in assessing fair value are outside our control and it is reasonably likely that assumptions and estimates will change in future periods. These changes can result in future impairments. In the event our planning assumptions were modified resulting in impairment to our assets, the associated expense would be included in the Consolidated Statements of Operations, which could materially impact our business, financial condition and results of operations.

In connection with its merger in 2014, the Company performed a valuation of the acquired goodwill and intangible assets and recorded \$81.0 million of goodwill and \$36.4 million of intangible assets based on the fair values of the assets acquired and liabilities assumed. During 2016 and 2015, as a result of the Company's impairment assessments, the Company recorded a \$63.2 million goodwill and other intangibles impairment charge and a \$49.8 million goodwill impairment charge, respectively, which resulted in no remaining carrying value as of December 31, 2016. The goodwill and other intangibles impairment was attributed to sustained slower than anticipated sales volumes in the HyperSound business and certain plans to reduce operating costs to align with current revenues that negatively impacted revenue growth and margin assumptions based on estimates of future operations.

Income Taxes

The Company accounts for income taxes in accordance with the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases, based on enacted tax laws and statutory tax rates applicable to the periods in which the Company expects the temporary differences to reverse. The Company had elected to record a "deferred charge" for basis differences relating to intra-entity profits as recognition as a deferred tax asset is prohibited.

During 2015, as a result of cumulative losses in recent years primarily due to incremental costs associated with the console transition, acquisition costs and initial investments in the HyperSound business, the Company concluded that a full valuation allowance is required on its net deferred tax assets. A valuation allowance is established for deferred tax assets when management anticipates that it is more likely than not that all, or a portion of these assets would not be realized. In determining

whether a valuation allowance is warranted, all positive and negative evidence and all sources of taxable income such as prior earnings history, expected future earnings, carryback and carryforward periods and tax strategies are considered to estimate if sufficient future taxable income will be generated to realize the deferred tax asset. The assessment of the adequacy of a valuation allowance is based on estimates of taxable income by jurisdiction and the period over which deferred tax assets will be recoverable. In the event that actual results differ from these estimates, or these estimates are adjusted in future periods for current trends or expected changes in assumptions, the Company may need to modify the level of valuation allowance which could materially impact our business, financial condition and results of operations.

The tax effects of uncertain tax positions taken or expected to be taken in income tax returns are recognized only if they are “more likely-than-not” to be sustained on examination by the taxing authorities, based on the technical merits as of the reporting date. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company recognizes estimated accrued interest and penalties related to uncertain tax positions in income tax expense.

The Company and its domestic subsidiaries file a consolidated federal income tax return, while the Company’s foreign subsidiary files in its respective local jurisdictions.

Fair Value of Financial Instruments

The Company determines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses a hierarchical structure to prioritize the inputs used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), then to quoted market prices for similar assets or liabilities in active or inactive markets (Level 2) and gives the lowest priority to unobservable inputs (Level 3).

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, revolving line of credit and long-term debt. Cash equivalents are stated at amortized cost, which approximated 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 revolving line of credit and long-term debt are stated at the carrying value as the stated interest rate approximates market rates currently available to the Company, which are considered Level 2 inputs.

The Company did not have any non-financial assets or non-financial liabilities recognized at fair value on a recurring basis at December 31, 2017 and 2016.

Foreign Currency Translation

Balance Sheet accounts of the Company’s Europe subsidiary operations are translated at the exchange rate in effect at the end of each period. Statement of Operations accounts are translated using the weighted average of the prevailing exchange rates during each period. Gains or losses resulting from foreign currency transactions are included in the Company’s Consolidated Statements of Operations under the caption “Other non-operating (income) expense, net” whereas, translation adjustments are reflected in the Consolidated Statements of Comprehensive Income (Loss) under the caption “Foreign currency translation adjustment.”

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of investments in cash, cash equivalents and accounts receivables. The Company is exposed to credit risks and liquidity in the event of default by the financial institutions or issuers of investments in excess of FDIC insured limits. The Company performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any institution.

Accounts receivable are unsecured and represent amounts due based on contractual obligations of customers. Our three largest individual customers accounted for approximately 43% of our gross sales in the aggregate for the year ended December 31, 2017, or individually 16%, 14% and 13%, compared to 16%, 17% and 17% in 2016 and 14%, 15% and 18% in 2015. In

addition, two customers accounted for 25% and 29% of accounts receivable as of December 31, 2017 and 30% and 27% for December 31, 2016.

Concentrations of credit risk with respect to accounts receivable are mitigated by performing ongoing credit evaluations of customers to assess the probability of collection based on a number of factors, including past transaction experience with the customer, evaluation of their credit history, limiting the credit extended, and review of the invoicing terms of the contract. In addition the Company has credit insurance in place through a third party insurer against defaults by certain domestic and international customers, subject to policy limits. The Company generally does not require customers to provide collateral to support accounts receivable. The Company has recorded an allowance for doubtful accounts for those receivables that were determined not to be collectible.

Foreign cash balances at December 31, 2017 and 2016 were \$0.1 million and \$0.2 million, respectively.

Segment Information

In 2014, following the merger, the Company aggregated its two operating segments - Voyetra Turtle Beach (“Headset”) and HyperSound. In light of the subsequent development and launch of the HyperSound Clear 500P product, the Company evaluated whether its operating segments should continue to be aggregated for reporting purposes and determined that as a result of the new hearing healthcare product, the HyperSound operating segment will no longer have similar economic characteristics, production processes, clients or methods of distribution. As such, the Company has disclosed the Headset and HyperSound operating segments separately. The entire business is managed by a single management team whose Chief Operating Decision Maker is the Chief Executive Officer.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, which requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In July 2015, the FASB deferred the effective date of the standard by one year to annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The new standard will require certain price concessions and right of return arrangements to be recorded as part of the transaction price determination. The Company has identified, and is in the process of implementing, appropriate changes to its business processes, systems and controls to support recognition and disclosure under the new standard. The Company will adopt the new standard on January 1, 2018 under the the modified retrospective method of adoption, reflecting the cumulative effect of initially applying the new standard to revenue recognition in the first quarter of 2018. Based on the information we have evaluated to date, we do not believe the standard will materially impact our recognition of revenue from our headset business. That said the Company estimates the adjustment will result in a reduction to the opening balance of retained earnings of approximately \$0.5 million.

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 guidance will be effective for public companies for annual reporting periods beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted. The Company has not yet selected a transition method or determined the effect on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation*, which requires excess tax benefits and tax deficiencies, which arise due to differences between the measure of compensation expense and the amount deductible for tax purposes, to be recorded directly through earnings as a component of income tax expense. Previously, these differences were generally recorded in additional paid-in capital and thus had no impact on net income. Additionally, this guidance permits entities to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as allowed under previous standards, or recognized when they occur. The standard was effective for interim and annual reporting periods beginning after December 15, 2016. The Company adopted this standard on January 1, 2017 and the standard did not have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*, which attempts to reduce the existing diversity in practice with respect to reporting the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This guidance will be effective for the Company on January 1, 2018. The Company does not believe the guidance will have a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting* to provide clarity and reduce diversity in practice and cost and complexity when applying the guidance to a change to the terms or conditions of a share-based payment award. The amendments state that an entity will not have to account for the effects of a modification if: (i) the fair value of the modified award is the same immediately before and after the modification; (ii) the vesting conditions of the modified award are the same immediately before and after the modification; and (iii) the classification of the modified award as either an equity instrument or liability instrument is the same immediately before and after the modification. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

Note 2. Equity Offering and Private Placement

On February 2, 2016, the Company entered into an Underwriting Agreement (the "Underwriting Agreement") with Oppenheimer & Co. Inc., as representative of the several other underwriters named therein, relating to an underwritten public offering (the "Offering") of 5,000,000 shares of our common stock, at a price to the public of \$1.00 per share (the "Offering Price"). Under the terms of the Underwriting Agreement, the Company also granted the underwriters a 30-day option, which was not exercised, to purchase up to an additional 750,000 shares of common stock at the Offering Price less the underwriting discount and estimated offering expenses payable by the Company.

In addition, on February 1, 2016, the Company entered into a separate, concurrent, side-by-side private placement of 1,700,000 shares of its common stock at a price of \$1.00 per share.

The Company received net proceeds from the Offering and a side by side private placement of approximately \$6.0 million after deducting the underwriting discount and offering expenses of \$0.7 million. The Company used all net proceeds from the Offering to pay down amounts outstanding under its working capital line of credit, which is consistent with past practice and required under the terms of our Credit Facility and Term Loan Due 2019.

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, and debt instruments. As of December 31, 2017 and 2016, the Company has not elected the fair value option for any financial assets and liabilities for which such an election would have been permitted, and there were no outstanding financial assets and liabilities recorded at fair value on a recurring basis.

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

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Reported	Fair Value	Reported	Fair Value
	(in thousands)			
Financial Assets and Liabilities:				
Cash and cash equivalents	\$ 5,247	\$ 5,247	\$ 6,183	\$ 6,183
Credit Facility	\$ 38,467	\$ 38,467	\$ 35,905	\$ 35,905
Term Loans	\$ 11,721	\$ 11,329	\$ 14,367	\$ 14,281
Subordinated Debt	\$ 21,911	\$ 22,442	\$ 19,403	\$ 18,569

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 Credit Facility and Term Loan Due 2018 equals fair value as the stated interest rate approximates market rates currently available to the Company, which are considered Level 2 inputs. The fair values of our Term Loan Due 2019 and Subordinated Debt are based upon an estimated market value calculation that factors principal, time to maturity, interest rate and current cost of debt, which is considered a Level 3 input.

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:

	Year Ended		
	December 31,		
	2017	2016	2015
	(in thousands)		
Balance, beginning of period	\$ 4,591	\$ 6,268	\$ 4,155
Reserve accrual	10,457	12,819	17,108
Recoveries and deductions, net	(9,515)	(14,496)	(14,995)
Balance, end of period	\$ 5,533	\$ 4,591	\$ 6,268

Note 5. Composition of Certain Financial Statement Items

Inventories

Inventories consist of the following:

	December 31, 2017		December 31, 2016	
	(in thousands)			
Raw materials	\$	837	\$	1,680
Finished goods		26,681		20,018
Total inventories	\$	27,518	\$	21,698

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

Property and Equipment, net

Property and equipment, net consists of the following:

	December 31, 2017	December 31, 2016
	(in thousands)	
Machinery and equipment	\$ 1,396	\$ 1,321
Software and software development	383	383
Furniture and fixtures	525	288
Tooling	1,968	1,581
Leasehold improvements	1,318	1,247
Demonstration units and convention booths	11,719	8,172
Total property and equipment, gross	17,309	12,992
Less: accumulated depreciation and amortization	(12,632)	(8,681)
Total property and equipment, net	\$ 4,677	\$ 4,311

Depreciation and amortization expense on property and equipment, for the years ended December 31, 2017, 2016 and 2015 was \$4.1 million, \$5.1 million and \$5.9 million, respectively.

Other Current Liabilities

Other current liabilities consist of the following:

	December 31, 2017	December 31, 2016
	(in thousands)	
Accrued vendor expenses	\$ 652	\$ 4,735
Accrued royalty	2,848	3,370
Accrued employee expenses	2,510	2,791
Accrued expenses	5,441	5,518
Total other current liabilities	\$ 11,451	\$ 16,414

Note 6. Goodwill and Other Intangible Assets

Changes in the carrying values of goodwill are as follows:

	(in thousands)
Balance as of January 1, 2016	\$ 31,152
Impairment Charge (HyperSound)	31,152
Balance as of December 31, 2016	\$ —

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

Acquired Intangible Assets

Acquired identifiable intangible assets, and related accumulated amortization, as of December 31, 2017 and December 31, 2016 consist of:

	December 31, 2017			
	Gross Carrying Value	Accumulated Amortization	Asset Impairment	Net Book Value
	(in thousands)			
Customer relationships	\$ 5,796	\$ 4,173	—	1,623
Foreign Currency	(899)	(680)	—	(219)
Total Intangible Assets	\$ 4,897	\$ 3,493	\$ —	\$ 1,404

	December 31, 2016			
	Gross Carrying Value	Accumulated Amortization	Asset Impairment	Net Book Value
	(in thousands)			
Customer relationships	\$ 5,796	\$ 3,737	—	2,059
Non-compete agreements	177	177	—	—
In-process Research and Development	27,100	4,074	23,026	—
Developed technology	8,880	802	8,078	—
Trade names	170	92	78	—
Patent and trademarks	967	65	902	—
Foreign Currency	(1,294)	(853)	—	(441)
Total Intangible Assets	\$ 41,796	\$ 8,094	\$ 32,084	\$ 1,618

In October 2012, VTB acquired Lygo International Limited, subsequently renamed TB Europe. The acquired intangible assets relating to customer relationships and non-compete agreements are being amortized over an estimated useful life of thirteen years with the amortization being included within sales and marketing expense.

In January 2014, the merger between VTBH and Turtle Beach (f/k/a Parametric Sound Corporation) was completed. The acquired intangible assets relating to developed technology, customer relationships and trade name were subject to amortization. During 2016, the Company completed an impairment analysis under an income approach that reflected recent events in connection with the strategic options exploration, including the transition to a licensing business model. Based on additional information such as sustained slower than anticipated sales volumes in the HyperSound business and certain plans to reduce operating costs to align with current revenues, the Company materially revised certain revenue growth and margin assumptions based on estimates of future operations. As a result, in conjunction with the completion of the second step of the Company's goodwill impairment analysis, we recorded a \$32.1 million impairment charge related to the developed technology, in-process research and development and trade names, which is included as a component of goodwill and intangible asset impairment.

Amortization expense related to definite lived intangible assets of \$0.3 million, \$4.1 million and \$2.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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

As of December 31, 2017, estimated annual amortization expense related to definite lived intangible assets in future periods is as follows:

(in thousands)		
2018	\$	366
2019		307
2020		258
2021		217
2022		182
Thereafter		293
Total	\$	1,623

Note 7. Credit Facilities and Long-Term Debt

	December 31, 2017		December 31, 2016	
	(in thousands)			
Revolving credit facility, maturing March 2019	\$	38,467	\$	35,905
Term Loan Due 2018		1,923		3,632
Term Loan Due 2019		9,798		10,735
Less unamortized deferred financing fees		759		1,278
Total Term Loans		10,962		13,089
Subordinated notes - related party		21,911		19,403
Less unamortized debt discount		1,075		1,522
Total Subordinated notes		20,836		17,881
Total outstanding debt		70,265		66,875
Less: current portion of revolving line of credit		(38,467)		(35,905)
Less: current portion of term loans		(4,173)		(2,647)
Total noncurrent portion of long-term debt	\$	27,625	\$	28,323

Total interest expense, inclusive of amortization of deferred financing costs, on long-term debt obligations was \$5.8 million, \$5.5 million and \$3.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Amortization of deferred financing costs was \$1.6 million, \$1.3 million and \$0.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. In connection with the Term Loan Due 2019 and Amended Notes, the Company incurred \$5.3 million of financing costs, including \$2.0 million related to the fair value of the warrants issued recorded as debt discount, which has been deferred and will be recognized over the term of the respective agreements.

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

Maturities as of December 31, 2017 for each of the next five years are as follows:

(in thousands)		
2018	\$	4,173
2019		29,459
Thereafter		—
Total	\$	33,632

Revolving Credit Facility

On March 31, 2014, Turtle Beach and certain of its subsidiaries entered into a new asset-based revolving credit agreement, most recently amended October 31, 2016 (“Credit Facility,”) with Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner, which replaced the then existing loan and security agreement. The Credit Facility, which expires on March 31, 2019, provides for a line of credit of up to \$60 million inclusive of a sub-facility limit of \$10 million for TB Europe, a wholly owned subsidiary of Turtle Beach. The Credit Facility may be used for working capital, the issuance of bank guarantees, letters of credit and other corporate purposes.

The Company and its subsidiaries are required to comply with various customary covenants under the terms of the Credit Facility including, (i) maintaining minimum EBITDA in each trailing twelve month period, (ii) maintaining a Consolidated Leverage Ratio to be measured on the last day of each month, (iii) maintaining certain cash flow levels, in the aggregate and with respect to its HyperSound segment, during each rolling four week period beginning with the period ended October 31, 2016 through December 31, 2018, (iv) limitation on capital expenditures in excess of \$5 million in each of the years ending December 31, 2018 and 2019 and (v) in the event the Company’s availability is less than certain specified amounts, obtaining additional funding from the issuance of a subordinated promissory note provided by SG VTB (the “Promissory Note”).

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.

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 1.00% to 1.50% for U.S. base rate loans and between 2.00% to 2.50% for U.S. LIBOR loans and U.K. loans. As of December 31, 2017, interest rates for outstanding borrowings were 5.75% for base rate loans and 3.74% for LIBOR rate loans. 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.

If certain availability thresholds are not met, meaning that the Company does not have receivables and inventory which are eligible to borrow on under the Credit Facility in excess of amounts borrowed, the Credit Facility requires the Company and its restricted subsidiaries to maintain a fixed charge coverage ratio. The fixed charge ratio is defined as the ratio, determined on a consolidated basis for the most recent four fiscal quarters, of (a) EBITDA minus capital expenditures, excluding those financed through other instruments, and cash taxes paid, and (b) Fixed Charges defined as the sum of cash interest expense plus scheduled principal payments. The current fixed charge coverage ratio of at least 1.15 to 1.00 on the last day of each month while a Covenant Trigger Period (as defined in the Credit Facility) is in effect will become effective again after the Company has complied with such ratio for six consecutive months.

The Credit Facility also contains affirmative and negative covenants that, subject to certain exceptions, limit our ability to take certain actions, including our 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 December 31, 2017, the Company was in compliance with all the amended financial covenants, and excess borrowing availability was approximately \$9.7 million, net of the outstanding Term Loan Due 2018 (as defined below) that is considered to be an additional outstanding amount under the Credit Facility.

Term Loans

Term Loan Due 2018

On December 29, 2014, the Company amended the Credit Facility with Bank of America to enter in to an additional loan (the “Term Loan Due 2018”) for the repayment of \$7.7 million of then existing subordinated debt and accrued interest. The Term Loan Due 2018 resulted in modified financial covenants while it is outstanding, will bear interest at a rate of LIBOR for the applicable interest period plus 5% and will be repaid in equal monthly installments beginning on April 1, 2015 and ending on October 1, 2018, reflecting a six month waiver. Amounts so repaid are recognized by lowering the balance of the term loan tranche and increasing the lower interest rate base revolver amount, with no net impact on borrowing availability.

Term Loan Due 2019

On July 22, 2015, the Company and its subsidiaries, entered into a term loan, guaranty and security agreement (the “Term Loan Due 2019”) with Crystal Financial LLC, as agent, sole lead arranger and sole bookrunner, Crystal Financial SPV LLC and the other persons party thereto (“Crystal”), which provides for an aggregate term loan commitment of \$15 million that bears interest at a rate per annum equal to the 90-day LIBOR rate plus 10.25%. Under the terms of the Term Loan Due 2019, the Company is required to make payments of interest in arrears on the first day of each month beginning August 1, 2015 and will repay the principal in monthly payments beginning January 1, 2016, inclusive of a nine month waiver, with a final payment on June 28, 2019, the maturity date.

The Term Loan Due 2019 is secured by a security interest in substantially all of the Company and each of its subsidiaries' working capital assets and is subject to the first-priority lien of Bank of America , N.A., as agent, under the Credit Facility, other than with respect to equipment, fixtures, real property interests, intellectual property, intercompany property, intercompany indebtedness, equity interest in their subsidiaries, and certain other assets specified in an inter-creditor agreement between Bank of America and Crystal.

The Company and its subsidiaries are required to comply with various customary covenants including, (i) maintaining minimum EBITDA (as defined in the Term Loan Due 2019) in each trailing twelve month period, (ii) maintaining a Consolidated Leverage Ratio (as defined in the Term Loan Due 2019) to be measured on the last day of each month, (iii) maintaining certain cash flow levels, in the aggregate and with respect to its HyperSound segment, during each rolling four week period beginning with the period ended October 31, 2016 through December 31, 2018, (iv) limitation on capital expenditures in excess of \$5 million in each of the years ending December 31, 2018 and 2019, (v) in the event the Company's availability is less than certain specified amounts, obtaining additional funding from the issuance of a subordinated promissory note provided by SG VTB (the “Promissory Note”), and (vi) restrictions on the Company's and its subsidiaries ability to prepay its subordinated notes, pay dividends, incur debt, create or suffer liens and engage in certain fundamental transactions. The agreement permits certain equity holders of the Company to contribute funds to the Company to cure certain financial covenant defaults.

The Term Loan Due 2019 contains customary representations, mandatory prepayment events and events of default, including defaults triggered by the failure to make payments when due, breaches of covenants and representations, material impairment in the perfection of Crystal's security interest in the collateral and events related to bankruptcy and insolvency of the Company and its subsidiaries. Upon an event of default, Crystal may declare all outstanding obligations immediately due and payable (along with a prepayment fee), a default rate of an additional 2.0% may be applied to amounts outstanding and may take other actions including collecting or taking such other action with respect to the collateral pledged in connection with the term loan.

On November 2, 2015, the Company entered into an amendment to the Term Loan Due 2019 to, among other things, provide that upon receipt all the proceeds from the future issuance of subordinated notes will immediately be used to prepay outstanding principal in an amount equal to \$2.5 million.

As of December 31, 2017, the Company was in compliance with all the amended financial covenants, and the outstanding principal balance was \$9.8 million.

Subordination Agreement

On November 16, 2015, as a condition precedent to the Company's lenders permitting the Company to enter into certain subordinated notes, the Company entered into a subordination agreement with and between Bank of America and Crystal, pursuant to which the parties agreed that the Company's obligations under any such notes would be subordinate in right of payment to the payment in full of all the Company's obligations under the Credit Facility and Term Loan Due 2019.

Subordinated Notes - Related Party

On April 23, 2015, the Company issued a \$5.0 million subordinated note (the "April Note") to SG VTB Holdings, LLC, the Company's largest stockholder ("SG VTB"). The April Note was issued with an interest rate of (i) 10% per annum for the first year and (ii) 20% per annum for all periods thereafter, with interest accruing and being added to the principal amount of the note quarterly.

On May 13, 2015, the Company issued subordinated notes (the "May Notes") with an aggregate principal amount of \$3.8 million to SG VTB, and a trust affiliated with Ronald Doornink, the Chairman of the Company's board of directors (the "Board"). The May Notes were issued with an interest rate of 10% per annum until the maturity date of the May Notes (which was August 13, 2015 but could be extended up to two additional 90 day periods upon the written agreement of the Company and the noteholder), with interest accruing and being added to the principal amount of the May Notes quarterly. Following the maturity date, the interest rate would have increased to 20% per annum.

On June 17, 2015, the Company issued a subordinated note (the "June Note") with an aggregate principal amount of \$3.0 million to SG VTB. The June Note was issued at an interest rate of 10% per annum until the maturity date of the June Note (which was September 17, 2015 but could be extended up to two additional 90 day periods upon the written agreement of the Company and the noteholder), with interest accruing and being added to the principal amount of the June Note quarterly. Following the maturity date, the interest rate would have increased to 20% per annum. In addition, the Company had the option to request that SG VTB make, in SG VTB's sole discretion, additional advances from time to time up to an aggregate principal amount of \$15.0 million. Prior to the amendment (see below), after an additional advance of \$6.0 million on July 8, 2015, \$9.0 million was outstanding under the June Note.

Concurrently with the completion of the Term Loan Due 2019, the Company amended and restated each of its outstanding subordinated notes (the "Amended Notes"). The obligations of the Company under the Amended Notes is subordinate and junior to the prior payment of amounts due under the Credit Facility and Term Loan Due 2019. In addition, the stated maturity date of the Amended Notes was extended to September 29, 2019, subject to acceleration in certain circumstances, such as a change of control in the Company. The Amended Notes bear interest at a rate per annum equal to LIBOR plus 10.5% and shall be paid-in-kind by adding the amount to the principal amount due. Further, as consideration for the concessions in the Amended Notes, the Company issued warrants to purchase 1.7 million shares of the Company's common stock at an exercise price of \$2.54 per share.

On November 16, 2015, the Company issued a \$2.5 million subordinated note (the "November Note") to SG VTB, the proceeds of which, as set forth in the amendment to the Term Loan Due 2019, were applied against the outstanding balance of the Term Loan Due 2019. The November Note will bear interest at a rate of 15% per annum until its maturity date, which is September 29, 2019, and is subordinated to all senior debt of the Company.

In consideration of the credit extended under the November Note, VTB and VTBH entered into a Third Lien Continuing Guaranty, (as amended, the "Third Lien Guaranty"), under which they guarantee and promise to pay to Stripes, any and all obligations of the Company under the November Note. To secure our obligations under the November Note and the Third Lien Guaranty, the Company entered into a Third Lien Security Agreement, dated as of November 16, 2015, pursuant to which Stripes was granted a security interest upon all property of the VTB and VTBH until the payment in full of the Subordinated Note or the release of the guarantee or collateral, as applicable. Concurrent with entering into the November Note and Third Lien Guaranty, the Company also issued to SG VTB a warrant to purchase 1.4 million shares of the Company's common stock at an exercise price of \$2.00 per share to SG VTB.

On October 31, 2016, in connection with certain amendments to the Credit Facility and Term Loan Due 2019, the Company and SG VTB entered into the Promissory Note, which states that in the event the Company's availability under the Credit Facility is less than certain specified amounts, the Company may, upon request, at any time until September 29, 2019 require that SG VTB provide a \$2 million subordinated loan. Upon issuance, the loan would bear interest at a rate of either (i) LIBOR plus

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

10.5% per annum or (ii) 12.0%, dependent upon the Company’s compliance with certain financial covenants and would be subordinated to all senior debt of the Company.

In addition, under the terms of the Promissory Note, if and when the funding occurs, as additional consideration the Company would issue to SG VTB a warrant, exercisable for a period of ten years beginning on the date of issuance, to purchase an amount of shares of the Company’s common stock equal to 2.4% of the Company’s then fully diluted shares outstanding at an exercise price equal to the closing price on that date. The warrant would not entitle the holder to any voting rights or other rights as a stockholder of the Company prior to exercise.

SG VTB is an affiliate of Stripes Group LLC (“Stripes”), a private equity firm focused on internet, software, healthcare IT and branded consumer products businesses. Kenneth A. Fox, one of our directors, is the managing general partner of Stripes and the sole manager of SG VTB and Ronald Doornink, our Chairman of the Board, is an operating partner of Stripes.

March 2018 Amendment

On March 5, 2018, the Company amended and restated its existing Credit Facility, Term Loan Due 2019 and subordinated notes. The amended agreements, among other things, (i) reduce the applicable margin on borrowings, (ii) modify existing financial covenants under the credit facility and term loan with financial maintenance covenants including a customary consolidated leverage ratio, fixed charge coverage ratio and certain limitations on capital expenditures and disbursements and (iii) provide for the ability to borrow additional terms loans in the future to be used for general working capital purposes (including, the ability to use the delayed draw term loans to pay down the principal amount of the subordinated notes, subject to the satisfaction of certain conditions described therein.

The Credit Facility, which extended a line of credit of up to \$60 million to March 5, 2023, reduced the applicable margin to 0.50% to 1.25% for base rate loans and 1.50% to 2.25% for LIBOR loans. The Term Loan Due 2019 provides for an aggregate term loan facility of \$12.5 million and extends the maturity date to March 2023, including a delayed draw commitment, and bears interest at a rate per annum equal to the 90-day LIBOR rate plus 6.75%. The subordinated notes will bear in-kind interest at a rate of (i) LIBOR plus 9.1% per annum for the first twenty-four months (or six months (or such date dated provided that the amount of such note is reduced by a specified amount by the six month anniversary of the restatement effective date) with respect to the November Note) and (ii) LIBOR plus 10.5% per annum (or 15.0% with respect to the November Note if the prepayment described above does not occur) thereafter until September 2024.

Note 8. Income Taxes

The provision (benefit) for income taxes consists of the following:

	Year Ended		
	December 31,		
	2017	2016	2015
	(in thousands)		
Federal:			
Current	\$ 227	\$ 11	\$ (3,218)
Deferred	—	—	5,153
Total Federal	227	11	1,935
State and Local:			
Current	185	149	197
Deferred	—	—	663
Total State and Local	185	149	860
Foreign			
Current	—	—	—
Deferred	181	(547)	(402)
Total Foreign	181	(547)	(402)
Total	\$ 593	\$ (387)	\$ 2,393

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Notes to Consolidated Financial Statements - (Continued)

The reconciliation between the provision (benefit) for income taxes and the expected provision (benefit) for income taxes at the U.S. federal statutory rate of 35% is as follows:

	Year Ended		
	December 31,		
	2017	2016	2015
	(in thousands)		
U.S. Operations	\$ (3,722)	\$ (88,084)	\$ (78,643)
Foreign Operations	1,067	515	(1,871)
Income (loss) before income taxes	(2,655)	(87,569)	(80,514)
Federal statutory rate	35%	35%	35%
Provision for income taxes at federal statutory rate	(929)	(30,649)	(28,180)
State taxes, net of federal benefit	157	113	805
Foreign tax rate differential	(92)	(522)	253
Change in valuation allowance	(10,043)	18,969	8,528
Impairment charge	—	10,903	17,438
Change in Tax Rate	10,526	—	—
Stock compensation	424	230	3,384
Interest on Series B Preferred Stock	504	467	430
Subpart F Income	502	—	—
Excess Tax Benefit Recognized	(782)	—	—
Prior year adjustment	241	14	518
Change in unrecognized tax benefits	(27)	(26)	(1,024)
Other	112	114	241
Provision (benefit) for income taxes	<u>\$ 593</u>	<u>\$ (387)</u>	<u>\$ 2,393</u>

The income tax provision (benefit) reflects the current and deferred tax consequences of events that have been recognized in the Company's Consolidated Financial Statements or tax returns. The "Tax Cuts and Jobs Act," enacted in December 2017, reduces the US federal corporate tax rate from 35% to 21% effective January 1, 2018. Consequently, we have re-measured our deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, the Company recorded a decrease in its net deferred tax assets of \$10.5 million with a corresponding decrease to its valuation allowance to account for this rate reduction. The Act also requires a deemed repatriation of foreign earnings and profits, determined as of either November 2, 2017 or December 31, 2017, whichever amount is greater. As such, the Company reported a deemed repatriation of foreign earnings totaling \$0.5 million as of December 31, 2017 related to its European subsidiary. The Company considers the earnings of certain non-U.S. subsidiaries to be indefinitely reinvested outside the United States and the current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

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Notes to Consolidated Financial Statements - (Continued)

The tax effects of significant items comprising the Company's deferred tax assets/(liabilities) are as follows:

	December 31, 2017	December 31, 2016
	(in thousands)	
Allowance for doubtful accounts	\$ 16	\$ 52
Inventories	1,028	3,407
Employee benefits	2,347	3,754
Net operating loss	14,766	19,246
Unrecognized tax benefits	676	649
Depreciation and amortization	(54)	357
Intangible assets	—	209
Other	1,085	1,222
	<u>19,864</u>	<u>28,896</u>
Valuation allowance	(19,502)	(28,353)
Net deferred tax assets (liabilities)	<u>\$ 362</u>	<u>\$ 543</u>

At December 31, 2017, the Company has \$57.4 million of net operating loss carryforwards and \$30.6 million of state net operating loss carryforwards, which will begin to expire in 2029. An ownership change occurred on January 15, 2014, and \$12.7 million of federal net operating losses included in the above are pre-change losses subject to Section 382 of the Internal Revenue Code of 1986, as amended. The Company believes, based on the estimated Section 382 limitation and the net operating loss carryforward period, that the pre ownership change net operating losses can be fully utilized in future years if there is sufficient taxable income in such carryforward period.

The realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. During 2015, as a result of cumulative losses in recent years primarily due to incremental costs associated with the console transition, acquisition costs and initial investments in the HyperSound business, the Company concluded that a full valuation allowance is required on its net domestic deferred tax assets. However, the Company believes there is sufficient evidence to support the utilization of the Company's international net deferred tax assets totaling \$0.4 million and, therefore, no valuation allowance has been set-up against these assets.

In 2017, due to changes in the reporting of stock compensation, the Company's previously unrecognized excess tax benefit related to the exercise of nonqualified stock options totaling \$2.2 million was recognized in deferred tax assets. This increase to deferred tax assets was fully offset by the Company's valuation allowance.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	December 31, 2017	December 31, 2016
	(in thousands)	
Gross unrecognized tax benefit, beginning of period	\$ 1,468	\$ 1,468
Additions based on tax positions related to the current year	—	—
Decreases based on tax positions in a prior period	—	—
Gross unrecognized tax benefit, end of period	<u>\$ 1,468</u>	<u>\$ 1,468</u>

The Company recognizes only those tax positions that meet the more-likely-than-not recognition threshold, and establish tax reserves for uncertain tax positions that do not meet this threshold. To the extent these unrecognized tax benefits are ultimately recognized, approximately \$1.5 million will impact the Company's effective tax rate in a future period. Interest and penalties associated with income tax matters are included in the provision for income taxes. As of December 31, 2017, the Company had uncertain tax positions of \$2.3 million, inclusive of \$0.8 million of interest and penalties.

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

The Company files U.S., state and foreign income tax returns in jurisdictions with various statutes of limitations. Below is a summary of the filing jurisdictions and open tax years:

	Open Years
U.S. Federal	2014 - 2016
California	2013 - 2016
New Jersey	2013 - 2016
New York	2014 - 2016
Pennsylvania	2014 - 2015
Texas	2013 - 2016
United Kingdom	2014 - 2016

Note 9. Preferred Stock

Series B Redeemable Preferred Stock

In September 2010, VTBH issued 1,000,000 shares of non-voting Series B Redeemable Preferred Stock (“Preferred Stock”) with a fair value of \$12.4 million. We are required to redeem the Preferred Stock on the earlier to occur of September 28, 2030 or the occurrence of a liquidation event at its original issue price of \$12.425371 per share plus any accrued but unpaid dividends. Dividends are cumulative and accrue at a rate of 8.0% per annum, compounded quarterly, and payable as and when declared by the Board of Directors. The Preferred Stock does not contain any conversion rights.

A liquidation event is defined as any acquisition of the Company by means of merger or other form of corporate reorganization in which the outstanding shares of the corporation are exchanged for securities or other consideration issued, or caused to be issued, by the acquiring corporation or its subsidiary (other than a reincorporation transaction) or a sale of all or substantially all of the assets of the corporation.

For the years ended December 31, 2017, 2016, and 2015, the Company recognized \$1.4 million, \$1.3 million and \$1.2 million, respectively, of interest expense on the Preferred Stock. The redemption value was \$18.9 million and \$17.5 million as of December 31, 2017 and 2016, respectively. The Company has recorded the Preferred Stock as a non-current liability due to its mandatory redemption provisions for all periods presented.

There were no dividends declared during the years ended December 31, 2017, 2016 and 2015.

As of December 31, 2017, 2016, and 2015, 1,000,000 shares of Series B Redeemable Preferred Stock are authorized, issued and outstanding.

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Notes to Consolidated Financial Statements - (Continued)

Note 10. Net Income (Loss) Per Share

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

	Year Ended		
	December 31,		
	2017	2016	2015
	(in thousands, except per-share data)		
Net loss	\$ (3,248)	\$ (87,182)	\$ (82,907)
Weighted average common shares outstanding — Basic	49,343	48,592	42,269
Plus incremental shares from assumed conversions:			
Dilutive effect of stock options, warrants, unvested awards	—	—	—
Weighted average common shares outstanding — Diluted	49,343	48,592	42,269
Net loss per share :			
Basic	\$ (0.07)	\$ (1.79)	\$ (1.96)
Diluted	\$ (0.07)	\$ (1.79)	\$ (1.96)

Incremental shares from stock options and restricted stock awards are computed by 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, unrecognized compensation expense for outstanding awards and the estimated tax benefit of the assumed exercises.

	Year Ended		
	December 31,		
	2017	2016	2015
	(in thousands)		
Stock options	6,356	6,411	6,260
Warrants	3,061	3,071	954
Unvested restricted stock awards	144	120	54
Total	9,561	9,602	7,268

Note 11. Stock-Based Compensation

On October 30, 2013 the Board of Directors adopted, and on December 27, 2013 the stockholders approved, the 2013 Stock-Based Incentive Compensation Plan (the "2013 Plan"), that became effective upon consummation of the Merger on January 15, 2014. Our stock-based compensation program is a broad-based program designed to attract and retain employees while also aligning employees' interests with the interests of our shareholders. In addition, members of our Board of Directors participate in our stock-based compensation program in connection with their service on our board.

Stock option awards outstanding under the Company's Plans are time-based and granted at exercise prices which are equal to the market value of the Company's common stock on the grant date (determined in accordance with the applicable Plan), and expire no later than ten 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, in some instances, to acceleration in certain circumstances. The restrictions on restricted stock generally lapse over a three-year period from the date of the grant. In the event a participant terminates employment with the Company, any vested stock options and any restricted stock still subject to restrictions are generally forfeited if they are not exercised within 90 days.

The following table presents the stock activity and the total number of shares available for grant as of December 31, 2017:

	(in thousands)
Balance at December 31, 2016	2,261
Options granted	(1,751)
Restricted Stock granted	(167)
Forfeited/Expired shares added back	1,206
Balance at December 31, 2017	1,549

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:

	Year Ended		
	December 31,		
	2017	2016	2015
	(in thousands)		
Cost of revenue	\$ (66)	\$ 557	\$ 889
Selling and marketing	100	90	320
Research and development	232	561	784
General and administrative	1,164	2,752	3,904
Total stock-based compensation	\$ 1,430	\$ 3,960	\$ 5,897

Forfeitures on option grants are estimated at 10% based on evaluation of historical and expected future turnover for non-executives and 0% based for executives. Stock-based compensation expense was recorded net of estimated forfeitures, such that expense was recorded only for those stock-based awards that are 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).

None of the Company's stock options were exercised for the year ended December 31, 2017 and 2016. The associated tax benefit recognized in the Consolidated Statements of Operations for the fiscal years ended December 31, 2015 was approximately \$2.1 million. In 2017, due to changes in the reporting of stock compensation, the Company's previously unrecognized excess tax benefit related to the exercise of nonqualified stock options totaling \$2.2 million was recognized in deferred tax assets.

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Notes to Consolidated Financial Statements - (Continued)

Stock Option Activity

	Options Outstanding			Aggregate Intrinsic Value
	Number of Shares Underlying Outstanding Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In years)	
Outstanding at December 31, 2016	6,381,447	\$ 1.9	7.37	\$ 20,033
Granted	1,750,674	0.68		
Exercised	—	—		
Forfeited	(1,171,794)	2.17		
Outstanding at December 31, 2017	6,960,327	\$ 1.55	6.64	\$ 6
Vested and expected to vest at December 31, 2017	6,734,078	\$ 1.59	6.58	\$ 4
Exercisable at December 31, 2017	4,081,307	\$ 1.95	5.30	\$ —

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. There was no aggregate intrinsic value of options exercised for the year ended December 31, 2017.

As of December 31, 2017, total unrecognized compensation cost related to non-vested stock options granted to employees was \$1.3 million, which is expected to be recognized over a remaining weighted average vesting period of 2.9 years.

Determination of Fair Value

Option valuation models require the input of highly subjective assumptions, including expected stock price volatility. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. The fair value of options granted under the Company's Plans was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Expected term (in years)	6.1	6.1	6.1
Risk-free interest rate	1.9% - 2.3%	1.1% - 2.3%	1.5% - 1.9%
Expected volatility	38.7% - 41.1%	40.7% - 42.2%	40.8% - 47.1%
Dividend rate	0%	0%	0%

Each of these inputs is subjective and generally requires significant judgment to determine. The risk-free rate is based on a zero-coupon U.S. Treasury rate in effect at the time of grant with maturity dates that coincide with the expected life of the options. The expected life of the options is based on a simplified weighted average taking into account the vesting conditions and contractual life of the award. Since the Company has a limited trading history for its common stock, the expected volatility was derived from the historical stock volatilities of several unrelated public companies within the Company's industry that are considered to be comparable to the Company's business over a period equivalent to the expected term of the stock option grants.

The weighted average grant date fair value of options granted during the years ended December 31, 2017, 2016 and 2015 was \$0.29, \$0.48 and \$0.88, respectively. The total estimated fair value of employee options vested during the years ended December 31, 2017, 2016 and 2015 was \$1.3 million, \$2.4 million and \$3.0 million, respectively.

Restricted Stock Activity

	Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested restricted stock at December 31, 2016	135,705	\$ 1.84
Granted	166,665	0.90
Vested	(91,002)	2.06
Forfeited	(43,903)	1.16
Nonvested restricted stock at December 31, 2017	167,465	0.96

As of December 31, 2017 total unrecognized compensation cost related to the nonvested restricted stock awards granted was \$0.2 million, which is expected to be recognized over a remaining weighted average vesting period of 0.3 years.

Stock Warrants

In connection with and as consideration for the concessions in the Amended Notes, the Company issued to SG VTB and a trust affiliated with Ronald Doornink warrants to purchase 1.7 million shares of the Company's common stock at an exercise price of \$2.54 per share. The warrants are exercisable for a period of five years beginning on the date of issuance, July 22, 2015. The exercise price and the number of shares of Common Stock purchasable are subject to standard anti-dilution adjustments and do not carry any voting rights or other rights as a stockholder of the Company prior to exercise. The shares issuable upon exercise are also subject to the "demand" and "piggyback" registration rights set forth in the in the Company's Stockholder Agreement, dated August 5, 2013, as amended July 10, 2014.

In connection with the November Note, the Company issued a warrant to purchase 1.4 million shares of the Company's common stock at an exercise price of \$2.00 per share to SG VTB. The exercise price and the number of shares are subject to standard anti-dilution adjustments and do not carry any voting rights as a stockholder of the Company prior to exercise. The warrant is exercisable for a period of ten years beginning on the date of issuance and does not entitle the holder to any voting rights or other rights as a stockholder of the Company prior to exercise.

The warrants meet the requirements for classification within equity as warrants entitle the holder to purchase a stated amount of shares of common stock at a fixed exercise price that are not puttable (either the warrant or the shares) to the Company or redeemable for cash.

Phantom Equity Activity

In November 2011, VTBH adopted a 2011 Phantom Equity Appreciation Plan ("the Appreciation Plan") that covers certain employees, consultants, and directors of VTBH ("Participants") who are entitled to phantom units, as applicable, pursuant to the provisions of their respective award agreements. The Appreciation Plan is shareholder-approved, which permits the granting of phantom units to VTBH's Participants of up to 1,500,000 units. These units are not exercisable or convertible into shares of common stock but give the holder a right to receive a cash bonus equal to the appreciation in value between the exercise price and value of common stock at the time of a change in control event as defined in the plan.

As of December 31, 2017 and 2016, 714,347 phantom units at a weighted-average exercise price of \$0.93 have been granted and are outstanding. Because these phantom units are not exercisable or convertible into common shares, said amounts and exercise prices were not subject to the exchange ratio provided by the Merger agreement. As of December 31, 2017, compensation expense related to the Appreciation Plan units remained unrecognized because a change in control, as defined in the plan, had not occurred and is not anticipated by the Company. In July 2015, the Appreciation Plan was terminated as to new grants, but vested and unvested phantom units will continue.

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Notes to Consolidated Financial Statements - (Continued)

Note 12. Segment and Geographic Information

The following tables show net revenues, operating income and total assets by reporting segments:

	December 31,		
	2017	2016	2015
Net Revenues	(in thousands)		
Headset	\$ 148,828	\$ 173,323	\$ 161,835
HyperSound	307	655	912
Total	<u>\$ 149,135</u>	<u>\$ 173,978</u>	<u>\$ 162,747</u>
Operating Income (Loss)			
Headset	\$ 6,124	\$ 8,633	\$ (8,698)
HyperSound	(1,326)	(86,334)	(65,701)
Total	<u>\$ 4,798</u>	<u>\$ (77,701)</u>	<u>\$ (74,399)</u>
Interest Expense	\$ 7,916	\$ 7,447	\$ 5,099
Other non-operating expense, net	\$ (463)	\$ 2,421	\$ 1,016
Loss before income tax expense (benefit)	<u>\$ (2,655)</u>	<u>\$ (87,569)</u>	<u>\$ (80,514)</u>

	December 31,	December 31,
	2017	2016
Total Assets	(in thousands)	
Headset	\$ 94,114	\$ 94,081
HyperSound (1)	26,787	31,233
Eliminations	(26,650)	(30,514)
Total	<u>\$ 94,251</u>	<u>\$ 94,800</u>

(1) At December 31, 2017, HyperSound assets excluding eliminations totaled \$0.1 million.

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

	Year Ended		
	December 31,		
	2017	2016	2015
	(in thousands)		
North America	\$ 103,159	\$ 130,371	\$ 117,526
United Kingdom	21,113	21,778	20,881
Europe	20,277	15,729	17,329
Other	4,586	6,100	7,011
Total net revenue	<u>\$ 149,135</u>	<u>\$ 173,978</u>	<u>\$ 162,747</u>

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Notes to Consolidated Financial Statements - (Continued)

The following table represents property and equipment based on physical location:

	Year Ended	
	December 31,	
	2017	2016
	(in thousands)	
United States	\$ 4,504	\$ 3,986
International	173	325
Total	\$ 4,677	\$ 4,311

Note 13. 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) 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 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 cases 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. That denial was appealed to the Nevada Supreme Court. 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 did provide a limited basis upon which plaintiffs could seek to amend their complaint. Plaintiffs filed an amended complaint on December 1, 2017, and motions to dismiss were filed on January 2, 2018. The court will hear those motions on March 12, 2018. The Company believes that the plaintiffs' claims against it are without merit.

Dr. John Bonanno Complaint: On February 18, 2015, Dr. John Bonanno, a minority shareholder of Series B Preferred Stock of VTBH, filed a complaint in Delaware Chancery Court alleging breach of contract against VTBH. According to the complaint, the Merger purportedly triggered a contractual obligation for VTBH to redeem Dr. Bonanno's preferred stock. Dr. Bonanno requests a declaratory judgment stating that he is entitled damages including a redemption of his stock for the redemption value of \$15.1 million (equal to the original issue price of his stock plus accrued dividends) as well as other costs and expenses. On February 8, 2016, the Delaware Chancery Court granted VTBH's motion to dismiss for improper venue, and Dr. Bonanno's complaint was dismissed without prejudice. In January of 2017, Dr. Bonanno filed a complaint in New York state court alleging breach of contract against VTBH and seeking a declaratory judgment that he is entitled to damages and specific performance, including redemption of his stock. VTBH answered the complaint on March 7, 2017. At the order of the Court, the parties filed cross-motions for summary judgment on March 31, 2017, on the sole question of whether the Merger was a defined event in the purported contract entitling Dr. Bonanno to redemption of his shares. The cross-motions for summary judgment were fully briefed and heard on July 6, 2017. On September 1, 2017, the Court denied Defendant's motion for

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Notes to Consolidated Financial Statements - (Continued)

summary judgment and granted Plaintiff's motion for partial summary judgment. On October 5, 2017, a status conference was held that set a pre-trial schedule such that all merits and expert discovery will conclude on May 3, 2018 and a trial readiness conference will be held on May 4, 2018. On October 11, 2017, VTBH filed a motion to reargue plaintiff's motion defenses to liability remain available, which was granted. On the same day, Defendant filed a notice of appeal of the Court's decision on summary judgment in its entirety. The plaintiff's ability to recover any damages is subject to certain limitations, including, but not limited to, legally available funds. VTBH maintains that the Merger did not trigger any obligation to redeem Mr. Bonanno's preferred stock.

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 damages amounting to €5.0 million plus accrued interests 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. VTB maintains that its termination of the agreement was valid and that BigBen's claims against it are without merit. VTB's statement of defense was submitted to the plaintiff and the court has granted the option to submit a further written statement in reply to the statement of defense.

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 December 31, 2017 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.

Operating Leases

The Company leases office and warehouse spaces under operating leases that provide for future minimum rental lease payments under non-cancelable operating leases as of December 31, 2017, are as follows:

	(in thousands)	
2018	\$	984
2019		789
2020		505
2021		281
2022		104
Total	\$	<u>2,663</u>

Warranties

The Company warrants 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 warranties, which are included in other current liabilities:

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

	Year Ended		
	December 31,		
	2017	2016	2015
	(in thousands)		
Warranty, beginning of period	\$ 639	\$ 580	\$ 493
Warranty costs accrued	310	702	693
Settlements of warranty claims	(477)	(643)	(606)
Warranty, end of period	<u>\$ 472</u>	<u>\$ 639</u>	<u>\$ 580</u>

XO FOUR Stealth Product Recall: In August 2015, the Company received a limited number of reports from consumers and retailers that certain EAR FORCE® XO FOUR Stealth headsets appeared to have a white substance or spots on the ear pads. Upon receiving the reports, the Company promptly stopped shipping any units of the XO FOUR Stealth headsets and notified our retail customers to stop sales pending the results of the Company's investigation. An outside laboratory engaged by the Company identified the substance as mold. In cooperation with the U.S. Consumer Product Safety Commission ("CPSC"), the Company is voluntarily recalling certain units of the headsets. As of December 31, 2017 and the date of this report, the Company has not received notice of any law suits against the Company in connection with the recall and is working with the contract manufacturer to collect reimbursement for certain related costs.

On February 3, 2016, the Company notified CPSC promptly upon discovery that a vendor had mistakenly shipped certain recalled headsets to fill online orders. The Company has attempted to notify directly each of the affected purchasers to instruct them to participate in the recall. By letter dated August 23, 2017, CPSC staff notified the Company that the staff does not intend to seek penalties against the Company at this time for the post-recall sale, offer for sale or distribution in commerce of recalled headsets.

Note 14. Selected Quarterly Financial Data - Unaudited

	Fiscal 2017			
	Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share data)			
Net Revenue	\$ 14,352	\$ 19,112	\$ 35,975	\$ 79,696
Gross Margin	2,216	6,301	12,538	29,948
Net Income (Loss)	(9,926)	(7,061)	(492)	14,231
Earnings (Loss) Per Share				
Basic	\$ (0.20)	\$ (0.14)	\$ (0.01)	\$ 0.29
Diluted	\$ (0.20)	\$ (0.14)	\$ (0.01)	\$ 0.29

	Fiscal 2016			
	Quarter			
	First	Second (1)	Third (1)	Fourth
	(in thousands, except per share data)			
Net Revenue	\$ 24,028	\$ 29,362	\$ 38,384	\$ 82,204
Gross Margin	3,362	5,113	3,927	30,208
Net Income (Loss)	(12,011)	(42,573)	(44,799)	12,201
Earnings (Loss) Per Share				
Basic	\$ (0.26)	\$ (0.86)	\$ (0.91)	\$ 0.25
Diluted	\$ (0.26)	\$ (0.86)	\$ (0.91)	\$ 0.25

(1) Includes goodwill and other intangible impairment charges related to the HyperSound business of \$32.1 million and \$31.2 million for the three months ended June 30, 2016 and September 30, 2016, respectively.

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A - 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.

We assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017. In making this assessment, we used the framework and criteria established in Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment using those criteria, we concluded that, as of December 31, 2017, our internal control over financial reporting was effective.

At the conclusion of the period covered by this Annual Report on Form 10-K, 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 December 31, 2017.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Because of these inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation, and may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017. In making this assessment, we used the framework and criteria established in Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment using those criteria, we concluded that, as of December 31, 2017, our internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

In our annual report on Form 10-K for the year ended December 31, 2015, management concluded that internal controls over financial reporting were not effective because of a material weakness in our internal control over financial reporting related to the review of certain assumptions as part of our annual goodwill impairment assessment. 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.

Management implemented its plan to remediate the material weakness described above, which consisted of the following elements:

- Enhanced existing control procedures related to the review of the assumptions, data inputs, and calculations,
- Implemented additional reviews by qualified personnel and improved the preparation and retention of additional supporting documentation, to enhance the design and documentation of management review controls in order to increase the precision at which management review controls operate,

- Tested and evaluated the design and operating effectiveness of the control procedures,
- Assessed the effectiveness of the remediation plan.

As of March 31, 2017, management had determined that the material weakness identified has been remediated.

Other than the material weakness remediated 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.

Item 9B - Other Information

None

PART III

Item 10 - Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the information in our Definitive Proxy Statement to be filed with the SEC within 120 days after the end of the Company's fiscal year ended December 31, 2017 in connection with our 2018 Annual Meeting of Stockholders (the "2018 Proxy Statement") or an amendment to this Report filed within the same time period (the "Amendment"), in either case, set forth under the captions "Election of Directors," "Management Information," "Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance."

We have adopted a code of business conduct and ethics that applies to our Chief Executive Officer and Chief Financial Officer. This code of business conduct and ethics is available on the Company's website corp.turtlebeach.com. The information on our website is not a part of or incorporated by reference into this Report. If the Company makes any amendments to this code other than technical, administrative or other non-substantive amendments, or grants any waivers, including implicit waivers, from a provision of this code to the Company's Chief Executive Officer or Chief Financial Officer, the Company will disclose the nature of the amendment or waiver, its effective date and to whom it applies by posting such information on the Company's website at corp.turtlebeach.com.

Item 11 - Executive Compensation

The information required by this Item is incorporated herein by reference to the information in our 2018 Proxy Statement or the Amendment set forth under captions "Corporate Governance," "Executive Compensation and Related Information" and "Report of the Compensation and Management Development Committee."

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the information in our 2018 Proxy Statement or the Amendment set forth under the captions "Executive Compensation and Related Information" and "Security Ownership of Certain Beneficial Owners and Management."

Item 13 - Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the information in our 2018 Proxy Statement or the Amendment set forth under the captions "Corporate Governance" and "Executive Compensation and Related Information."

Item 14 - Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the information in our 2018 Proxy Statement or the Amendment set forth under the captions "Audit and Non-Audit Fees."

PART IV

Item 15. Exhibits and Financial Statement Schedules

a. List of documents filed as part of this Annual Report:

1. The following Consolidated Financial Statements of the Company are filed as part of this Annual Report:

Reports of Independent Registered Public Accounting Firms;

Consolidated Statements of Operations for the Fiscal Years Ended December 31, 2017, 2016 and 2015;

Consolidated Statements of Comprehensive Income (Loss) for the Fiscal Years Ended December 31, 2017, 2016 and 2015;

Consolidated Balance Sheets as of December 31, 2017 and 2016;

Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended December 31, 2017, 2016 and 2015;

Consolidated Statements of Cash Flows for the Fiscal Years Ended December 31, 2017, 2016 and 2015; and

Notes to the Consolidated Financial Statements.

2. The following financial schedule and related report for the years 2017, 2016 and 2015 is submitted herewith:

Schedule II - Valuation and Qualifying Accounts

All other schedules have been omitted because they are not applicable, not required or the information has been otherwise supplied in the financial statements or notes thereto.

3. The exhibits listed in the Exhibit Index attached hereto are filed as part of this Annual Report and incorporated herein by reference

b. The exhibits listed in the Exhibit Index attached hereto are filed as part of this Annual Report and incorporated herein by reference.

c. Not applicable.

Item 16. Form 10-K Summary

None.

Exhibits

- 2.1* Agreement and Plan of Merger, dated August 5, 2013, among the Company, Merger Sub and VTBH (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K originally filed with the SEC on August 5, 2013).
- 3.1 Articles of Incorporation of Turtle Beach Corporation, as amended (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q originally filed with the SEC on August 11, 2014).
- 3.2 Bylaws, as amended, of Turtle Beach Corporation (Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q originally filed with the SEC on August 11, 2014).
- 3.3 Third Amended and Restated Certificate of Incorporation of VTBH (Incorporated by reference to Exhibit B to Exhibit 2.1 to the Company's Current Report on Form 8-K originally filed with the Securities and Exchange Commission on August 5, 2013).
- 4.1 Stockholder Agreement dated August 5, 2013 among Turtle Beach Corporation and certain of our shareholders. (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 5, 2013).
- 4.2 Amendment No. 1 to the Stockholder Agreement, dated July 10, 2014, by and among the Company and the shareholders party thereto (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 10, 2014).
- 4.3 Form of Turtle Beach Corporation stock certificate. (Incorporated by reference to Exhibit 4.1 to the Company's Form 10/A filed with the Securities and Exchange Commission on July 27, 2010.)
- 4.4 Warrant, issued to SG VTB Holdings, LLC, dated July 22, 2015 (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2015).
- 4.5 Warrant, issued to SG VTB Holdings, LLC, dated November 16, 2015 (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 20, 2015).
- 4.6 Warrant, issued to the Doornink Revocable Living Trust, originally executed December 17, 1996, as amended and restated August 6, 2013, dated July 22, 2015 (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2015).
- 10.1 Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 1, 2014).
- 10.2 Amendment No. 2, dated December 26, 2014, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner. (Incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2015)
- 10.3 Amendment No. 3 to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2015).

- 10.4 Amendment No. 4, dated April 22, 2015, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner.
- 10.5 Amendment No. 5, dated July 22, 2015, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2015).
- 10.6 Amendment No. 6, dated November 2, 2015, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2015).
- 10.7 Amendment No. 7, dated December 1, 2015, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 7, 2015).
- 10.8 Amendment No. 8, dated February 1, 2016, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 1, 2016).
- [10.9**](#) Amendment No. 9, dated April 25, 2016, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner.
- 10.10 Amendment No. 10, dated June 17, 2016, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2016).
- 10.11 Amendment No. 11, dated October 31, 2016, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2016).
- [10.12**](#) Amendment No. 12, dated May 12, 2017, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner.

- [10.13**](#) Amendment No. 13, dated November 28, 2017, to Loan, Security and Guarantee Agreement, dated as of March 31, 2014, among Parametric Sound Corporation and Voyetra Turtle Beach, Inc. as US Borrowers and UK Guarantors, Turtle Beach Europe Limited as UK Borrower, PSC Licensing Corp. and VTB Holdings, Inc. as a US Guarantor and a UK Guarantor, and Bank of America, N.A., as Agent, Sole Lead Arranger and Sole Bookrunner.
- 10.14 Letter, dated June 17, 2015, from Bank of America N.A to the Company (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2015).
- 10.15 Term Loan, Guaranty and Security Agreement, dated July 22, 2015, by and among the Company, Voyetra Turtle Beach, Inc. Turtle Beach Europe Limited, VTB Holdings, Inc., Crystal Financial LLC, as agent sole lead arranger and sole bookrunner and the other parties thereto (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2015).
- 10.16 Amendment No. 1, dated November 2, 2015, to Term Loan, Guaranty and Security Agreement, dated July 22, 2015, by and among the Company, Voyetra Turtle Beach, Inc. Turtle Beach Europe Limited, VTB Holdings, Inc., Crystal Financial LLC, as agent sole lead arranger and sole bookrunner and the other parties thereto (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2015).
- 10.17 Amendment No. 2, dated December 1, 2015, to Term Loan, Guaranty and Security Agreement, dated July 22, 2015, by and among the Company, Voyetra Turtle Beach, Inc. Turtle Beach Europe Limited, VTB Holdings, Inc., Crystal Financial LLC, as agent sole lead arranger and sole bookrunner and the other parties thereto (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 7, 2015).
- 10.18 Amendment No. 3, dated February 1, 2016, to Term Loan, Guaranty and Security Agreement, dated July 22, 2015, by and among the Company, Voyetra Turtle Beach, Inc. Turtle Beach Europe Limited, VTB Holdings, Inc., Crystal Financial LLC, as agent sole lead arranger and sole bookrunner and the other parties thereto (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 1, 2016).
- 10.19 Amendment No. 4, dated June 17, 2016, to Term Loan, Guaranty and Security Agreement, dated July 22, 2015, by and among the Company, Voyetra Turtle Beach, Inc. Turtle Beach Europe Limited, VTB Holdings, Inc., Crystal Financial LLC, as agent sole lead arranger and sole bookrunner and the other parties thereto (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2016).
- 10.20 Amendment No. 5, dated October 31, 2016, to Term Loan, Guaranty and Security Agreement, dated July 22, 2015, by and among the Company, Voyetra Turtle Beach, Inc. Turtle Beach Europe Limited, VTB Holdings, Inc., Crystal Financial LLC, as agent sole lead arranger and sole bookrunner and the other parties thereto (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2016).
- [10.21**](#) Amendment No. 6, dated May 12, 2017, to Term Loan, Guaranty and Security Agreement, dated July 22, 2015, by and among the Company, Voyetra Turtle Beach, Inc. Turtle Beach Europe Limited, VTB Holdings, Inc., Crystal Financial LLC, as agent sole lead arranger and sole bookrunner and the other parties thereto.
- [10.22**](#) Amendment No. 7, dated November 28, 2017, to Term Loan, Guaranty and Security Agreement, dated July 22, 2015, by and among the Company, Voyetra Turtle Beach, Inc. Turtle Beach Europe Limited, VTB Holdings, Inc., Crystal Financial LLC, as agent sole lead arranger and sole bookrunner and the other parties thereto.
- 10.23 Amended and Restated Subordinated Promissory Note, dated July 22, 2015, originally dated April 23, 2015, by and between Turtle Beach Corporation and SG VTB Holdings, LLC (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2015).
- 10.24 Amended and Restated Subordinated Promissory Note, dated July 22, 2015, originally dated May 13, 2015, by and between Turtle Beach Corporation and SG VTB Holdings, LLC (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2015).

- 10.25 Amended and Restated Subordinated Promissory Note, dated July 22, 2015, originally dated June 17, 2015, by and between Turtle Beach Corporation and SG VTB Holdings, LLC (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2015).
- 10.26 Amended and Restated Subordinated Promissory Note, dated July 22, 2015, originally dated May 13, 2015, by and between Turtle Beach Corporation and the Doornink Revocable Living Trust, originally executed December 17, 1996, as amended and restated August 6, 2013 (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2015).
- 10.27 Subordinated Promissory Note, dated November 16, 2015, by and between the Company and SG VTB Holdings, LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 20, 2015).
- 10.28 Subordinated Promissory Note, dated October 31, 2016, by and between the Company and SG VTB Holdings, LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2016).
- 10.29 Third Lien Continuing Guaranty, dated as of November 16, 2015, by and among the Company, Voyetra Turtle Beach, Inc. and VTB Holdings, Inc. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 20, 2015).
- 10.30 Amendment No.1, dated as of October 31, 2016, to Third Lien Continuing Guaranty, dated as of November 16, 2015, by and among the Company, Voyetra Turtle Beach, Inc. and VTB Holdings, Inc. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2016).
- 10.31 Third Lien Security Agreement, dated as of November 16, 2015, by and among the Company, Voyetra Turtle Beach, Inc. and VTB Holdings, Inc. (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 20, 2015).
- 10.32 Amendment No. 1, dated October 31, 2016, to Third Lien Security Agreement, dated as of November 16, 2015, by and among the Company, Voyetra Turtle Beach, Inc. and VTB Holdings, Inc. (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2016).
- 10.33 Subordination Agreement, dated as of November 16, 2015, by and among Bank of America, N.A., Crystal Financial LLC, SG VTB Holdings, LLC, the Company, Voyetra Turtle Beach, Inc., Turtle Beach Europe Limited, and VTB Holdings, Inc. (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 20, 2015).
- 10.34† Turtle Beach Corporation 2013 Stock-Based Incentive Compensation Plan, as amended (Incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q originally filed with the SEC on August 6, 2015).
- 10.35† Turtle Beach Corporation Annual Incentive Bonus Plan (Incorporated by reference to Annex F to the Company's Definitive Proxy Statement on Schedule 14A originally filed with the SEC on December 3, 2013).
- 10.36† Master Services Agreement, dated October 6, 2015, between the Company and Hon Hai Precision Industry Co. Ltd. (Incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2016).
- 10.37† VTB Holdings, Inc. 2011 Phantom Equity Appreciation Plan (Incorporated by reference to Exhibit 10.13 to the Company's Current Report on Form 10-Q filed with the Securities and Exchange Commission on May12, 2014).
- 10.38† Offer Letter, dated as of August 13, 2012, between Voyetra Turtle Beach, Inc. and Juergen Stark (Incorporated by reference to Exhibit 10.14 to the Company's Current Report on Form 10-Q filed with the Securities and Exchange Commission on May12, 2014).

- 10.39† Stock Option Agreement, dated as of May 29, 2015, by and between the Company and Juergen Stark. (Incorporated by reference to Exhibit 10.28 to the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2016).
- 10.40† Offer Letter, dated as of September 16, 2013, by and between Voyetra Turtle Beach, Inc. and John Hanson (Incorporated by reference to Exhibit 10.26 to the Company’s Current Report on Form 10-Q filed with the Securities and Exchange Commission on May12, 2014).
- 10.41† Stock Award Agreement, dated as of June 21, 2011, by and between VTB Holdings, Inc. and Ronald Doornink (Incorporated by reference to Exhibit 10.16 to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May12, 2014).
- 10.42† First Amendment to Stock Award Agreement, dated as of February 26, 2013, by and between VTB Holdings, Inc. and Ronald Doornink (Incorporated by reference to Exhibit 10.17 to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May12, 2014).
- 10.43† Severance Agreement, dated as of August 2, 2012, by and between Voyetra Turtle Beach, Inc. and Carmine J. Bonnano (Incorporated by reference to Exhibit 10.22 to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May12, 2014).
- 10.44† Severance Agreement, dated as of August 2, 2012, by and between Voyetra Turtle Beach, Inc. and Frederick J. Romano (Incorporated by reference to Exhibit 10.24 to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May12, 2014).
- 10.45† Offer Letter, dated as of October 21, 2013, by and between Voyetra Turtle Beach, Inc. and Frederick J. Romano (Incorporated by reference to Exhibit 10.25 to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May12, 2014).
- 10.46† Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.20 to the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2015).
- 10.47† Form of Turtle Beach Corporation Non-Employee Director Restricted Stock Award (Incorporated by reference to Exhibit 10.21 to the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2015).
- 10.48† Form of Turtle Beach Corporation Non-Employee Director Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.43 to the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2016).
- 10.49† Form of Turtle Beach Corporation Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.44 to the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2016).
- 10.50† Form of Turtle Beach Corporation Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.21 to the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2015).
- 10.51† Turtle Beach Corporation Retention Plan. (Incorporated by reference to Exhibit 10.47 to the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 8, 2017).

[21**](#) Subsidiaries of the Company.

[23.1**](#) Consent of BDO USA, LLP.

[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.

[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.

[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.

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**

* All exhibits and schedules to the Agreement and Plan of Merger have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish the omitted exhibits and schedules to the SEC upon request by the SEC.

** Filed herewith.

*** Furnished herewith.

† Management contract or compensatory plan.

^ Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

Turtle Beach Corporation
Schedule II - Valuation and Qualifying Accounts
Years ended December 31, 2017, 2016 and 2015

Description	Balance - Begin	Additions	Deductions / Other	Balance - End
Year Ended December 31, 2017:				
	(in thousands)			
Allowance for sales returns	\$ 4,591	\$ 10,457	\$ (9,515)	\$ 5,533
Allowance for cash discounts	8,056	17,967	(18,464)	7,559
Allowance for doubtful accounts	136	49	(122)	63
				\$ 13,155
Year Ended December 31, 2016:				
Allowance for sales returns	\$ 6,268	\$ 12,819	\$ (14,496)	\$ 4,591
Allowance for cash discounts	7,459	16,678	(16,081)	8,056
Allowance for doubtful accounts	102	144	(110)	136
				\$ 12,783
Year Ended December 31, 2015:				
Allowance for sales returns	\$ 4,155	\$ 17,108	\$ (14,995)	\$ 6,268
Allowance for cash discounts	5,451	17,904	(15,896)	7,459
Allowance for doubtful accounts	200	157	(255)	102
				\$ 13,829

NINTH AMENDMENT TO LOAN, GUARANTY AND SECURITY AGREEMENT

This **NINTH AMENDMENT TO LOAN, GUARANTY AND SECURITY AGREEMENT** (this "Amendment") is dated as of April 25, 2016, and is entered into by and among **TURTLE BEACH CORPORATION**, a Nevada corporation, formerly known as Parametric Sound Corporation ("Parametric"), **VOYETRA TURTLE BEACH, INC.**, a Delaware corporation ("Voyetra"; and together with Parametric, individually, "US Borrower," and individually and collectively, jointly and severally, "US Borrowers"), **TURTLE BEACH EUROPE LIMITED**, a company limited by shares and incorporated in England and Wales with company number 03819186 ("Turtle Beach," also referred to hereinafter as "UK Borrower"; and together with US Borrowers, individually, "Borrower," and individually and collectively, "Borrowers"), **VTB HOLDINGS, INC.**, a Delaware corporation ("VTB" or "US Guarantor"; and together with US Borrowers, individually, a "UK Guarantor," and individually and collectively, jointly and severally, "UK Guarantors"; UK Guarantors and US Guarantor, individually, a "Guarantor," and individually and collectively, "Guarantors"), the financial institutions party hereto as lenders (collectively, "Lenders"), and **BANK OF AMERICA, N.A.**, a national banking association, as administrative agent, collateral agent and security trustee for Lenders (in such capacities, together with its successors and assigns in such capacities, "Agent").

WHEREAS, Borrowers, Guarantors, Agent, and Lenders have entered into that certain Loan, Guaranty and Security Agreement (as amended, restated, or otherwise modified from time to time, the "Loan Agreement"), dated as of March 31, 2014; and

WHEREAS, Borrowers have requested that Agent and Lenders agree to enter into certain amendments to the Loan Agreement.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Loan Agreement and this Amendment, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

Initially capitalized terms used but not otherwise defined in this Amendment have the respective meanings set forth in the Loan Agreement, as amended hereby.

ARTICLE II

AMENDMENTS TO LOAN AGREEMENT

2.01. New/Amended Definitions.

(a) Section 1.1 of the Loan Agreement is hereby amended by inserting the following defined terms in the appropriate alphabetical order therein:

Cash Flow Reporting Change Date: as defined in Section 10.1.2(l).

Ninth Amendment: that certain Ninth Amendment to Loan, Guaranty and Security Agreement, dated as of April 25, 2016, by and among Borrowers, Guarantors, Lenders and Agent.

Ninth Amendment Effective Date: as defined in the Ninth Amendment.

2.02. **Amendment to Section 1.1.** Section 1.1 of the Loan Agreement is hereby amended by deleting the defined term “LIBOR” contained therein in its entirety and inserting the following in lieu thereof:

“LIBOR: the per annum rate of interest (rounded up to the nearest 1/8th of 1%) determined by Agent at or about 11:00 a.m. (London time) two (2) Business Days prior to an Interest Period, and set on the same day for Sterling denominated Interest Periods in EMEA, for a term equivalent to such Interest Period, equal to the London Interbank Offered Rate, or comparable or successor rate approved by Agent, as published on the applicable Reuters screen page (or other commercially available source designated by Agent from time to time); provided that any comparable or successor rate shall be applied by Agent, if administratively feasible, in a manner consistent with market practice; provided, further, that in no event shall LIBOR be less than zero.”

2.03. **Amendments to Section 10.1.2.** Section 10.1.2(l) of the Loan Agreement is hereby deleted in its entirety and the following is inserted in lieu thereof:

(1) (i) as of the Sixth Amendment Effective Date through the Ninth Amendment Effective Date, commencing with the Reporting Due Date for the week ending November 6, 2015, and on the Reporting Due Date each week thereafter for such period, a thirteen (13)-week cash flow forecast, in form satisfactory to Agent and Lenders, with weekly variance reporting comparing actual amounts to forecasted amounts, (ii) as of the Ninth Amendment Effective Date through the Reporting Date set forth in a written notice from Agent to US Borrower Agent to the contrary (the “Cash Flow Reporting Change Date”), commencing with the Reporting Due Date for the week ending May 6, 2016, and on the Reporting Due Date every second week thereafter for such period (i.e., on the third Business Day of the first and third weeks of each calendar month), a thirteen (13)-week cash flow forecast, in form satisfactory to Agent and Lenders, with bi-weekly variance reporting comparing actual amounts to forecasted amounts; and

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Each Obligor hereby represents and warrants to Agent and each Lender, as of the date hereof, as follows:

3.01. **Representations and Warranties.** After giving effect to this Amendment, the representations and warranties set forth in Section 9 of the Loan Agreement and in each other Loan Document are true and correct in all material respects on and as of the date hereof with the same effect as if made on and as of the date hereof, except to the extent such representations and warranties expressly relate solely to an earlier date.

3.02. **No Defaults.** After giving effect to this Amendment, each Obligor is in compliance with all terms and conditions of the Loan Agreement and the other Loan Documents on its part to be observed and performed and no Default or Event of Default has occurred and is continuing.

3.03. **Authority and Pending Actions.** The execution, delivery, and performance by each Obligor of this Amendment has been duly authorized by each such Obligor (as applicable) and there is no action pending or any judgment, order, or decree in effect which is likely to restrain, prevent, or impose materially adverse conditions upon the performance by any Obligor of its obligations under the Loan Agreement or the other Loan Documents.

3.04. **Enforceability.** This Amendment constitutes the legal, valid, and binding obligation of each Obligor, enforceable against each such Obligor in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization, or other similar laws affecting the enforcement of creditors’ rights or by the effect of general equitable principles.

ARTICLE IV

CONDITIONS PRECEDENT AND FURTHER ACTIONS

4.01. **Conditions Precedent.** This Amendment shall not be binding upon Agent, Lenders or any Obligor until each of the following conditions precedent have been satisfied in form and substance satisfactory to Agent (such date, the “Ninth Amendment Effective Date”):

(a) The representations and warranties contained herein and in the Loan Agreement, as amended hereby, shall be true and correct in all material respects as of the date hereof, after giving effect to this Amendment, as if made on such date, except for such representations and warranties limited by their terms to a specific date; and

(b) Each Obligor shall have delivered to the Agent duly executed counterparts of this Amendment which, when taken together, bear the authorized signatures of the Borrowers, the Agent, and the Lenders; and

4.02. **Further Actions.** Each of the parties to this Amendment agrees that at any time and from time to time upon the written request of any other party, it will execute and deliver such further documents and do such further acts and things as such other party may reasonably request in order to affect the purposes of this Amendment.

ARTICLE V

COSTS AND EXPENSES

Without limiting the terms and conditions of the Loan Documents, notwithstanding anything in the Loan Documents to the contrary, Obligors jointly and severally agree to pay on demand: (a) all reasonable costs and expenses incurred by Agent in connection with the preparation, negotiation, and execution of this Amendment and the other Loan Documents executed pursuant to this Amendment and any and all subsequent amendments, modifications, and supplements to this Amendment, including, without limitation, the reasonable costs and fees of Agent’s legal counsel; and (b) all reasonable costs and expenses reasonably incurred by Agent in connection with the enforcement or preservation of any rights under the Loan Agreement, this Amendment, and/or the other Loan Documents, including, without limitation, the reasonable costs and fees of Agent’s legal counsel.

ARTICLE VI

MISCELLANEOUS

6.01. **No Course of Dealing.** The amendments and consents set forth herein are a one-time accommodation only and relate only to the matters set forth in Article II herein. The amendments and consents are not amendments or consents to any other deviation of the terms and conditions of the Loan Agreement or any other Loan Document unless otherwise expressly agreed to by Agent and Lenders in writing.

6.02. **Cross-References.** References in this Amendment to any Section are, unless otherwise specified, to such Section of this Amendment.

6.03. **Instrument Pursuant to Loan Agreement.** This Amendment is a Loan Document executed pursuant to the Loan Agreement and shall (unless otherwise expressly indicated herein) be construed, administered, and applied in accordance with the terms and provisions of the Loan Agreement. Any failure by Obligors to comply with any of the terms and conditions of this Amendment shall constitute an immediate Event of Default.

6.04. **Acknowledgment of the Obligors.** Each Obligor hereby represents and warrants that the execution and delivery of this Amendment and compliance by such Obligor with all of the provisions of this Amendment: (a) are within the powers and purposes of such Obligor; (b) have been duly authorized or approved by the board of directors

(or other appropriate governing body) of such Obligor; and (c) when executed and delivered by or on behalf of such Obligor will constitute valid and binding obligations of such Obligor, enforceable in accordance with its terms. Each Obligor reaffirms its obligations to perform and pay all amounts due to Agent or Lenders under the Loan Documents (including, without limitation, its obligations under any promissory note evidencing any of the Loans) in accordance with the terms thereof, as amended and modified hereby.

6.05. **Loan Documents Unmodified.** Each of the amendments provided herein shall apply and be effective only with respect to the provisions of the Loan Document specifically referred to by such amendments. Except as otherwise specifically modified by this Amendment, all terms and provisions of the Loan Agreement and all other Loan Documents, as modified hereby, shall remain in full force and effect and are hereby ratified and confirmed in all respects. Nothing contained in this Amendment shall in any way impair the validity or enforceability of the Loan Documents, as modified hereby, or alter, waive, annul, vary, affect, or impair any provisions, conditions, or covenants contained therein or any rights, powers, or remedies granted therein, except as otherwise specifically provided in this Amendment. Subject to the terms of this Amendment, any lien and/or security interest granted to Agent, for the benefit of Lenders, in the Collateral set forth in the Loan Documents shall remain unchanged and in full force and effect and the Loan Agreement and the other Loan Documents shall continue to secure the payment and performance of all of the Obligations.

6.06. **Parties, Successors and Assigns.** This Amendment represents the agreement of Obligors, Agent and each Lender signatory hereto with respect to the subject matter hereof, and there are no promises, undertakings, representations, or warranties relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents. This Amendment shall be binding upon and inure to the benefit of Obligors, Agent, Lenders, and their respective successors and assigns, except that (a) no Borrower shall have the right to assign its rights or delegate its obligations under any Loan Documents; and (b) any assignment by a Lender must be made in compliance with Section 14.3 of the Loan Agreement.

6.07. **Counterparts.** This Amendment may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of a signature page of this Amendment by telecopy shall be effective as delivery of a manually executed counterpart of such agreement. This Amendment may be executed and delivered by facsimile or electronic mail, and will have the same force and effect as manually signed originals.

6.08. **Headings.** The headings, captions, and arrangements used in this Amendment are for convenience only, are not a part of this Amendment, and shall not affect the interpretation hereof.

6.09. **Miscellaneous.** This Amendment is subject to the general provisions set forth in the Loan Agreement, including, but not limited to, Sections 15.14, 15.15, and 15.16.

6.10. **Severability.** Wherever possible, each provision of the Loan Documents shall be interpreted in such manner as to be valid under Applicable Law. If any provision is found to be invalid under Applicable Law, it shall be ineffective only to the extent of such invalidity and the remaining provisions of the Loan Documents shall remain in full force and effect.

6.11. **Release.**

(a) EACH OBLIGOR HEREBY IRREVOCABLY RELEASES AND FOREVER DISCHARGES AGENT, LENDERS AND THEIR AFFILIATES, AND EACH SUCH PERSON'S RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, MEMBERS, ATTORNEYS AND REPRESENTATIVES (EACH, A "RELEASED PERSON") OF AND FROM ALL DAMAGES, LOSSES, CLAIMS, DEMANDS, LIABILITIES, OBLIGATIONS, ACTIONS OR CAUSES OF ACTION WHATSOEVER (EACH, A "CLAIM") THAT SUCH OBLIGOR MAY NOW HAVE OR CLAIM TO HAVE AGAINST ANY RELEASED PERSON ON THE DATE OF THIS AMENDMENT, WHETHER KNOWN OR UNKNOWN, OF EVERY NATURE AND EXTENT WHATSOEVER, FOR OR BECAUSE OF ANY MATTER OR THING DONE, OMITTED OR SUFFERED TO BE DONE OR OMITTED BY ANY OF THE RELEASED PERSONS THAT BOTH (1) OCCURRED PRIOR TO OR

ON THE DATE OF THIS AMENDMENT AND (2) IS ON ACCOUNT OF OR IN ANY WAY CONCERNING, ARISING OUT OF OR FOUNDED UPON THE LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT.

(b) EACH OBLIGOR INTENDS THE ABOVE RELEASE TO COVER, ENCOMPASS, RELEASE, AND EXTINGUISH, INTER ALIA, ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION THAT MIGHT OTHERWISE BE RESERVED BY THE CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(c) EACH OBLIGOR ACKNOWLEDGES THAT IT MAY HEREAFTER DISCOVER FACTS DIFFERENT FROM OR IN ADDITION TO THOSE NOW KNOWN OR BELIEVED TO BE TRUE WITH RESPECT TO SUCH CLAIMS, DEMANDS, OR CAUSES OF ACTION, AND AGREES THAT THIS AMENDMENT AND THE ABOVE RELEASE ARE AND WILL REMAIN EFFECTIVE IN ALL RESPECTS NOTWITHSTANDING ANY SUCH DIFFERENCES OR ADDITIONAL FACTS.

6.12. **Total Agreement.** This Amendment, the Loan Agreement, and all other Loan Documents constitute the entire agreement, and supersede all prior understandings and agreements, among the parties relating to the subject matter hereof.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment as of the day and year first written above.

BORROWERS:

TURTLE BEACH CORPORATION, a Nevada corporation, formerly known as Parametric Sound Corporation

By: /s/ John Hanson

Name: John Hanson

Title: Chief Financial Officer, Treasurer and Secretary

VOYETRA TURTLE BEACH, INC.,

a Delaware corporation

By: /s/ John Hanson

Name: John Hanson

Title: Chief Financial Officer, Treasurer and Secretary

TURTLE BEACH EUROPE LIMITED,

a company limited by shares and incorporated in England and Wales with company number 03819186

By: /s/ John Hanson

Name: John Hanson

Title: Chief Financial Officer, Treasurer and Secretary

BANK OF AMERICA, N.A.,

as Agent and Lender

By: /s/ Matthew Van Steenhuyse

Name: Matthew Van Steenhuyse

Title: Senior Vice President

GUARANTOR CONSENT

The undersigned hereby consents to the foregoing Amendment and hereby (a) confirms and agrees that notwithstanding the effectiveness of the foregoing Amendment, each Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects, except that, on and after the effectiveness of the foregoing Amendment, each reference in any Loan Document to the "Loan Agreement," "thereunder," "thereof" or words of like import shall mean and be a reference to the Loan Agreement, as amended by the foregoing Amendment, (b) confirms and agrees that the pledge and security interest in the Collateral granted by it pursuant to any Security Documents to which it is a party shall continue in full force and effect, (c) acknowledges and agrees that such pledge and security interest in the Collateral granted by it pursuant to such Security Documents shall continue to secure the Obligations purported to be secured thereby, as amended or otherwise affected hereby, and (d) agrees to be bound by the release set forth in Section 6.11 of the Amendment.

VTB HOLDINGS, INC.,
a Delaware corporation

By: /s/ John Hanson

Name: John Hanson

Title: Chief Financial Officer, Treasurer and Secretary

TWELFTH AMENDMENT TO LOAN, GUARANTY AND SECURITY AGREEMENT

This TWELFTH AMENDMENT TO LOAN, GUARANTY AND SECURITY AGREEMENT (this "Amendment") is dated as of May 12, 2017, and is entered into by and among TURTLE BEACH CORPORATION, a Nevada corporation, formerly known as Parametric Sound Corporation ("Parent"), VOYETRA TURTLE BEACH, INC., a Delaware corporation ("Voyetra"; and together with Parent, individually, "US Borrower," and individually and collectively, jointly and severally, "US Borrowers"), TURTLE BEACH EUROPE LIMITED, a company limited by shares and incorporated in England and Wales with company number 03819186 ("Turtle Beach," also referred to hereinafter as "UK Borrower"; and together with US Borrowers, individually, "Borrower," and individually and collectively, "Borrowers"), VTB HOLDINGS, INC., a Delaware corporation ("VTB" or "US Guarantor"; and together with US Borrowers, individually, a "UK Guarantor," and individually and collectively, jointly and severally, "UK Guarantors"; UK Guarantors and US Guarantor, individually, a "Guarantor," and individually and collectively, "Guarantors"), the financial institutions party hereto as lenders (collectively, "Lenders"), and BANK OF AMERICA, N.A., a national banking association, as administrative agent, collateral agent and security trustee for Lenders (in such capacities, together with its successors and assigns in such capacities, "Agent").

WHEREAS, Borrowers, Guarantors, Agent, and Lenders have entered into that certain Loan, Guaranty and Security Agreement (as amended, restated, or otherwise modified from time to time, the "Loan Agreement"), dated as of March 31, 2014; and

WHEREAS, Borrowers have requested that Agent and Lenders agree to enter into certain amendments to the Loan Agreement.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Loan Agreement and this Amendment, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

Initially capitalized terms used but not otherwise defined in this Amendment have the respective meanings set forth in the Loan Agreement, as amended hereby.

ARTICLE II

AMENDMENTS TO LOAN AGREEMENT

2.01. New/Amended Definition.

(a) Section 1.1 of the Loan Agreement is hereby amended by inserting the following defined terms in the appropriate alphabetical order therein:

Dutch Pledge: a pledge of its Inventory under Dutch law executed by Borrower in favor of Agent, for the benefit of the Secured Parties.

Dutch Security Agreement: the Dutch Pledge and each pledge agreement or other similar agreement, instrument or document governed by the laws of the Netherlands now or hereafter securing (or given with the intent to secure) any Obligations.

Twelfth Amendment: that certain Twelfth Amendment to Loan, Guaranty and Security Agreement, dated as of May 12, 2017, by and among Borrowers, Guarantors, Lenders and Agent.

Twelfth Amendment Effective Date: as defined in the Twelfth Amendment.

(b) The definitions of “Eligible UK In-Transit Inventory” and “Security Documents” set forth in Section 1.1 of the Loan Agreement are hereby amended by deleting them in their entirety and replacing them with the following:

Eligible UK In-Transit Inventory: Inventory owned by a UK Borrower that would be Eligible Inventory if it were not subject to a Document and in transit from with respect to a UK Revolver Loan, a foreign location to a location of the applicable UK Borrower within the United Kingdom or the Netherlands that Agent, in its Permitted Discretion, deems to be Eligible UK In-Transit Inventory. Without limiting the foregoing, no Inventory shall be Eligible UK In-Transit Inventory unless it (a) is subject to a negotiable Document showing Agent (or, with the consent of Agent, the UK Borrower) as consignee, which Document is in the possession of Agent or such other Person as Agent shall approve; (b) is fully insured in a manner satisfactory to Agent; (c) is not sold by a vendor that has a right to reclaim, divert shipment of, repossess, stop delivery, claim any reservation of title or otherwise assert Lien rights against the Inventory, or with respect to whom UK Borrower is in default of any obligations; (d) is subject to purchase orders and other sale documentation satisfactory to Agent, and title has passed to UK Borrower; (e) is shipped by a common carrier that is not affiliated with the vendor and is not subject to Sanctions or any specially designated nationals list maintained by OFAC; and (f) is being handled by a customs broker, freight-forwarder or other handler that has delivered a Lien Waiver.

Security Documents: the Guaranties, Mortgages, UK Security Agreements, Dutch Security Agreements, Deposit Account Control Agreements, IP Security Agreements and all other documents, instruments and agreements now or hereafter securing (or given with the intent to secure) any Obligations.

2.02. **Amendment to Schedule 1.1C**. Schedule 1.1C to the Loan Agreement is hereby deleted in its entirety and Schedule 1.1C attached hereto is hereby inserted in lieu thereof.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Each Obligor hereby represents and warrants to Agent and each Lender, as of the date hereof, as follows:

3.01. **Representations and Warranties**. After giving effect to this Amendment, the representations and warranties set forth in Section 9 of the Loan Agreement and in each other Loan Document are true and correct in all material respects on and as of the date hereof with the same effect as if made on and as of the date hereof, except to the extent such representations and warranties expressly relate solely to an earlier date.

3.02. **No Defaults**. After giving effect to this Amendment, each Obligor is in compliance with all terms and conditions of the Loan Agreement and the other Loan Documents on its part to be observed and performed and no Default or Event of Default has occurred and is continuing.

3.03. **Authority and Pending Actions**. The execution, delivery, and performance by each Obligor of this Amendment has been duly authorized by each such Obligor (as applicable) and there is no action pending or any judgment, order, or decree in effect which is likely to restrain, prevent, or impose materially adverse conditions upon the performance by any Obligor of its obligations under the Loan Agreement or the other Loan Documents.

3.04. **Enforceability.** This Amendment constitutes the legal, valid, and binding obligation of each Obligor, enforceable against each such Obligor in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization, or other similar laws affecting the enforcement of creditors' rights or by the effect of general equitable principles.

ARTICLE IV

CONDITIONS PRECEDENT AND FURTHER ACTIONS

4.01. **Conditions Precedent.** This Amendment shall not be binding upon Agent, Lenders or any Obligor until each of the following conditions precedent have been satisfied in form and substance satisfactory to Agent (such date, the "Twelfth Amendment Effective Date"):

(a) The representations and warranties contained herein and in the Loan Agreement, as amended hereby, shall be true and correct in all material respects as of the date hereof, after giving effect to this Amendment, as if made on such date, except for such representations and warranties limited by their terms to a specific date;

(b) Obligors shall have delivered to Agent a fully-executed copy of an amendment to the Term Loan Agreement substantially similar to this Amendment (the "Sixth Amendment to Term Loan Agreement") and otherwise acceptable to Agent and Lenders;

(c) Agent shall have received a Lien Waiver from the UK Borrower's warehouse operator in the Netherlands;

(d) UK Borrower shall have delivered to Agent duly executed counterparts of a Dutch law pledge of its Inventory (the "Dutch Pledge");

(e) Agent shall have received a certificate of a director of the UK Borrower, certifying (i) either (A) that the UK Borrower's Organic Documents have not been amended since they were last delivered to the Agent; or (B) that attached copies of the UK Borrower's Organic Documents are true and complete, and in full force and effect, without amendment except as show; (ii) that an attached copy of resolutions of its board of directors and all the holders of its Equity Interests authorizing execution and delivery of the Dutch Pledge, this Amendment and any documents ancillary to the Dutch Pledge or this Amendment, is true and complete, and that such resolutions are in full force and effect, were duly adopted, have not been amended, modified or revoked, and constitute all resolutions adopted with respect to this Amendment; and (iii) to the title, name and signature of each Person authorized to sign the Dutch Pledge, this Amendment and any documents ancillary to the Dutch Pledge or this Amendment;

(f) Agent shall have received written opinions in form and substance reasonably satisfactory to Agent from Norton Rose Fulbright LLP as to Dutch and English law; and

(g) Each Obligor shall have delivered to Agent duly executed counterparts of this Amendment which, when taken together, bear the authorized signatures of Obligors, Agent and Lenders;

4.02. **Further Actions.** Each of the parties to this Amendment agrees that at any time and from time to time upon the written request of any other party, it will execute and deliver such further documents and do such further acts and things as such other party may reasonably request in order to affect the purposes of this Amendment.

ARTICLE V

COSTS AND EXPENSES

5.01. Without limiting the terms and conditions of the Loan Documents, notwithstanding anything in the Loan Documents to the contrary, Obligors jointly and severally agree to pay on demand: (a) all reasonable costs

and expenses incurred by Agent in connection with the preparation, negotiation, and execution of this Amendment and the other Loan Documents executed pursuant to this Amendment and any and all subsequent amendments, modifications, and supplements to this Amendment, including, without limitation, the reasonable costs and fees of Agent's legal counsel; and (b) all reasonable costs and expenses reasonably incurred by Agent in connection with the enforcement or preservation of any rights under the Loan Agreement, this Amendment, and/or the other Loan Documents, including, without limitation, the reasonable costs and fees of Agent's legal counsel.

ARTICLE VI

MISCELLANEOUS

6.01. **No Course of Dealing.** The amendments and consents set forth herein are a one-time accommodation only and relate only to the matters set forth in Article II herein. The amendments and consents are not amendments or consents to any other deviation of the terms and conditions of the Loan Agreement or any other Loan Document unless otherwise expressly agreed to by Agent and Lenders in writing.

6.02. **Cross-References.** References in this Amendment to any Section are, unless otherwise specified, to such Section of this Amendment.

6.03. **Instrument Pursuant to Loan Agreement.** This Amendment is a Loan Document executed pursuant to the Loan Agreement and shall (unless otherwise expressly indicated herein) be construed, administered, and applied in accordance with the terms and provisions of the Loan Agreement. Any failure by Obligors to comply with any of the terms and conditions of this Amendment shall constitute an immediate Event of Default.

6.04. **Acknowledgment of Obligors.** Each Obligor hereby represents and warrants that the execution and delivery of this Amendment and compliance by such Obligor with all of the provisions of this Amendment: (a) are within the powers and purposes of such Obligor; (b) have been duly authorized or approved by the board of directors (or other appropriate governing body) of such Obligor; and (c) when executed and delivered by or on behalf of such Obligor will constitute valid and binding obligations of such Obligor, enforceable in accordance with its terms. Each Obligor reaffirms its obligations to perform and pay all amounts due to Agent or Lenders under the Loan Documents (including, without limitation, its obligations under any promissory note evidencing any of the Loans) in accordance with the terms thereof, as amended and modified hereby.

6.05. **Loan Documents Unmodified.** Each of the amendments provided herein shall apply and be effective only with respect to the provisions of the Loan Document specifically referred to by such amendments. Except as otherwise specifically modified by this Amendment, all terms and provisions of the Loan Agreement and all other Loan Documents, as modified hereby, shall remain in full force and effect and are hereby ratified and confirmed in all respects. Nothing contained in this Amendment shall in any way impair the validity or enforceability of the Loan Documents, as modified hereby, or alter, waive, annul, vary, affect, or impair any provisions, conditions, or covenants contained therein or any rights, powers, or remedies granted therein, except as otherwise specifically provided in this Amendment. Subject to the terms of this Amendment, any lien and/or security interest granted to Agent, for the benefit of Lenders, in the Collateral set forth in the Loan Documents shall remain unchanged and in full force and effect and the Loan Agreement and the other Loan Documents shall continue to secure the payment and performance of all of the Obligations.

6.06. **Parties, Successors and Assigns.** This Amendment represents the agreement of Obligors, Agent and each Lender signatory hereto with respect to the subject matter hereof, and there are no promises, undertakings, representations, or warranties relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents. This Amendment shall be binding upon and inure to the benefit of Obligors, Agent, Lenders, and their respective successors and assigns, except that (a) no Borrower shall have the right to assign its rights or delegate its obligations under any Loan Documents; and (b) any assignment by a Lender must be made in compliance with Section 14.3 of the Loan Agreement.

6.07. **Counterparts.** This Amendment may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of a signature page of this Amendment by telecopy shall be effective as delivery of a manually executed counterpart of this Amendment. This Amendment may be executed and delivered by facsimile or electronic mail, and will have the same force and effect as manually signed originals.

6.08. **Headings.** The headings, captions, and arrangements used in this Amendment are for convenience only, are not a part of this Amendment, and shall not affect the interpretation hereof.

6.09. **Miscellaneous.** This Amendment is subject to the general provisions set forth in the Loan Agreement, including, but not limited to, Sections 15.14, 15.15, and 15.16.

6.10. **Severability.** Wherever possible, each provision of the Loan Documents shall be interpreted in such manner as to be valid under Applicable Law. If any provision is found to be invalid under Applicable Law, it shall be ineffective only to the extent of such invalidity and the remaining provisions of the Loan Documents shall remain in full force and effect.

6.11. **Release.**

(a) EACH OBLIGOR HEREBY IRREVOCABLY RELEASES AND FOREVER DISCHARGES AGENT, LENDERS AND THEIR AFFILIATES, AND EACH SUCH PERSON'S RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, MEMBERS, ATTORNEYS AND REPRESENTATIVES (EACH, A "RELEASED PERSON") OF AND FROM ALL DAMAGES, LOSSES, CLAIMS, DEMANDS, LIABILITIES, OBLIGATIONS, ACTIONS OR CAUSES OF ACTION WHATSOEVER (EACH, A "CLAIM") THAT SUCH OBLIGOR MAY NOW HAVE OR CLAIM TO HAVE AGAINST ANY RELEASED PERSON ON THE DATE OF THIS AMENDMENT, WHETHER KNOWN OR UNKNOWN, OF EVERY NATURE AND EXTENT WHATSOEVER, FOR OR BECAUSE OF ANY MATTER OR THING DONE, OMITTED OR SUFFERED TO BE DONE OR OMITTED BY ANY OF THE RELEASED PERSONS THAT BOTH (1) OCCURRED PRIOR TO OR ON THE DATE OF THIS AMENDMENT AND (2) IS ON ACCOUNT OF OR IN ANY WAY CONCERNING, ARISING OUT OF OR FOUNDED UPON THE LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT.

(b) EACH OBLIGOR INTENDS THE ABOVE RELEASE TO COVER, ENCOMPASS, RELEASE, AND EXTINGUISH, INTER ALIA, ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION THAT MIGHT OTHERWISE BE RESERVED BY THE CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(c) EACH OBLIGOR ACKNOWLEDGES THAT IT MAY HEREAFTER DISCOVER FACTS DIFFERENT FROM OR IN ADDITION TO THOSE NOW KNOWN OR BELIEVED TO BE TRUE WITH RESPECT TO SUCH CLAIMS, DEMANDS, OR CAUSES OF ACTION, AND AGREES THAT THIS AMENDMENT AND THE ABOVE RELEASE ARE AND WILL REMAIN EFFECTIVE IN ALL RESPECTS NOTWITHSTANDING ANY SUCH DIFFERENCES OR ADDITIONAL FACTS.

6.12. **Total Agreement.** This Amendment, the Loan Agreement, and all other Loan Documents constitute the entire agreement, and supersede all prior understandings and agreements, among the parties relating to the subject matter hereof.

6.13. **Amendment to Term Loan Agreement.** Each of the undersigned Lenders and Agent hereby acknowledge that as of the Twelfth Amendment Effective Date, Obligors, Term Agent and Term Loan Lenders are

agreeing to the Sixth Amendment to Term Loan Agreement, in the form attached hereto as Annex I. Agent and Lenders hereby acknowledge and consent to the Sixth Amendment to Term Loan Agreement, including, without limitation, for purposes of the Intercreditor Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment as of the day and year first written above.

BORROWERS:

TURTLE BEACH CORPORATION, a Nevada corporation,
formerly known as Parametric Sound Corporation

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

VOYETRA TURTLE BEACH, INC.,
a Delaware cooperation

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

TURTLE BEACH EUROPE LIMITED,
a company limited by shares and incorporated in England and Wales with company number 03819186

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

BANK OF AMERICA, N.A.,
as Agent and Lender

By: /s/ Matthew Van Steenhuyse
Name: Matthew Van Steenhuyse
Title: Senior Vice President

GUARANTOR CONSENT

The undersigned hereby consents to the foregoing Amendment and hereby (a) confirms and agrees that notwithstanding the effectiveness of the foregoing Amendment, each Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects, except that, on and after the effectiveness of the foregoing Amendment, each reference in any Loan Document to the "Loan Agreement," "thereunder," "thereof" or words of like import shall mean and be a reference to the Loan Agreement, as amended by the foregoing Amendment, (b) confirms and agrees that the pledge and security interest in the Collateral granted by it pursuant to any Security Documents to which it is a party shall continue in full force and effect, (c) acknowledges and agrees that such pledge and security interest in the Collateral granted by it pursuant to such Security Documents shall continue to secure the Obligations purported to be secured thereby, as amended or otherwise affected hereby, and (d) agrees to be bound by the release set forth in Section 7.11 of the Amendment.

VTB HOLDINGS, INC.,
a Delaware corporation

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

ANNEX I

Sixth Amendment to Term Loan Agreement

Attached hereto

THIRTEENTH AMENDMENT TO LOAN, GUARANTY AND SECURITY AGREEMENT

This **THIRTEENTH AMENDMENT TO LOAN, GUARANTY AND SECURITY AGREEMENT** (this "Amendment") is dated as of November 28, 2017, and is entered into by and among **TURTLE BEACH CORPORATION**, a Nevada corporation, formerly known as Parametric Sound Corporation ("Parametric"), **VOYETRA TURTLE BEACH, INC.**, a Delaware corporation ("Voyetra"; and together with Parametric, individually, "US Borrower," and individually and collectively, jointly and severally, "US Borrowers"), **TURTLE BEACH EUROPE LIMITED**, a company limited by shares and incorporated in England and Wales with company number 03819186 ("Turtle Beach," also referred to hereinafter as "UK Borrower"; and together with US Borrowers, individually, "Borrower," and individually and collectively, "Borrowers"), **VTB HOLDINGS, INC.**, a Delaware corporation ("VTB" or "US Guarantor"; and together with US Borrowers, individually, a "UK Guarantor," and individually and collectively, jointly and severally, "UK Guarantors"; UK Guarantors and US Guarantor, individually, a "Guarantor," and individually and collectively, "Guarantors"), the financial institutions party hereto as lenders (collectively, "Lenders"), and **BANK OF AMERICA, N.A.**, a national banking association, as administrative agent, collateral agent and security trustee for Lenders (in such capacities, together with its successors and assigns in such capacities, "Agent").

WHEREAS, Borrowers, Guarantors, Agent, and Lenders have entered into that certain Loan, Guaranty and Security Agreement (as amended, restated, or otherwise modified from time to time, the "Loan Agreement"), dated as of March 31, 2014; and

WHEREAS, Borrowers have requested that Agent and Lenders agree to enter into certain amendments to the Loan Agreement.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Loan Agreement and this Amendment, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

Initially capitalized terms used but not otherwise defined in this Amendment have the respective meanings set forth in the Loan Agreement, as amended hereby.

ARTICLE II

AMENDMENTS TO LOAN AGREEMENT

2.01. New/Amended Definitions.

(a) Section 1.1 of the Loan Agreement is hereby amended by inserting the following defined terms in the appropriate alphabetical order therein:

Thirteenth Amendment: that certain Thirteenth Amendment to Loan, Guaranty and Security Agreement, dated as of November 28, 2017, by and among Borrowers, Guarantors, Lenders and Agent.

Thirteenth Amendment Effective Date: as defined in the Thirteenth Amendment.

2.02. Amendments to Section 10.3. Section 10.3 of the Loan Agreement is hereby amended as set forth below:

(a) In Section 10.3.1 of the Loan Agreement, with respect to the required EBITDA for the November 30, 2017 testing date, "\$12,483,000" shall be deleted and replaced with "\$8,200,000".

(b) In Section 10.3.6(b) of the Loan Agreement, with respect to the maximum Hypersound Division Foxconn Expenditures for the month-ending testing date of (i) November 30, 2017, "\$4,297,000" shall be deleted and replaced with "\$5,823,000" and (ii) December 31, 2017, and the end of each calendar month thereafter, "\$4,523,000" shall be deleted and replaced with "\$5,823,000".

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Each Obligor hereby represents and warrants to Agent and each Lender, as of the date hereof, as follows:

3.01. **Representations and Warranties.** After giving effect to this Amendment, the representations and warranties set forth in Section 9 of the Loan Agreement and in each other Loan Document are true and correct in all material respects on and as of the date hereof with the same effect as if made on and as of the date hereof, except to the extent such representations and warranties expressly relate solely to an earlier date.

3.02. **No Defaults.** After giving effect to this Amendment, each Obligor is in compliance with all terms and conditions of the Loan Agreement and the other Loan Documents on its part to be observed and performed and no Default or Event of Default has occurred and is continuing.

3.03. **Authority and Pending Actions.** The execution, delivery, and performance by each Obligor of this Amendment has been duly authorized by each such Obligor (as applicable) and there is no action pending or any judgment, order, or decree in effect which is likely to restrain, prevent, or impose materially adverse conditions upon the performance by any Obligor of its obligations under the Loan Agreement or the other Loan Documents.

3.04. **Enforceability.** This Amendment constitutes the legal, valid, and binding obligation of each Obligor, enforceable against each such Obligor in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization, or other similar laws affecting the enforcement of creditors' rights or by the effect of general equitable principles.

ARTICLE IV

CONDITIONS PRECEDENT AND FURTHER ACTIONS

4.01. **Conditions Precedent.** This Amendment shall not be binding upon Agent, Lenders or any Obligor until each of the following conditions precedent have been satisfied in form and substance satisfactory to Agent (such date, the "Thirteenth Amendment Effective Date"):

(a) Each Obligor shall have delivered to Agent duly executed counterparts of this Amendment which, when taken together, bear the authorized signatures of Obligors, Agent and Lenders;

(b) Obligors shall have delivered to Agent a fully-executed copy of an amendment to the Term Loan Agreement substantially similar to this Amendment (the "Sixth Amendment to Term Loan Agreement") and otherwise in form and substance reasonably acceptable to Agent and Lenders;

(c) Obligors shall have paid to Agent, for the benefit of itself and Lenders, \$25,000 (the "Thirteenth Amendment Fee") in immediately available funds, which each Obligor hereby expressly agrees and acknowledges that the Thirteenth Amendment Fee is fully earned, due and payable as of the Thirteenth Amendment Effective Date and is not refundable for any reason.

4.02. **Further Actions.** Each of the parties to this Amendment agrees that at any time and from time to time upon the written request of any other party, it will execute and deliver such further documents and do such further acts and things as such other party may reasonably request in order to affect the purposes of this Amendment.

ARTICLE V

COSTS AND EXPENSES

5.01. Without limiting the terms and conditions of the Loan Documents, notwithstanding anything in the Loan Documents to the contrary, Obligor jointly and severally agree to pay on demand: (a) all reasonable costs and expenses incurred by Agent in connection with the preparation, negotiation, and execution of this Amendment and the other Loan Documents executed pursuant to this Amendment and any and all subsequent amendments, modifications, and supplements to this Amendment, including, without limitation, the reasonable costs and fees of Agent's legal counsel; and (b) all reasonable costs and expenses reasonably incurred by Agent in connection with the enforcement or preservation of any rights under the Loan Agreement, this Amendment, and/or the other Loan Documents, including, without limitation, the reasonable costs and fees of Agent's legal counsel.

ARTICLE VI

MISCELLANEOUS

6.01. **No Course of Dealing.** The amendments and consents set forth herein are a one-time accommodation only and relate only to the matters set forth in Article II herein. The amendments and consents are not amendments or consents to any other deviation of the terms and conditions of the Loan Agreement or any other Loan Document unless otherwise expressly agreed to by Agent and Lenders in writing.

6.02. **Cross-References.** References in this Amendment to any Section are, unless otherwise specified, to such Section of this Amendment.

6.03. **Instrument Pursuant to Loan Agreement.** This Amendment is a Loan Document executed pursuant to the Loan Agreement and shall (unless otherwise expressly indicated herein) be construed, administered, and applied in accordance with the terms and provisions of the Loan Agreement. Any failure by Obligor to comply with any of the terms and conditions of this Amendment shall constitute an immediate Event of Default.

6.04. **Acknowledgment of the Obligors.** Each Obligor hereby represents and warrants that the execution and delivery of this Amendment and compliance by such Obligor with all of the provisions of this Amendment: (a) are within the powers and purposes of such Obligor; (b) have been duly authorized or approved by the board of directors (or other appropriate governing body) of such Obligor; and (c) when executed and delivered by or on behalf of such Obligor will constitute valid and binding obligations of such Obligor, enforceable in accordance with its terms. Each Obligor reaffirms its obligations to perform and pay all amounts due to Agent or Lenders under the Loan Documents (including, without limitation, its obligations under any promissory note evidencing any of the Loans) in accordance with the terms thereof, as amended and modified hereby.

6.05. **Loan Documents Unmodified.** Each of the amendments provided herein shall apply and be effective only with respect to the provisions of the Loan Document specifically referred to by such amendments. Except as otherwise specifically modified by this Amendment, all terms and provisions of the Loan Agreement and all other Loan Documents, as modified hereby, shall remain in full force and effect and are hereby ratified and confirmed in all respects. Nothing contained in this Amendment shall in any way impair the validity or enforceability of the Loan Documents, as modified hereby, or alter, waive, annul, vary, affect, or impair any provisions, conditions, or covenants contained therein or any rights, powers, or remedies granted therein, except as otherwise specifically provided in this Amendment. Subject to the terms of this Amendment, any lien and/or security interest granted to Agent, for the benefit of Lenders, in the Collateral set forth in the Loan Documents shall remain unchanged and in full force and effect and the Loan Agreement and the other Loan Documents shall continue to secure the payment and performance of all of the Obligations.

6.06. **Parties, Successors and Assigns.** This Amendment represents the agreement of Obligors, Agent and each Lender signatory hereto with respect to the subject matter hereof, and there are no promises, undertakings, representations, or warranties relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents. This Amendment shall be binding upon and inure to the benefit of Obligors, Agent, Lenders, and their respective successors and assigns, except that (a) no Borrower shall have the right to assign its rights or delegate its obligations under any Loan Documents; and (b) any assignment by a Lender must be made in compliance with Section 14.3 of the Loan Agreement.

6.07. **Counterparts.** This Amendment may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of a signature page of this Amendment by telecopy shall be effective as delivery of a manually executed counterpart of this Amendment. This Amendment may be executed and delivered by facsimile or electronic mail, and will have the same force and effect as manually signed originals.

6.08. **Headings.** The headings, captions, and arrangements used in this Amendment are for convenience only, are not a part of this Amendment, and shall not affect the interpretation hereof.

6.09. **Miscellaneous.** This Amendment is subject to the general provisions set forth in the Loan Agreement, including, but not limited to, Sections 15.14, 15.15, and 15.16.

6.10. **Severability.** Wherever possible, each provision of the Loan Documents shall be interpreted in such manner as to be valid under Applicable Law. If any provision is found to be invalid under Applicable Law, it shall be ineffective only to the extent of such invalidity and the remaining provisions of the Loan Documents shall remain in full force and effect.

6.11. **Release.**

(a) EACH OBLIGOR HEREBY IRREVOCABLY RELEASES AND FOREVER DISCHARGES AGENT, LENDERS AND THEIR AFFILIATES, AND EACH SUCH PERSON'S RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, MEMBERS, ATTORNEYS AND REPRESENTATIVES (EACH, A "RELEASED PERSON") OF AND FROM ALL DAMAGES, LOSSES, CLAIMS, DEMANDS, LIABILITIES, OBLIGATIONS, ACTIONS OR CAUSES OF ACTION WHATSOEVER (EACH, A "CLAIM") THAT SUCH OBLIGOR MAY NOW HAVE OR CLAIM TO HAVE AGAINST ANY RELEASED PERSON ON THE DATE OF THIS AMENDMENT, WHETHER KNOWN OR UNKNOWN, OF EVERY NATURE AND EXTENT WHATSOEVER, FOR OR BECAUSE OF ANY MATTER OR THING DONE, OMITTED OR SUFFERED TO BE DONE OR OMITTED BY ANY OF THE RELEASED PERSONS THAT BOTH (1) OCCURRED PRIOR TO OR ON THE DATE OF THIS AMENDMENT AND (2) IS ON ACCOUNT OF OR IN ANY WAY CONCERNING, ARISING OUT OF OR FOUNDED UPON THE LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT.

(b) EACH OBLIGOR INTENDS THE ABOVE RELEASE TO COVER, ENCOMPASS, RELEASE, AND EXTINGUISH, INTER ALIA, ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION THAT MIGHT OTHERWISE BE RESERVED BY THE CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(c) EACH OBLIGOR ACKNOWLEDGES THAT IT MAY HEREAFTER DISCOVER FACTS DIFFERENT FROM OR IN ADDITION TO THOSE NOW KNOWN OR BELIEVED TO BE TRUE WITH RESPECT TO SUCH CLAIMS, DEMANDS, OR CAUSES OF ACTION, AND AGREES THAT THIS

AMENDMENT AND THE ABOVE RELEASE ARE AND WILL REMAIN EFFECTIVE IN ALL RESPECTS NOTWITHSTANDING ANY SUCH DIFFERENCES OR ADDITIONAL FACTS.

6.12. **Total Agreement.** This Amendment, the Loan Agreement, and all other Loan Documents constitute the entire agreement, and supersede all prior understandings and agreements, among the parties relating to the subject matter hereof.

6.13. **Amendment to Term Loan Agreement.** Each of the undersigned Lenders and Agent hereby acknowledge that as of the Thirteenth Amendment Effective Date, Obligors, Term Agent and Term Loan Lenders are agreeing to the Sixth Amendment to Term Loan Agreement, in the form attached hereto as Annex I. Agent and Lenders hereby acknowledge and consent to the Sixth Amendment to Term Loan Agreement, including, without limitation, for purposes of the Intercreditor Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment as of the day and year first written above.

BORROWERS:

TURTLE BEACH CORPORATION, a Nevada corporation, formerly known as Parametric Sound Corporation

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

VOYETRA TURTLE BEACH, INC.,
a Delaware corporation

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

TURTLE BEACH EUROPE LIMITED,
a company limited by shares and incorporated in England and Wales with company number 03819186

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

BANK OF AMERICA, N.A.,
as Agent and Lender

By: /s/ Matthew Van Steenhuyse
Name: Matthew Van Steenhuyse
Title: Senior Vice President

GUARANTOR CONSENT

The undersigned hereby consents to the foregoing Amendment and hereby (a) confirms and agrees that notwithstanding the effectiveness of the foregoing Amendment, each Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects, except that, on and after the effectiveness of the foregoing Amendment, each reference in any Loan Document to the "Loan Agreement," "thereunder," "thereof" or words of like import shall mean and be a reference to the Loan Agreement, as amended by the foregoing Amendment, (b) confirms and agrees that the pledge and security interest in the Collateral granted by it pursuant to any Security Documents to which it is a party shall continue in full force and effect, (c) acknowledges and agrees that such pledge and security interest in the Collateral granted by it pursuant to such Security Documents shall continue to secure the Obligations purported to be secured thereby, as amended or otherwise affected hereby, and (d) agrees to be bound by the release set forth in Section 6.11 of the Amendment.

VTB HOLDINGS, INC.,
a Delaware corporation

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

ANNEX I

Seventh Amendment to Term Loan Agreement

Attached hereto

SIXTH AMENDMENT TO TERM LOAN, GUARANTY AND SECURITY AGREEMENT

This **SIXTH AMENDMENT TO TERM LOAN, GUARANTY AND SECURITY AGREEMENT** (this "Amendment") is dated as of May 12, 2017, and is entered into by and among **TURTLE BEACH CORPORATION**, a Nevada corporation, formerly known as Parametric Sound Corporation ("Parent"), **VOYETRA TURTLE BEACH, INC.**, a Delaware corporation ("Voyetra"; and together with Parent, individually, "US Borrower," and individually and collectively, jointly and severally, "US Borrowers"), **TURTLE BEACH EUROPE LIMITED**, a company limited by shares and incorporated in England and Wales with company number 03819186 ("Turtle Beach," also referred to hereinafter as "UK Borrower"; and together with US Borrowers, individually, "Borrower," and individually and collectively, "Borrowers"), **VTB HOLDINGS, INC.**, a Delaware corporation ("VTB," individually, a "US Guarantor," and individually and collectively, jointly and severally, "US Guarantors"; and together with US Borrowers, individually, a "UK Guarantor," and individually and collectively, jointly and severally, "UK Guarantors"; UK Guarantors and US Guarantors, individually, a "Guarantor," and individually and collectively, "Guarantors"), **CRYSTAL FINANCIAL SPV LLC**, **CRYSTAL FINANCIAL LLC** and the other lenders party to the Term Loan Agreement (as such term is defined below) from time to time (collectively, "Lenders"), and **CRYSTAL FINANCIAL LLC**, as agent, collateral agent and security trustee for Lenders (in such capacities, together with its successors and assigns in such capacities, "Agent").

WHEREAS, Borrowers, Guarantors, Agent, and Lenders have entered into that certain Term Loan, Guaranty and Security Agreement, dated as of July 22, 2015, as amended by that certain First Amendment to Term Loan, Guaranty and Security Agreement, dated as of November 2, 2015 (the "First Amendment"), as amended by that certain Second Amendment to Term Loan, Guaranty and Security Agreement, dated as of December 1, 2015 (the "Second Amendment"), as amended by that certain Third Amendment to Term Loan, Guaranty and Security Agreement, dated as of February 1, 2016 (the "Third Amendment"), as further amended by that certain Fourth Amendment to Term Loan, Guaranty and Security Agreement, dated as of June 17, 2016 (the "Fourth Amendment"), as further amended by that certain Fifth Amendment to Term Loan, Guaranty and Security Agreement, dated as of October 31, 2016 (the "Fifth Amendment"), and as may be further amended, restated, or otherwise modified from time to time, the "Term Loan Agreement"; and

WHEREAS, Borrowers have requested that Agent and Lenders agree to enter into certain amendments to the Term Loan Agreement.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Term Loan Agreement and this Amendment, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

Initially capitalized terms used but not otherwise defined in this Amendment have the respective meanings set forth in the Term Loan Agreement, as amended hereby.

ARTICLE II

AMENDMENTS TO TERM LOAN AGREEMENT

2.01. New/Amended Definitions.

(a) Section 1.1 of the Term Loan Agreement is hereby amended by inserting the following defined terms in the appropriate alphabetical order therein:

Dutch Pledge: as defined in the Sixth Amendment.

Dutch Security Agreements: the Dutch Pledge and each pledge agreement or other similar agreement, instrument or document governed by the laws of the Netherlands now or hereafter securing (or given with the intent to secure) any Obligations.

Sixth Amendment: that certain Sixth Amendment to Term Loan, Guaranty and Security Agreement, dated as of May 12, 2017, by and among Borrowers, Guarantors, Lenders and Agent.

Sixth Amendment Effective Date: as defined in the Sixth Amendment.

(b) The definition of "Eligible UK In-Transit Inventory," set forth in Section 1.1 of the Term Loan Agreement is hereby deleted in its entirety and the following is inserted in lieu thereof:

Eligible UK In-Transit Inventory: has the meaning set forth in the ABL Revolver Loan Agreement without giving effect to any amendments or modifications of such definition or any component definitions (or any sub-component definitions) thereof which creates additional ABL Availability; provided that, in order for any Inventory to constitute Eligible UK In-Transit Inventory it must be subject to duly perfected first priority Lien (subject to the Intercreditor Agreement) in favor of Agent under Applicable Law (including, with respect to Inventory located in the Netherlands, the laws of the Netherlands and England and Wales).

(c) The definition of "Security Documents" set forth in Section 1.1 of the Term Loan Agreement is hereby deleted in its entirety and the following is inserted in lieu thereof:

Security Documents: the Guaranties, Mortgages, UK Security Agreements, Dutch Security Agreements, Deposit Account Control Agreements, IP Security Agreements and all other documents, instruments and agreements now or hereafter securing (or given with the intent to secure) any Obligations.

(d) Section 10.2 (Negative Covenants) of the Term Loan Agreement is hereby amended by inserting the following new Section 10.2.21 immediately after Section 10.2.20 thereof:

10.2.21 UK Inventory/Lien Waivers. Permit the Obligors to (i) have any Inventory be in transit to a location within the United Kingdom, unless the UK Borrower shall have executed a Lien Waiver in form and substance satisfactory to the Agent with each warehouseman, processor, shipper, customs broker or freight forwarder in the United Kingdom that has executed a Lien Waiver in favor of the ABL Revolver Agent, including, without limitation, Kuehne + Nagel Limited, (ii) enter into any Lien Waiver with any warehouseman, processor, shipper, customs broker or freight forwarder in favor of the ABL Revolver Agent, unless the Agent is party to such Lien Waiver or such Obligor executes and delivers a Lien Waiver in form and substance satisfactory to the Agent with each such warehouseman, processor, shipper, customs broker or freight forwarder that is reasonably similar to the Lien Waiver in favor of the ABL Revolver Agent or (iii) have any Collateral be held by (x) American International Cargo Services Inc. or its affiliates or (y) Kuehne + Nagel, Inc. at its locations in Cranbury, NJ and Rialto, CA, unless the Agent is party to the Lien Waivers in favor of the ABL Revolver Agent or such Obligor executes and delivers Lien Waivers in form and substance satisfactory to the Agent that are reasonably similar to the Lien Waivers in favor of the ABL Revolver Agent.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Each Obligor hereby represents and warrants to Agent and each Lender, as of the date hereof, as follows:

3.01. **Representations and Warranties.** After giving effect to this Amendment, the representations and warranties set forth in Section 9 of the Term Loan Agreement and in each other Loan Document are true and correct

in all material respects on and as of the date hereof with the same effect as if made on and as of the date hereof, except to the extent such representations and warranties expressly relate solely to an earlier date.

3.02. **No Defaults.** After giving effect to this Amendment, each Obligor is in compliance with all terms and conditions of the Term Loan Agreement and the other Loan Documents on its part to be observed and performed and no Default or Event of Default has occurred and is continuing.

3.03. **Authority and Pending Actions.** The execution, delivery, and performance by each Obligor of this Amendment has been duly authorized by each such Obligor (as applicable) and there is no action pending or any judgment, order, or decree in effect which is likely to restrain, prevent, or impose materially adverse conditions upon the performance by any Obligor of its obligations under the Term Loan Agreement or the other Loan Documents.

3.04. **Enforceability.** This Amendment constitutes the legal, valid, and binding obligation of each Obligor, enforceable against each such Obligor in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization, or other similar laws affecting the enforcement of creditors' rights or by the effect of general equitable principles.

3.05. **UK Inventory/Lien Waivers.** The Obligors do not maintain or have (i) any Inventory that is in-transit to a location of the Obligors within the United Kingdom or (ii) any Collateral that is held by any of the following warehouseman, processors, shippers, customs broker or freight forwarders or their affiliates: (x) American International Cargo Services, Inc. or (y) CaseStack, Inc. The Obligors have not executed any Lien Waiver in favor of the ABL Revolver Agent with any warehouseman, processor, shipper, customs broker or freight forwarder of any of the Obligors, except (i) the Specified US In-Transit Lien Waivers (as such term is defined below), (ii) that certain Imported Goods Agreement dated July 9, 2015, by and among the U.K. Borrower, Kuehn + Nagel Limited and the ABL Revolver Agent, (iii) the Lien Waiver delivered on the date hereof in favor of the ABL Revolver Agent and the Agent with respect to the UK Borrower's warehouse operator in the Netherlands, (iv) (x) that certain Imported Goods Agreement and warehouseman agreement with American International Cargo Services Inc. and (y) those certain warehouseman agreements with Kuehne + Nagel, Inc. with respect to locations in Cranbury, NJ and Rialto, CA (provided that the Obligors agree that (I) American International Cargo Services, Inc. no longer holds any Collateral and (II) Kuehne + Nagel, Inc. no longer holds any Collateral at the locations in Cranbury, NJ and Rialto, CA).

ARTICLE IV

CONDITIONS PRECEDENT AND FURTHER ACTIONS

4.01. **Conditions Precedent.** This Amendment shall not be binding upon Agent, Lenders or any Obligor until each of the following conditions precedent have been satisfied in form and substance satisfactory to Agent (such date, the "Sixth Amendment Effective Date"):

(a) The representations and warranties contained herein and in the Term Loan Agreement, as amended hereby, shall be true and correct in all material respects as of the date hereof, after giving effect to this Amendment, as if made on such date, except for such representations and warranties limited by their terms to a specific date;

(b) Each Obligor shall have delivered to the Agent duly executed counterparts of this Amendment which, when taken together, bear the authorized signatures of the Obligors, the Agent, and the Lenders;

(c) Obligors shall have delivered to Agent a fully-executed copy of an amendment to the ABL Revolver Loan Agreement substantially similar to this Amendment (the "Twelfth Amendment to ABL Revolver Loan Agreement") and otherwise acceptable to Agent and Lenders;

(d) Agent shall have received a Lien Waiver from the UK Borrower's warehouse operator in the Netherlands;

(e) UK Borrower shall have delivered to Agent duly executed counterparts of a Dutch law pledge of its Inventory (the “Dutch Pledge”);

(f) Agent shall have received a certificate of a director of the UK Borrower, certifying (i) either (A) that the UK Borrower’s Organic Documents have not been amended since they were last delivered to the Agent; or (B) that attached copies of the UK Borrower’s Organic Documents are true and complete, and in full force and effect, without amendment except as show; (ii) that an attached copy of resolutions of its board of directors and all the holders of its Equity Interests authorizing execution and delivery of the Dutch Pledge, this Amendment and any documents ancillary to the Dutch Pledge or this Amendment, is true and complete, and that such resolutions are in full force and effect, were duly adopted, have not been amended, modified or revoked, and constitute all resolutions adopted with respect to this Amendment; and (iii) to the title, name and signature of each Person authorized to sign the Dutch Pledge, this Amendment and any documents ancillary to the Dutch Pledge or this Amendment;

(g) Agent shall have received written opinions in form and substance reasonably satisfactory to Agent from NautaDutilh as to Dutch law; and

(h) The Agent shall have received: (i) an imported goods agreement with Kuehne & Nagel, Inc., and (ii) warehouseman agreements with (x) A&J Programming, (y) Kuehne + Nagel, Inc. with respect to its location in Southaven, MS, and (z) Cexchange, LLC with respect to locations in Carrollton, TX and Coppel, TX (collectively, the “Specified US In-Transit Lien Waivers”).

4.02. **Further Actions.** Each of the parties to this Amendment agrees that at any time and from time to time upon the written request of any other party, it will execute and deliver such further documents and do such further acts and things as such other party may reasonably request in order to affect the purposes of this Amendment.

ARTICLE V

COSTS AND EXPENSES

Without limiting the terms and conditions of the Loan Documents, notwithstanding anything in the Loan Documents to the contrary, Obligors jointly and severally agree to pay on demand: (a) all reasonable costs and expenses incurred by Agent in connection with the preparation, negotiation, and execution of this Amendment and the other Loan Documents executed pursuant to this Amendment and any and all subsequent amendments, modifications, and supplements to this Amendment, including, without limitation, the reasonable costs and fees of Agent’s legal counsel; and (b) all reasonable costs and expenses reasonably incurred by Agent in connection with the enforcement or preservation of any rights under the Term Loan Agreement, this Amendment, and/or the other Loan Documents, including, without limitation, the reasonable costs and fees of Agent’s legal counsel.

ARTICLE VI

MISCELLANEOUS

6.01. **No Course of Dealing.** The amendments set forth herein are a one-time accommodation only and relate only to the matters set forth in Article II herein. The amendments are not amendments to any other deviation of the terms and conditions of the Term Loan Agreement or any other Loan Document unless otherwise expressly agreed to by Agent and Lenders in writing.

6.02. **Cross-References.** References in this Amendment to any Section are, unless otherwise specified, to such Section of this Amendment.

6.03. **Instrument Pursuant to Term Loan Agreement.** This Amendment is a Loan Document executed pursuant to the Term Loan Agreement and shall (unless otherwise expressly indicated herein) be construed, administered,

and applied in accordance with the terms and provisions of the Term Loan Agreement. Any failure by Obligor to comply with any of the terms and conditions of this Amendment shall constitute an immediate Event of Default.

6.04. **Acknowledgment of the Obligors.** Each Obligor hereby represents and warrants that the execution and delivery of this Amendment and compliance by such Obligor with all of the provisions of this Amendment: (a) are within the powers and purposes of such Obligor; (b) have been duly authorized or approved by the board of directors (or other appropriate governing body) of such Obligor; and (c) when executed and delivered by or on behalf of such Obligor will constitute valid and binding obligations of such Obligor, enforceable in accordance with its terms. Each Obligor reaffirms its obligations to perform and pay all amounts due to Agent or Lenders under the Loan Documents (including, without limitation, its obligations under any promissory note evidencing any of the Loans) in accordance with the terms thereof, as amended and modified hereby.

6.05. **Loan Documents Unmodified.** Each of the amendments provided herein shall apply and be effective only with respect to the provisions of the Loan Document specifically referred to by such amendments. Except as otherwise specifically modified by this Amendment, all terms and provisions of the Term Loan Agreement and all other Loan Documents, as modified hereby, shall remain in full force and effect and are hereby ratified and confirmed in all respects. Nothing contained in this Amendment shall in any way impair the validity or enforceability of the Loan Documents, as modified hereby, or alter, waive, annul, vary, affect, or impair any provisions, conditions, or covenants contained therein or any rights, powers, or remedies granted therein, except as otherwise specifically provided in this Amendment. Subject to the terms of this Amendment, any lien and/or security interest granted to Agent, for the benefit of Lenders, in the Collateral set forth in the Loan Documents shall remain unchanged and in full force and effect and the Term Loan Agreement and the other Loan Documents shall continue to secure the payment and performance of all of the Obligations.

6.06. **Parties, Successors and Assigns.** This Amendment represents the agreement of Obligors, Agent and each Lender signatory hereto with respect to the subject matter hereof, and there are no promises, undertakings, representations, or warranties relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents. This Amendment shall be binding upon and inure to the benefit of Obligors, Agent, Lenders, and their respective successors and assigns, except that (a) no Borrower shall have the right to assign its rights or delegate its obligations under any Loan Documents; and (b) any assignment by a Lender must be made in compliance with Section 14.3 of the Term Loan Agreement.

6.07. **Counterparts.** This Amendment may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of a signature page of this Amendment by telecopy shall be effective as delivery of a manually executed counterpart of this Amendment. This Amendment may be executed and delivered by facsimile or electronic mail, and will have the same force and effect as manually signed originals.

6.08. **Headings.** The headings, captions, and arrangements used in this Amendment are for convenience only, are not a part of this Amendment, and shall not affect the interpretation hereof.

6.09. **Miscellaneous.** This Amendment is subject to the general provisions set forth in the Term Loan Agreement, including, but not limited to, Sections 15.14, 15.15, and 15.16.

6.10. **Severability.** Wherever possible, each provision of the Loan Documents shall be interpreted in such manner as to be valid under Applicable Law. If any provision is found to be invalid under Applicable Law, it shall be ineffective only to the extent of such invalidity and the remaining provisions of the Loan Documents shall remain in full force and effect.

6.11. **Release.**

(a) EACH OBLIGOR HEREBY IRREVOCABLY RELEASES AND FOREVER DISCHARGES AGENT, LENDERS AND THEIR AFFILIATES, AND EACH SUCH PERSON'S RESPECTIVE

DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, MEMBERS, ATTORNEYS AND REPRESENTATIVES (EACH, A “RELEASED PERSON”) OF AND FROM ALL DAMAGES, LOSSES, CLAIMS, DEMANDS, LIABILITIES, OBLIGATIONS, ACTIONS OR CAUSES OF ACTION WHATSOEVER (EACH, A “CLAIM”) THAT SUCH OBLIGOR MAY NOW HAVE OR CLAIM TO HAVE AGAINST ANY RELEASED PERSON ON THE DATE OF THIS AMENDMENT, WHETHER KNOWN OR UNKNOWN, OF EVERY NATURE AND EXTENT WHATSOEVER, FOR OR BECAUSE OF ANY MATTER OR THING DONE, OMITTED OR SUFFERED TO BE DONE OR OMITTED BY ANY OF THE RELEASED PERSONS THAT BOTH (1) OCCURRED PRIOR TO OR ON THE DATE OF THIS AMENDMENT AND (2) IS ON ACCOUNT OF OR IN ANY WAY CONCERNING, ARISING OUT OF OR FOUNDED UPON THE TERM LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT.

(b) EACH OBLIGOR INTENDS THE ABOVE RELEASE TO COVER, ENCOMPASS, RELEASE, AND EXTINGUISH, INTER ALIA, ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION THAT MIGHT OTHERWISE BE RESERVED BY THE CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(c) EACH OBLIGOR ACKNOWLEDGES THAT IT MAY HEREAFTER DISCOVER FACTS DIFFERENT FROM OR IN ADDITION TO THOSE NOW KNOWN OR BELIEVED TO BE TRUE WITH RESPECT TO SUCH CLAIMS, DEMANDS, OR CAUSES OF ACTION, AND AGREES THAT THIS AMENDMENT AND THE ABOVE RELEASE ARE AND WILL REMAIN EFFECTIVE IN ALL RESPECTS NOTWITHSTANDING ANY SUCH DIFFERENCES OR ADDITIONAL FACTS.

6.12. **Total Agreement.** This Amendment, the Term Loan Agreement, and all other Loan Documents constitute the entire agreement, and supersede all prior understandings and agreements, among the parties relating to the subject matter hereof.

6.13. **Amendment to ABL Revolver Loan Agreement.** Each of the undersigned Lenders and Agent hereby acknowledge that as of the Sixth Amendment Effective Date, the Obligors, the ABL Revolver Agent and the ABL Revolver Lenders are agreeing to the Twelfth Amendment to Loan, Guaranty and Security Agreement in the form attached hereto as Annex I. The Agent and the Lenders hereby acknowledge and consent to the Twelfth Amendment to Loan, Guaranty and Security Agreement, including, without limitation, for purposes of the Intercreditor Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment as of the day and year first written above.

BORROWERS:

TURTLE BEACH CORPORATION, a Nevada corporation, formerly known as Parametric Sound Corporation

By: /s/ John Hanson

Name: John Hanson

Title: Chief Financial Officer

VOYETRA TURTLE BEACH, INC.,
a Delaware corporation

By: /s/ John Hanson

Name: John Hanson

Title: Chief Financial Officer

TURTLE BEACH EUROPE LIMITED,
a company limited by shares and incorporated in England and Wales with company number 03819186

By: /s/ John Hanson

Name: John Hanson

Title: Chief Financial Officer

AGENT AND LENDERS:

CRYSTAL FINANCIAL LLC, as Agent

By: /s/ Mirko Andric

Name: Mirko Andric

Title: Managing Director

CRYSTAL FINANCIAL SPV LLC, as a Lender

By: /s/ Mirko Andric

Name: Mirko Andric

Title: Managing Director

CRYSTAL FINANCIAL LLC, as a Lender

By: /s/ Mirko Andric

Name: Mirko Andric

Title: Managing Director

GUARANTOR CONSENT

The undersigned hereby consents to the foregoing Amendment and hereby (a) confirms and agrees that notwithstanding the effectiveness of the foregoing Amendment, each Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects, except that, on and after the effectiveness of the foregoing Amendment, each reference in any Loan Document to the "Term Loan Agreement," "thereunder," "thereof" or words of like import shall mean and be a reference to the Term Loan Agreement, as amended by the foregoing Amendment, (b) confirms and agrees that the pledge and security interest in the Collateral granted by it pursuant to any Security Documents to which it is a party shall continue in full force and effect, (c) acknowledges and agrees that such pledge and security interest in the Collateral granted by it pursuant to such Security Documents shall continue to secure the Obligations purported to be secured thereby, as amended or otherwise affected hereby, and (d) agrees to be bound by the release set forth in Section 6.11 of the Amendment.

VTB HOLDINGS, INC.,
a Delaware corporation

By: /s/ John Hanson

Name: John Hanson

Title: Chief Financial Officer

ANNEX I
TWELFTH AMENDMENT
TO
LOAN, GUARANTY AND SECURITY AGREEMENT

Attached hereto

SEVENTH AMENDMENT TO TERM LOAN, GUARANTY AND SECURITY AGREEMENT

This **SEVENTH AMENDMENT TO TERM LOAN, GUARANTY AND SECURITY AGREEMENT** (this "Amendment") is dated as of November 28, 2017, and is entered into by and among **TURTLE BEACH CORPORATION**, a Nevada corporation, formerly known as Parametric Sound Corporation ("Parent"), **VOYETRA TURTLE BEACH, INC.**, a Delaware corporation ("Voyetra"); and together with Parent, individually, "US Borrower," and individually and collectively, jointly and severally, "US Borrowers"), **TURTLE BEACH EUROPE LIMITED**, a company limited by shares and incorporated in England and Wales with company number 03819186 ("Turtle Beach," also referred to hereinafter as "UK Borrower"); and together with US Borrowers, individually, "Borrower," and individually and collectively, "Borrowers"), **VTB HOLDINGS, INC.**, a Delaware corporation ("VTB," individually, a "US Guarantor," and individually and collectively, jointly and severally, "US Guarantors"); and together with US Borrowers, individually, a "UK Guarantor," and individually and collectively, jointly and severally, "UK Guarantors"; UK Guarantors and US Guarantors, individually, a "Guarantor," and individually and collectively, "Guarantors"), **CRYSTAL FINANCIAL SPV LLC**, **CRYSTAL FINANCIAL LLC** and the other lenders party to the Term Loan Agreement (as such term is defined below) from time to time (collectively, "Lenders"), and **CRYSTAL FINANCIAL LLC**, as agent, collateral agent and security trustee for Lenders (in such capacities, together with its successors and assigns in such capacities, "Agent").

WHEREAS, Borrowers, Guarantors, Agent, and Lenders have entered into that certain Term Loan, Guaranty and Security Agreement, dated as of July 22, 2015, as amended by that certain First Amendment to Term Loan, Guaranty and Security Agreement, dated as of November 2, 2015 (the "First Amendment"), as amended by that certain Second Amendment to Term Loan, Guaranty and Security Agreement, dated as of December 1, 2015 (the "Second Amendment"), as amended by that certain Third Amendment to Term Loan, Guaranty and Security Agreement, dated as of February 1, 2016 (the "Third Amendment"), as further amended by that certain Fourth Amendment to Term Loan, Guaranty and Security Agreement, dated as of June 17, 2016 (the "Fourth Amendment"), as further amended by that certain Fifth Amendment to Term Loan, Guaranty and Security Agreement, dated as of October 31, 2016 (the "Fifth Amendment"), as further amended by that certain Sixth Amendment to Term Loan, Guaranty and Security Agreement, dated as of May 12, 2017 (the "Sixth Amendment") and as may be further amended, restated, or otherwise modified from time to time, the "Term Loan Agreement"; and

WHEREAS, Borrowers have requested that Agent and Lenders agree to enter into certain amendments to the Term Loan Agreement.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Term Loan Agreement and this Amendment, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

Initially capitalized terms used but not otherwise defined in this Amendment have the respective meanings set forth in the Term Loan Agreement, as amended hereby.

ARTICLE II

AMENDMENTS TO TERM LOAN AGREEMENT

2.01. New/Amended Definitions.

(a) Section 1.1 of the Term Loan Agreement is hereby amended by inserting the following defined terms in the appropriate alphabetical order therein:

Seventh Amendment: that certain Seventh Amendment to Term Loan, Guaranty and Security Agreement, dated as of November 28, 2017, by and among Borrowers, Guarantors, Lenders and Agent.

Seventh Amendment Effective Date: as defined in the Seventh Amendment.

2.02. **Amendments to Section 10.3.** Section 10.3 of the Term Loan Agreement is hereby amended as set forth below:

(a) In Section 10.3.1 of the Term Loan Agreement, with respect to the required EBITDA for the November 30, 2017 testing date, "\$12,483,000" shall be deleted and replaced with "\$8,200,000".

(b) In Section 10.3.3 of the Term Loan Agreement, with respect to the required Consolidated Leverage Ratio for the period ending on the November 30, 2017 testing date, "2.69:1.00" shall be deleted and replaced with "3.00:1.00".

(c) In Section 10.3.9(b) of the Term Loan Agreement, with respect to the maximum Hypersound Division Foxconn Expenditures for the month-ending testing date of (i) November 30, 2017, "\$4,297,000" shall be deleted and replaced with "\$5,823,000" and (ii) December 31, 2017, and the end of each calendar month thereafter, "\$4,523,000" shall be deleted and replaced with "\$5,823,000".

(d) The table in Section 10.3.9(b) of the Term Loan Agreement is hereby amended by deleting the reference to "thereafter thereafter" in the last row of such table and substituting "thereafter" in lieu thereof.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Each Obligor hereby represents and warrants to Agent and each Lender, as of the date hereof, as follows:

3.01. **Representations and Warranties.** After giving effect to this Amendment, the representations and warranties set forth in Section 9 of the Term Loan Agreement and in each other Loan Document are true and correct in all material respects on and as of the date hereof with the same effect as if made on and as of the date hereof, except to the extent such representations and warranties expressly relate solely to an earlier date.

3.02. **No Defaults.** After giving effect to this Amendment, each Obligor is in compliance with all terms and conditions of the Term Loan Agreement and the other Loan Documents on its part to be observed and performed and no Default or Event of Default has occurred and is continuing.

3.03. **Authority and Pending Actions.** The execution, delivery, and performance by each Obligor of this Amendment has been duly authorized by each such Obligor (as applicable) and there is no action pending or any judgment, order, or decree in effect which is likely to restrain, prevent, or impose materially adverse conditions upon the performance by any Obligor of its obligations under the Term Loan Agreement or the other Loan Documents.

3.04. **Enforceability.** This Amendment constitutes the legal, valid, and binding obligation of each Obligor, enforceable against each such Obligor in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization, or other similar laws affecting the enforcement of creditors' rights or by the effect of general equitable principles.

ARTICLE IV

CONDITIONS PRECEDENT AND FURTHER ACTIONS

4.01. **Conditions Precedent.** This Amendment shall not be binding upon Agent, Lenders or any Obligor until each of the following conditions precedent have been satisfied in form and substance satisfactory to Agent (such date, the "Seventh Amendment Effective Date"):

(a) Each Obligor shall have delivered to the Agent duly executed counterparts of this Amendment which, when taken together, bear the authorized signatures of the Obligors, the Agent, and the Lenders;

(b) Obligors shall have delivered to Agent a fully-executed copy of an amendment to the ABL Revolver Loan Agreement substantially similar to this Amendment (the "Thirteenth Amendment to ABL Revolver Loan Agreement") and otherwise in form and substance reasonably acceptable to Agent and Lenders; and

(c) Obligors shall have paid to Agent, for the benefit of itself and Lenders, \$25,000 (the "Seventh Amendment Fee") in immediately available funds, which each Obligor hereby expressly agrees and acknowledges shall be fully earned, due and payable as of the Seventh Amendment Effective Date and is not refundable for any reason.

4.02. **Further Actions.** Each of the parties to this Amendment agrees that at any time and from time to time upon the written request of any other party, it will execute and deliver such further documents and do such further acts and things as such other party may reasonably request in order to affect the purposes of this Amendment.

ARTICLE V

[RESERVED]

ARTICLE VI

COSTS AND EXPENSES

Without limiting the terms and conditions of the Loan Documents, notwithstanding anything in the Loan Documents to the contrary, Obligors jointly and severally agree to pay on demand: (a) all reasonable costs and expenses incurred by Agent in connection with the preparation, negotiation, and execution of this Amendment and the other Loan Documents executed pursuant to this Amendment and any and all subsequent amendments, modifications, and supplements to this Amendment, including, without limitation, the reasonable costs and fees of Agent's legal counsel; and (b) all reasonable costs and expenses reasonably incurred by Agent in connection with the enforcement or preservation of any rights under the Term Loan Agreement, this Amendment, and/or the other Loan Documents, including, without limitation, the reasonable costs and fees of Agent's legal counsel.

ARTICLE VII

MISCELLANEOUS

7.01. **No Course of Dealing.** The amendments and consents set forth herein are a one-time accommodation only and relate only to the matters set forth in Article II herein. The amendments and consents are not amendments or consents to any other deviation of the terms and conditions of the Term Loan Agreement or any other Loan Document unless otherwise expressly agreed to by Agent and Lenders in writing.

7.02. **Cross-References.** References in this Amendment to any Section are, unless otherwise specified, to such Section of this Amendment.

7.03. **Instrument Pursuant to Term Loan Agreement.** This Amendment is a Loan Document executed pursuant to the Term Loan Agreement and shall (unless otherwise expressly indicated herein) be construed, administered,

and applied in accordance with the terms and provisions of the Term Loan Agreement. Any failure by Obligor to comply with any of the terms and conditions of this Amendment shall constitute an immediate Event of Default.

7.04. **Acknowledgment of the Obligors.** Each Obligor hereby represents and warrants that the execution and delivery of this Amendment and compliance by such Obligor with all of the provisions of this Amendment: (a) are within the powers and purposes of such Obligor; (b) have been duly authorized or approved by the board of directors (or other appropriate governing body) of such Obligor; and (c) when executed and delivered by or on behalf of such Obligor will constitute valid and binding obligations of such Obligor, enforceable in accordance with its terms. Each Obligor reaffirms its obligations to perform and pay all amounts due to Agent or Lenders under the Loan Documents (including, without limitation, its obligations under any promissory note evidencing any of the Loans) in accordance with the terms thereof, as amended and modified hereby.

7.05. **Loan Documents Unmodified.** Each of the amendments provided herein shall apply and be effective only with respect to the provisions of the Loan Document specifically referred to by such amendments. Except as otherwise specifically modified by this Amendment, all terms and provisions of the Term Loan Agreement and all other Loan Documents, as modified hereby, shall remain in full force and effect and are hereby ratified and confirmed in all respects. Nothing contained in this Amendment shall in any way impair the validity or enforceability of the Loan Documents, as modified hereby, or alter, waive, annul, vary, affect, or impair any provisions, conditions, or covenants contained therein or any rights, powers, or remedies granted therein, except as otherwise specifically provided in this Amendment. Subject to the terms of this Amendment, any lien and/or security interest granted to Agent, for the benefit of Lenders, in the Collateral set forth in the Loan Documents shall remain unchanged and in full force and effect and the Term Loan Agreement and the other Loan Documents shall continue to secure the payment and performance of all of the Obligations.

7.06. **Parties, Successors and Assigns.** This Amendment represents the agreement of Obligors, Agent and each Lender signatory hereto with respect to the subject matter hereof, and there are no promises, undertakings, representations, or warranties relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents. This Amendment shall be binding upon and inure to the benefit of Obligors, Agent, Lenders, and their respective successors and assigns, except that (a) no Borrower shall have the right to assign its rights or delegate its obligations under any Loan Documents; and (b) any assignment by a Lender must be made in compliance with Section 14.3 of the Term Loan Agreement.

7.07. **Counterparts.** This Amendment may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of a signature page of this Amendment by telecopy shall be effective as delivery of a manually executed counterpart of this Amendment. This Amendment may be executed and delivered by facsimile or electronic mail, and will have the same force and effect as manually signed originals.

7.08. **Headings.** The headings, captions, and arrangements used in this Amendment are for convenience only, are not a part of this Amendment, and shall not affect the interpretation hereof.

7.09. **Miscellaneous.** This Amendment is subject to the general provisions set forth in the Term Loan Agreement, including, but not limited to, Sections 15.14, 15.15, and 15.16.

7.10. **Severability.** Wherever possible, each provision of the Loan Documents shall be interpreted in such manner as to be valid under Applicable Law. If any provision is found to be invalid under Applicable Law, it shall be ineffective only to the extent of such invalidity and the remaining provisions of the Loan Documents shall remain in full force and effect.

7.11. **Release.**

(a) EACH OBLIGOR HEREBY IRREVOCABLY RELEASES AND FOREVER DISCHARGES AGENT, LENDERS AND THEIR AFFILIATES, AND EACH SUCH PERSON'S RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, MEMBERS, ATTORNEYS AND REPRESENTATIVES

(EACH, A “RELEASED PERSON”) OF AND FROM ALL DAMAGES, LOSSES, CLAIMS, DEMANDS, LIABILITIES, OBLIGATIONS, ACTIONS OR CAUSES OF ACTION WHATSOEVER (EACH, A “CLAIM”) THAT SUCH OBLIGOR MAY NOW HAVE OR CLAIM TO HAVE AGAINST ANY RELEASED PERSON ON THE DATE OF THIS AMENDMENT, WHETHER KNOWN OR UNKNOWN, OF EVERY NATURE AND EXTENT WHATSOEVER, FOR OR BECAUSE OF ANY MATTER OR THING DONE, OMITTED OR SUFFERED TO BE DONE OR OMITTED BY ANY OF THE RELEASED PERSONS THAT BOTH (1) OCCURRED PRIOR TO OR ON THE DATE OF THIS AMENDMENT AND (2) IS ON ACCOUNT OF OR IN ANY WAY CONCERNING, ARISING OUT OF OR FOUNDED UPON THE TERM LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT.

(b) EACH OBLIGOR INTENDS THE ABOVE RELEASE TO COVER, ENCOMPASS, RELEASE, AND EXTINGUISH, INTER ALIA, ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION THAT MIGHT OTHERWISE BE RESERVED BY THE CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(c) EACH OBLIGOR ACKNOWLEDGES THAT IT MAY HEREAFTER DISCOVER FACTS DIFFERENT FROM OR IN ADDITION TO THOSE NOW KNOWN OR BELIEVED TO BE TRUE WITH RESPECT TO SUCH CLAIMS, DEMANDS, OR CAUSES OF ACTION, AND AGREES THAT THIS AMENDMENT AND THE ABOVE RELEASE ARE AND WILL REMAIN EFFECTIVE IN ALL RESPECTS NOTWITHSTANDING ANY SUCH DIFFERENCES OR ADDITIONAL FACTS.

7.12. **Total Agreement.** This Amendment, the Term Loan Agreement, and all other Loan Documents constitute the entire agreement, and supersede all prior understandings and agreements, among the parties relating to the subject matter hereof.

7.13. **Amendment to ABL Revolver Loan Agreement.** Each of the undersigned Lenders and Agent hereby acknowledge that as of the Seventh Amendment Effective Date, the Obligors, the ABL Revolver Agent and the ABL Revolver Lenders are agreeing to the Thirteenth Amendment to Loan, Guaranty and Security Agreement in the form attached hereto as Annex I. The Agent and the Lenders hereby acknowledge and consent to the Thirteenth Amendment to Loan, Guaranty and Security Agreement, including, without limitation, for purposes of the Intercreditor Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment as of the day and year first written above.

BORROWERS:

TURTLE BEACH CORPORATION, a Nevada corporation, formerly known as Parametric Sound Corporation

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

VOYETRA TURTLE BEACH, INC.,
a Delaware corporation

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

TURTLE BEACH EUROPE LIMITED,
a company limited by shares and incorporated in England and Wales with company number 03819186

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

AGENT AND LENDERS:

CRYSTAL FINANCIAL LLC, as Agent

By: /s/ Mirko Andric
Name: Mirko Andric
Title: Managing Director

CRYSTAL FINANCIAL SPV LLC, as a Lender

By: /s/ Mirko Andric
Name: Mirko Andric
Title: Managing Director

CRYSTAL FINANCIAL LLC, as a Lender

By: /s/ Mirko Andric
Name: Mirko Andric
Title: Managing Director

GUARANTOR CONSENT

The undersigned hereby consents to the foregoing Amendment and hereby (a) confirms and agrees that notwithstanding the effectiveness of the foregoing Amendment, each Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects, except that, on and after the effectiveness of the foregoing Amendment, each reference in any Loan Document to the "Term Loan Agreement," "thereunder," "thereof" or words of like import shall mean and be a reference to the Term Loan Agreement, as amended by the foregoing Amendment, (b) confirms and agrees that the pledge and security interest in the Collateral granted by it pursuant to any Security Documents to which it is a party shall continue in full force and effect, (c) acknowledges and agrees that such pledge and security interest in the Collateral granted by it pursuant to such Security Documents shall continue to secure the Obligations purported to be secured thereby, as amended or otherwise affected hereby, and (d) agrees to be bound by the release set forth in Section 7.11 of the Amendment.

VTB HOLDINGS, INC.,
a Delaware corporation

By: /s/ John Hanson
Name: John Hanson
Title: Chief Financial Officer

ANNEX I

**THIRTEENTH AMENDMENT
TO
LOAN, GUARANTY AND SECURITY AGREEMENT**

Attached hereto

**List of Subsidiaries of
Turtle Beach Corporation**

VTB Holdings, Inc.
Voyetra Turtle Beach, Inc.
PSC Licensing Corporation
Turtle Beach Europe Limited

Consent of Independent Registered Public Accounting Firm

Turtle Beach Corporation
San Diego, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S3 (File No. 333-188389 and File No. 333-173017) and Form S-8 (File No. 333-171838, File No. 333-181653, File No. 333-188390 and File No. 333-193982) of Turtle Beach Corporation of our report dated March 6, 2018, relating to the consolidated financial statements and financial statement schedule, which appear in this Form 10-K.

/s/ BDO USA, LLP
New York, New York

March 6, 2018

CERTIFICATION

I, Juergen Stark, certify that:

1. I have reviewed this annual report on Form 10-K of Turtle Beach Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2018

By:

/s/ JUERGEN STARK

Juergen Stark

Chief Executive Officer and President

CERTIFICATION

I, John T. Hanson, certify that:

1. I have reviewed this annual report on Form 10-K of Turtle Beach Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2018

By: _____ /s/ JOHN T. HANSON

John T. Hanson

Chief Financial Officer, Treasurer and Secretary

