Turtle Beach Corp
Form 10-Q/A
March 29, 2019

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

FORM 10-Q/A
(Amendment No. 1)

(Mark one)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
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	27-2767540
(State or other jurisdiction of incorporation or organization)	(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)

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. ý 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). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ý

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 ý No
The number of shares of the registrant's Common Stock, par value $0.001 per share, outstanding on July 31, 2018 was 13,796,031.

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EXPLANATORY NOTE

On March 13, 2019, the Audit Committee of the Board of Directors (the “Audit Committee”) of Turtle Beach Corporation (the “Company”), after considering the recommendations of management and consulting with BDO USA, LLP, the Company’s independent registered public accounting firm, concluded that our unaudited condensed consolidated financial statements included in the quarterly reports on Form 10-Q for the interim periods ended June 30, 2018, and September 30, 2018 (the “Initial Filings”) should not be relied upon because the Company had improperly accounted for the fully-funded warrants issued in connection with the Company’s exchange of Series B Preferred Stock on April 23, 2018. The warrants are exercisable for a fixed number of shares of the Company’s common stock, except that the warrant holders have the right to receive cash in connection with the completion of a transaction defined as a Fundamental Transaction under the warrant agreement. Upon subsequent review, the Company determined that the proper accounting treatment for the warrants due to this possible future cash conversion option was as a financial instrument obligation rather than as an equity instrument, as originally reported. Accounting for the warrants as a financial instrument obligation results in the Company reporting a liability equal to the fair value of the warrants at the time of the transaction, with subsequent changes in fair value reported quarterly in earnings based on a Black-Scholes mark-to-market valuation.

We are filing this Amendment No. 1 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (“Form 10-Q/A”), which was filed with the United States Securities and Exchange Commission (“SEC”) on August 6, 2018 (the “Original Filing”), to reflect restatements of the Condensed Consolidated Balance Sheet at June 30, 2018, the Condensed Consolidated Statements of Income (Loss) for the three and six months ended June 30, 2018, and Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018, and the related notes thereto.

The following sections in the Original Filing are revised in this Form 10-Q/A, solely as a result of, and to reflect, the restatement:
Part I - Item 1 - Financial Statements
Part I - Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations
Part I - Item 4 - Controls and Procedures
Part II - Item 1A - Risk Factors
Part II - Item 6 - Exhibits

Pursuant to the rules of the SEC, Part II, Item 6 of the Original Filing has been amended to include the currently-dated certifications from our principal executive officer and principal financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the principal executive officer and principal financial officer are included in this Form 10-Q/A as Exhibits 31.1, 31.2 and 32.1.

For the convenience of the reader, this Form 10-Q/A sets forth the information in the Original Filing in its entirety, as such information is modified and superseded where necessary to reflect the restatement. This Form 10-Q/A should be read in conjunction with our filings with the SEC subsequent to the date of the Original Filing, in each case as those filings may have been, or with respect to the Initial Filings will be, superseded or amended.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.
Turtle Beach Corporation
Condensed Consolidated Balance Sheets

	June 30, 2018 (unaudited, restated)	December 31, 2017
ASSETS	(in thousands, except par value and share amounts)	
Current Assets:		
Cash and cash equivalents	$9,108	$ 5,247
Accounts receivable, net	34,582	50,534
Inventories	28,043	27,518
Prepaid expenses and other current assets	5,190	3,467
Total Current Assets	76,923	86,766
Property and equipment, net	2,839	4,677
Intangible assets, net	1,196	1,404
Deferred income taxes	127	362
Other assets	1,095	1,042
Total Assets	$82,180	$ 94,251
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Revolving credit facility	$—	$ 38,467
Term loans	375	4,173
Accounts payable	29,976	13,459
Other current liabilities	14,061	11,451
Total Current Liabilities	44,412	67,550
Term loans, long-term portion, net of unamortized debt issuance costs of $734 and $759	11,391	6,789
Series B redeemable preferred stock	—	18,921
Subordinated notes - related party, net of unamortized discount of $811 and $1,075	19,092	20,836
Financial instrument obligation	11,176	—
Other liabilities	2,311	2,312
Total Liabilities	88,382	116,408
Commitments and Contingencies		
Stockholders' Equity (Deficit)		
Common stock, $0.001 par value - 25,000,000 shares authorized; 13,794,251 and 12,349,449 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	14	12
Additional paid-in capital	165,111	148,082
Accumulated deficit	(171,009)	(170,048)
Accumulated other comprehensive loss	(318)	(203)
Total Stockholders' Equity (Deficit)	(6,202)	(22,157)
Total Liabilities and Stockholders' Equity (Deficit)	$82,180	$ 94,251

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

Turtle Beach Corporation
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018 (restated)	June 30, 2017	June 30, 2018 (restated)	June 30, 2017
	(in thousands, except per-share data)			
Net revenue	$60,805	$19,112	$101,691	$33,464
Cost of revenue	40,528	12,811	66,385	24,947
Gross profit	20,277	6,301	35,306	8,517
Operating expenses:				
Selling and marketing	6,818	5,529	12,747	9,978
Research and development	1,327	1,697	2,656	3,087
General and administrative	3,863	4,070	7,848	8,241
Restructuring charges	—	(30)	—	268
Total operating expenses	12,008	11,266	23,251	21,574
Operating income (loss)	8,269	(4,965)	12,055	(13,057)
Interest expense	1,258	1,835	3,263	3,675
Other non-operating expense (income), net	9,029	(214)	8,784	(265)
Income (loss) before income tax	(2,018)	(6,586)	8	(16,467)
Income tax expense	300	475	364	520
Net income (loss)	$(2,318)	$(7,061)	$(356)	$(16,987)
Net income (loss) per share:				
Basic	$(0.17)	$(0.57)	$(0.03)	$(1.38)
Diluted	$(0.17)	$(0.57)	$(0.03)	$(1.38)
Weighted average number of shares:				
Basic	13,401	12,337	12,877	12,325
Diluted	13,401	12,337	12,877	12,325

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2018 (restated)	June 30, 2017	June 30, 2018 (restated)	June 30, 2017
	(in thousands)			
Net income (loss)	$(2,318)	$(7,061)	$(356)	$(16,987)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(270)	118	(115)	158
Other comprehensive income (loss)	(270)	118	(115)	158
Comprehensive income (loss)	$(2,588)	$(6,943)	$(471)	$(16,829)

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

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

	Six Months Ended	
	June 30, 2018 (restated)	June 30, 2017
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$(356)	$(16,987)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,204	2,213
Amortization of intangible assets	156	170
Amortization of debt financing costs	642	781
Stock-based compensation	822	817
Accrued interest on Series B redeemable preferred stock	501	702
Paid-in-kind interest	1,256	1,196
Deferred income taxes	235	(43)
Reversal of sales returns reserve	(489)	(2,438)
Provision for doubtful accounts	144	3
Provision for obsolete inventory	1,766	1,689
Loss on disposal of property and equipment	93	—
Unrealized loss on financial instrument obligation	8,619	—
Changes in operating assets and liabilities:		
Accounts receivable	15,692	47,073
Inventories	(2,291)	(907)
Accounts payable	16,461	(601)
Prepaid expenses and other assets	(1,723)	(505)
Income taxes payable	293	329
Other liabilities	2,316	(6,845)
Net cash provided by operating activities	46,341	26,647
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(402)	(506)
Net cash used for investing activities	(402)	(506)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on revolving credit facilities	81,991	51,909
Repayment of revolving credit facilities	(120,458)	(82,638)
Repayment of capital leases	—	(4)
Proceeds from term loan	3,265	—
Repayment of term loan	(2,485)	(427)
Repayment of subordinated notes - related party	(3,265)	—
Settlement of Series B Preferred Stock	(1,390)	—
Proceeds from exercise of stock options	734	—
Debt financing costs	(405)	—
Net cash used for financing activities	(42,013)	(31,160)
Effect of exchange rate changes on cash and cash equivalents	(65)	74
Net decrease in cash and cash equivalents	3,861	(4,945)
Cash and cash equivalents - beginning of period	5,247	6,183

Cash and cash equivalents - end of period	$9,108	$1,238
SUPPLEMENTAL DISCLOSURE OF INFORMATION		
Cash paid for interest	$763	$918
Cash paid for income taxes	$—	$—
Exchange of Series B Preferred Stock	$18,032	$—

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

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital (restated)	Accumulated Deficit (restated)	Accumulated Other Comprehensive Income (Loss)	Total (restated)
	(in thousands)					
Balance at December 31, 2017	12,349	$ 12	$ 148,082	$ (170,048)	$ (203)	$ (22,157)
Cumulative effect of the adoption of ASC 606	—	—	—	(605)	—	(605)
Issuance of common stock in exchange for Series B preferred stock, net of issuance costs	1,307	1	15,474			15,475
Issuance of restricted stock	28	—	—			—
Net loss	—	—	—	(356)	—	(356)
Other comprehensive income	—	—	—	—	(115)	(115)
Stock options exercised	110	1	733	—	—	734
Stock-based compensation		—	822	—	—	822
Balance at June 30, 2018	13,794	$ 14	$ 165,111	$ (171,009)	$ (318)	$ (6,202)

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

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

Note 1. Background and Basis of Presentation
Organization
Turtle Beach Corporation ("Turtle Beach" or the "Company"), headquartered in San Diego, California, 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 leading 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®.

Turtle Beach 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"), a wholly-owned subsidiary of Turtle Beach and the parent holding company of Voyetra Turtle Beach, Inc. ("VTB") and Turtle Beach Europe Limited ("TB Europe"), together the 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.

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

The December 31, 2017 Condensed Consolidated Balance Sheet has been derived from the Company's audited financial statements included in its Annual Report on Form 10-K filed with the SEC on March 6, 2018 ("Annual Report").

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

Reverse Split

On April 6, 2018, the Company effected a one-for-four reverse stock split of its common stock pursuant to which every four shares of common stock outstanding immediately prior to the reverse split were combined into one share of common stock. As a result of the reverse split, all outstanding share amounts and computations using such amounts in the Company's financial statements and notes thereto have been retroactively adjusted to reflect the reverse stock split.

Restatement

On March 13, 2019, the Audit Committee of the Board of Directors (the “Audit Committee”) of Turtle Beach Corporation (the “Company”), after considering the recommendations of management and consulting with BDO USA, LLP, the Company’s independent registered public accounting firm, concluded that its unaudited condensed consolidated financial statements included in the quarterly reports on Form 10-Q for the interim periods ended June 30, 2018, and September 30, 2018 (the “Initial Filings”) should not be relied upon because the Company had improperly accounted for the fully-funded warrants issued in connection with the Company’s exchange of Series B Preferred Stock on April 23, 2018.

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

The warrants are exercisable for a fixed number of shares of the Company's common stock, except that the warrant holders have the right to receive cash in connection with the completion of a transaction defined as a Fundamental Transaction under the warrant agreement. Upon subsequent review, the Company determined that the proper accounting treatment for the warrants due to this possible future cash conversion option was as a financial instrument obligation rather than as an equity instrument, as originally reported. Accounting for the warrants as a financial instrument obligation results in the Company reporting a liability equal to the fair value of the warrants at the time of the transaction, with subsequent changes in fair value reported quarterly in earnings based on a Black-Scholes mark-to-market valuation.

As a result of these terms regarding the possible future cash payment, the Company has accounted for the warrants issued in connection with the retirement of the Series B Preferred Stock as a financial instrument obligation that is marked to market each period, with subsequent changes in fair value reported in earnings. The fair value of the warrants upon issuance and at June 30, 2018, was $2.6 million and $11.2 million, respectively. This Form 10-Q/A for the period ended June 30, 2018 reflects a $8.6 million reduction of net income from the reported amounts for the quarter resulting in a net loss of $2.3 million, or a diluted loss per share of $(0.17), compared to net income originally reported of $6.3 million, or diluted earnings per share of $0.40.

Impact of the Restatement

The following table presents the Company's condensed consolidated statements of income (loss) as previously reported, restatement adjustments and the condensed consolidated statements of income (loss) as restated for the three and six months ended June 30, 2018:

Condensed Consolidated Statements of Operations (unaudited)

	Three Months Ended			Six Months Ended		
	As Reported	Adjustment	As Restated	As Reported	Adjustment	As Restated
	(in thousands, except per-share data)					
Operating income (loss)	$8,269	$ —	$8,269	$12,055	$ —	$12,055
Interest expense	1,258	—	1,258	3,263	—	3,263
Other non-operating expense (income), net	410	8,619	9,029	165	8,619	8,784
Income (loss) before income tax	6,601	(8,619)	(2,018)	8,627	(8,619)	8
Income tax expense	300	—	300	364	—	364
Net income (loss)	$6,301	$ (8,619)	$(2,318)	$8,263	$ (8,619)	$(356)
Net income (loss) per share:						
Basic	$0.47	$ (0.64)	$(0.17)	$0.64	$ (0.67)	$(0.03)
Diluted	$0.40	$ (0.57)	$(0.17)	$0.56	$ (0.59)	$(0.03)
Weighted average number of shares:						
Basic	13,401	—	13,401	12,877	—	12,877
Diluted	15,644	(2,243)	13,401	14,816	(1,939)	12,877

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

The following table presents the condensed consolidated balance sheet as previously reported, restatement adjustments and the condensed consolidated balance sheet as restated at June 30, 2018:

Condensed Consolidated Balance Sheet (unaudited)

	June 30, 2018		
	As Reported	Adjustment	As Restated
	(in thousands)		
Total Current Liabilities	$44,412	$ —	$44,412
Term loans, long-term portion	11,391	—	11,391
Series B redeemable preferred stock	—	—	—
Deferred income taxes	—	—	—
Subordinated notes - related party	19,092	—	19,092
Financial instrument obligation	—	11,176	11,176
Other liabilities	2,311	—	2,311
Total Liabilities	77,206	11,176	88,382
Stockholders' Equity (Deficit)			
Common stock	14	—	14
Additional paid-in capital	167,668	(2,557)	165,111
Accumulated deficit	(162,390)	(8,619)	(171,009)
Accumulated other comprehensive loss	(318)	—	(318)
Total Stockholders' Equity (Deficit)	4,974	(11,176)	(6,202)
Total Liabilities and Stockholders' Equity (Deficit)	$82,180	$ —	$82,180

The following table presents the Company’s condensed consolidated statement of cash flows as previously reported, restatement adjustments and the condensed consolidated statement of cash flows as restated for the six months ended June 30, 2018:

Condensed Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended		
	As Reported	Adjustment	As Restated
	(in thousands)		
Net income (loss)	$8,263	$ (8,619)	$(356)
Unrealized loss on financial instrument obligation	$—	$ 8,619	$8,619
Net cash provided by operating activities	$46,341	$ —	$46,341

Note 2. Summary of Significant Accounting Policies
The preparation of consolidated annual and quarterly financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. The Company can give no assurance that actual results will not differ from those estimates.

The Company's significant accounting policies are included in Note 1 of the Annual Report on Form 10-K for the year ended December 31, 2017. As described further in “Recent Accounting Pronouncements” below, on January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. Turtle Beach's transition to the new revenue standard did not result in a material adjustment to opening retained earnings and the Company expects the adoption of the new standard to have an immaterial impact to its results of operations on an ongoing basis.

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

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. These headsets function on a standalone basis (in connection with a readily available gaming console, personal computer or stereo) and are not sold with additional services or rights to future goods or services. Revenue is recorded for a contract through the following steps: (i) identifying the contract with the customer; (ii) identifying the performance obligations in the contract; (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations; and (v) recognizing revenue when or as each performance obligation is satisfied.

Each contract at inception is evaluated to determine whether the contract should be accounted for as having one or more performance obligations. Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs at a point in time when the transfer of risk and title to the product transfers to the customer. Our standard terms of delivery are included in our contracts of sale, order confirmation documents, and invoices. The Company excludes sales taxes collected from customers from “Net Revenue” in its Consolidated Statements of Operations.

Certain customers may receive cash-based incentives (including: cash discounts, quantity rebates, price concessions), which are accounted for as variable consideration. Provisions for sales returns are recognized in the period the sale is recorded, based upon our prior experience and current trends. 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. We do not expect to have significant changes in our estimates for variable considerations.

Recent Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (“FASB”) issued 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 in exchange for such 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 2018, the Company adopted ASU 2014-09 using the modified retrospective approach, and recorded a net decrease to beginning retained earnings of $0.6 million reflecting the cumulative impact of adoption. The impact to beginning retained earnings was due to certain price concessions and right of return arrangements recorded as part of the transaction price determination. Results for reporting periods beginning January 1, 2018 are presented under Topic 606, Revenue from Contracts with Customers while prior period amounts were not adjusted and continue to be reported in accordance with the Company’s historic accounting under Topic 605, Revenue Recognition.

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 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. This update provides 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 Company adopted these amendments in the first quarter of 2018, which did not have a material impact upon our financial condition or results of operations.

In June 2018, the FASB issued ASU 2018-07, Improvements to Non-employee Share-Based Payment Accounting that expands the scope of Topic 718, Compensation—Stock Compensation, to include share-based payments issued to non-employees for goods or services and substantially aligned the accounting for share-based payments to non-employees and employees. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning

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

after December 15, 2020. Early adoption is permitted. The Company is evaluating the effect that this guidance will have on the financial statements and related disclosures.

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 June 30, 2018 and December 31, 2017, there were no outstanding financial assets and liabilities recorded at fair value on a recurring basis and the Company had not elected the fair value option for any financial assets and liabilities for which such an election would have been permitted.

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Reported	Fair Value	Reported	Fair Value
	(in thousands)			
Financial Assets and Liabilities:				
Cash and cash equivalents	$9,108	$9,108	$5,247	$5,247
Revolving credit facility	—	—	38,467	38,467
Term loans	12,500	13,020	11,721	11,329
Subordinated notes	19,903	22,394	21,911	22,442
Financial instrument obligation	11,176	11,176	—	—

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

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Note 4. Allowance for Sales Returns

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance, beginning of period	$4,260	$3,033	$5,533	$4,591
Reserve accrual	5,184	951	8,441	2,082
Recoveries and deductions, net	(4,400)	(1,831)	(8,930)	(4,520)
Balance, end of period	$5,044	$2,153	$5,044	$2,153

Note 5. Composition of Certain Financial Statement Items

Inventories

Inventories consist of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
Raw materials	$1,581	$ 837
Finished goods	26,462	26,681
Total inventories	$28,043	$ 27,518

Property and Equipment, net

Property and equipment, net, consists of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
Machinery and equipment	$1,506	$ 1,396
Software and software development	300	383
Furniture and fixtures	530	525
Tooling	1,997	1,968
Leasehold improvements	1,327	1,318
Demonstration units and convention booths	9,308	11,719
Total property and equipment, gross	14,968	17,309
Less: accumulated depreciation and amortization	(12,129)	(12,632)
Total property and equipment, net	$2,839	$ 4,677

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Other Current Liabilities
Other current liabilities consist of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
Accrued vendor expenses	$242	$ 652
Accrued royalties	4,361	2,848
Accrued employee expenses	2,302	2,510
Accrued freight	2,242	130
Accrued expenses	4,914	5,311
Total other current liabilities	$14,061	$ 11,451

Note 6. Goodwill and Other Intangible Assets
Acquired Intangible Assets
Acquired identifiable intangible assets, and related accumulated amortization, as of June 30, 2018 and December 31, 2017 consist of:

	June 30, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
	(in thousands)		
Customer relationships	$5,796	$ 4,356	$1,440
Foreign currency	(997)	(753)	(244)
Total Intangible Assets	$4,799	$ 3,603	$1,196

	December 31, 2017		
	Gross Carrying Value	Accumulated Amortization	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

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

Amortization expense related to definite lived intangible assets of $0.1 million and $0.2 million was recognized for the three and six months ended June 30, 2018, respectively, and $0.1 million and $0.2 million for the three and six months ended June 30, 2017, respectively.

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As of June 30, 2018, estimated annual amortization expense related to definite lived intangible assets in future periods is as follows:

	(in thousands)
2018	$ 183
2019	307
2020	258
2021	217
2022	182
Thereafter	293
Total	$ 1,440

Note 7. Revolving Credit Facility and Long-Term Debt

	June 30, 2018	December 31, 2017
	(in thousands)	
Revolving credit facility, maturing March 2023	$—	$38,467
Term Loan Due 2018	—	1,923
Term Loan Due 2019	—	9,798
Term Loan Due 2023	12,500	—
Less: unamortized deferred financing fees	734	759
Total Term Loans	11,766	10,962
Subordinated notes - related party	19,903	21,911
Less: unamortized debt discount	811	1,075
Total Subordinated notes	19,092	20,836
Total outstanding debt	30,858	70,265
Less: current portion of revolving credit facility	—	(38,467)
Less: current portion of term loans	(375)	(4,173)
Total noncurrent portion of long-term debt	$30,483	$27,625

Total interest expense, inclusive of amortization of deferred financing costs, on long-term debt obligations was $1.0 million and $2.5 million for the three and six months ended June 30, 2018, respectively, and $1.3 million and $2.7 million for three and six months ended June 30, 2017, respectively. This includes related party interest of $0.7 million and $1.3 million for the three and six months ended June 30, 2018, respectively, and $0.6 million and $1.2 million for the three and six months ended June 30, 2017, respectively, incurred in connection with the subordinated notes. Amortization of deferred financing costs was $0.2 million and $0.6 million for the three and six months ended June 30, 2018, respectively, and $0.4 million and $0.8 million for the three and six months ended June 30, 2017, respectively. In connection with the Company's amendment and restatement of its Credit Facility (as noted below), the Company incurred $0.4 million of financing costs that have been deferred and will be recognized over the term of the respective agreements.

Revolving Credit Facility

On March 5, 2018, Turtle Beach and certain of its subsidiaries entered into an amended and restated loan, guaranty and security agreement (“Credit Facility”) with Bank of America, N.A. (“Bank of America”), as Agent, Sole Lead Arranger and Sole Bookrunner, which replaced the then existing asset-based revolving loan agreement. The Credit Facility, which expires on March 5, 2023, provides for a line of credit of up to $60 million inclusive of a sub-facility limit of $12 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.

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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 0.50% to 1.25% for U.S. base rate loans and between 1.50% to 2.25% for U.S. LIBOR loans and U.K. loans. As of June 30, 2018, interest rates for outstanding borrowings were 5.50% 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.

The Company is subject to monthly financial covenant testing for so long as revolving commitments or obligations are outstanding. The Credit Facility requires the Company and its restricted subsidiaries to maintain a fixed charge coverage ratio of at least 1.10 to 1.00 on the last day of each month, a consolidated leverage ratio of greater than 3.00 to 1.00, as well as a limit to Capital Expenditures and HyperSound Division Net Operating Disbursement (as defined in the Credit Facility).

The Credit Facility also contains affirmative and negative covenants that, subject to certain exceptions, limit our ability to take certain actions, including the Company's ability to incur debt, pay dividends and repurchase stock, make certain investments and other payments, enter into certain mergers and consolidations, engage in sale leaseback transactions and transactions with affiliates and encumber and dispose of assets. Obligations under the Credit Facility are secured by a security interest and lien upon substantially all of the Company's assets.
As of June 30, 2018, the Company was in compliance with all financial covenants, as amended, and excess borrowing availability was approximately $30.5 million.
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 was outstanding, had an interest rate of LIBOR plus 5% and was subject to equal monthly installments beginning on April 1, 2015 and ending on October 1, 2018, reflecting a six month waiver. On March 5, 2018, the Company repaid the remaining $1.3 million principal balance.

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 provided for an aggregate term loan commitment of $15 million with an interest rate per annum equal to the 90-day LIBOR rate plus 10.25%. Under the terms of the Term Loan Due 2019, the Company was required to make payments of interest in arrears on the first day of each month beginning August 1, 2015 and repay the principal in monthly payments that began January 1, 2016, inclusive of a nine month waiver, with a final payment on June 28, 2019, the maturity date.

Term Loan Due 2023

On March 5, 2018, the Company and its subsidiaries, entered into an amended, extended and restated term loan, guaranty and security agreement (the “Term Loan Due 2023”) with Crystal, as agent, sole lead arranger and sole bookrunner and the Lenders from time to time party thereto, which replaced the then existing Term Loan Due 2019 and provides for a maximum aggregate term loan of $12.5 million, at an interest rate per annum equal to the 90-day LIBOR rate plus 6.75%. As of June 30, 2018, $12.5 million was outstanding with the additional $3.3 million borrowed on May 2, 2018. Under the terms of the Term Loan Due 2023, the Company is required to make payments of interest in arrears on the first day of each month and will repay the principal in monthly payments beginning April 1, 2019, with a final payment on March 5, 2023, the maturity date.

The Term Loan Due 2023 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, as agent, under the Credit Facility, other than

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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 a fixed charge coverage ratio of at least 1.10 to 1.00, (ii) maintaining a Consolidated Leverage Ratio (as defined in the Term Loan Due 2023) to be measured on the last day of each month while the term loans are outstanding of no more than 3.00:1, (iii) not making capital expenditures in excess of the amount stated therein in any year until December 31, 2023, (iv) 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 and (v) an obligation to provide certain financial and other information.

The Term Loan Due 2023 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), impose a default rate of an additional 2.0% 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 June 30, 2018, the Company was in compliance with all the financial covenants.

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, the then existing Term Loan Due 2019 and the current Term Loan Due 2023.
Subordinated Notes - Related Party
During 2015, the Company issued a $5.0 million subordinated note (the "April Note"), subordinated notes (the "May Notes") with an aggregate principal amount of $3.8 million and a subordinated note (the "June Note") with an aggregate principal amount of $9.0 million to SG VTB Holdings, LLC, the Company's largest stockholder ("SG VTB"), and a trust affiliated with Ronald Doornink, the Chairman of the Company's board of directors (the "Board"). The subordinated notes were 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 July 22, 2015, the Company amended and restated each of its outstanding subordinated notes (the "Amended Notes"). The obligations of the Company under the Amended Notes are subordinate and junior to the prior payment of amounts due under the then existing credit facility and term loans. 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 were issued with an interest rate per annum equal to LIBOR plus 10.5% and were 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 0.4 million of the Company's common stock at an exercise price of $10.16 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 was issued with an interest rate of 15% per annum until its maturity date, which was September 29, 2019, and was 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 SG VTB, any and all obligations of the Company under the November Note. To secure the Company's 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 Amended Notes and November Note or the release of the guarantee or collateral, as applicable. Concurrent with entering into the

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November Note and Third Lien Guaranty, the Company also issued a warrant to purchase 0.3 million shares of the Company’s common stock at an exercise price of $8.00 per share.

On March 5, 2018, the Company amended and restated the Amended Notes with an aggregate principal amount of $18.9 million and the November Note with an aggregate principal amount of $3.5 million. The amended subordinated notes bear in-kind interest at a rate of (i) LIBOR plus 9.1% per annum until March 5, 2020 (or, solely with respect to the November Note, until September 5, 2018) or until its maturity date, which is June 5, 2023, provided that its principal amount is reduced by a specified amount by the six month anniversary of the restatement effective date and (ii) LIBOR plus 10.5% per annum (or, solely with respect to the November Note, 15.0% if the prepayment described above does not occur) until its maturity date.

On May 4, 2018, the Company satisfied the repayment provision with a $3.3 million repayment of the November Note with funds from the Term Loan Due 2023. Further, on August 3, 2018, the Company paid down an additional $5.0 million with funds from operations.

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.

Note 8. Income Taxes

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Income tax expense	$300	$475	$364	$520
Effective income tax rate	(14.9)%	(7.2)%	4,550.0%	(3.2)%

Income tax expense for the three and six months ended June 30, 2018 was $0.3 million at an effective tax rate of (14.9)% and, $0.4 million at an effective tax rate of 4,550.0%, respectively. Income tax expense for the three and six months ended June 30, 2017 was $0.5 million at an effective tax rate of (7.2)% and $0.5 million at an effective tax rate of (3.2)%, respectively. The effective tax rate was primarily impacted by the full valuation allowance on domestic earnings, foreign entity tax benefits and certain state tax expense.

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

The Company recognizes only those tax positions that meet the more-likely-than-not recognition threshold, and establishes tax reserves for uncertain tax positions that do not meet this threshold. Interest and penalties associated with income tax matters are included in the provision for income taxes in the condensed consolidated statement of operations. As of June 30, 2018, the Company had uncertain tax positions of $2.3 million, inclusive of $0.8 million of interest and penalties.

The Company files U.S., state and foreign income tax returns in jurisdictions with various statutes of limitations. The federal tax years open under the statute of limitations are 2013 through 2016, and the state tax years open under the statute of limitations are 2012 through 2016. The Company's federal income tax return for year ended December 31, 2015 is currently under IRS examination.

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Note 9. Stock-Based Compensation
Total estimated stock-based compensation expense for employees and non-employees, related to all of the Company's stock-based awards, was comprised as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenue	$313	$(1)	$331	$(86)
Selling and marketing	30	20	55	56
Research and development	33	63	63	120
General and administrative	223	349	373	727
Total stock-based compensation	$599	$431	$822	$817

The following table presents the stock activity and the total number of shares available for grant as of June 30, 2018:

	(in thousands)
Balance at December 31, 2017	387
Plan Amendment	1,500
Options granted	(445)
Restricted Stock granted	(198)
Forfeited/Expired shares added back	142
Balance at June 30, 2018	1,386

Stock Option Activity

	Options Outstanding Number of Shares Underlying Outstanding Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
			(In years)	
Outstanding at December 31, 2017	1,740,103	$ 6.20	6.64	$6
Granted	445,195	3.55		
Exercised	(109,681)	6.69		
Forfeited	(142,297)	7.83		
Outstanding at June 30, 2018	1,933,320	$ 5.44	7.40	$28,762,929
Vested and expected to vest at June 30, 2018	1,875,294	$ 5.56	7.34	$27,788,808
Exercisable at June 30, 2018	949,598	$ 7.42	5.69	$12,348,636

Stock options are time-based and the majority are exercisable within 10 years of the date of grant, but only to the extent they have vested. The options generally vest as specified in the option agreements subject to acceleration in certain circumstances. In the event participants in the 2013 Plan cease to be employed or engaged by the Company, then all of the options would be forfeited if they are not exercised within 90 days. Forfeitures on option grants are estimated at 10% for non-executives and 0% for executives based on evaluation of historical and expected future turnover. Stock-based compensation expense was recorded net of estimated forfeitures, such that expense was recorded only for those stock-based awards expected to vest. The Company

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reviews this assumption periodically and will adjust it if it is not representative of future forfeiture data and trends within employee types (executive vs. non-executive).
Aggregate intrinsic value represents the difference between the estimated fair value of the underlying common stock and the exercise price of outstanding, in-the-money options. The aggregate intrinsic value of options exercised was $1.1 million for the six months ended June 30, 2018.
The Company uses the Black-Scholes option-pricing model to estimate the fair value of options granted as of the grant date. The following are the assumptions for options granted during the six months ended June 30, 2018.

Expected term (in years)	6.1
Risk-free interest rate	2.3% - 3.0%
Expected volatility	38.2% - 39.5%
Dividend rate	0%

Each of these inputs is subjective and generally requires significant judgment to determine.
The weighted average grant date fair value of options granted during the six months ended June 30, 2018 was $1.49. The total estimated fair value of employee options vested during the six months ended June 30, 2018 was $0.4 million. As of June 30, 2018, total unrecognized compensation cost related to non-vested stock options granted to employees was $1.4 million, which is expected to be recognized over a remaining weighted average vesting period of 3.0 years.
Restricted Stock Activity

	Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested restricted stock at December 31, 2017	41,867	3.84
Granted	198,247	17.60
Vested	(27,978)	4.02
Nonvested restricted stock at June 30, 2018	212,136	16.68

As of June 30, 2018, total unrecognized compensation cost related to the nonvested restricted stock awards, which will be recognized over a remaining weighted average vesting period of 3.0 years was minimal.

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, the Chairman of the Board, warrants to purchase an aggregate 0.4 million shares of the Company's common stock at an exercise price of $10.16 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 purchasable shares of common stock are subject to adjustment and do not carry any voting rights or other rights as a stockholder of the Company prior to exercise.

In connection with the November Note, the Company issued warrants to purchase 0.3 million shares of the Company's common stock at an exercise price of $8.00 per share to SG VTB. The exercise price and the number of purchasable shares of common stock are subject to standard anti-dilution adjustments and do not carry any voting rights as a stockholder of the Company prior to exercise. The warrants are exercisable for a period of ten years beginning on the date of issuance and do not entitle the holder to any voting rights or other rights as a stockholder of the Company prior to exercise.

The 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, and as such are classified within equity. The shares issuable upon exercise of the warrants 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.

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Note 10. Net Income (Loss) Per Share

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in thousands, except per-share data)			
Net income (loss)	$(2,318)	$(7,061)	$(356)	$(16,987)
Weighted average common shares outstanding — Basic	13,401	12,337	12,877	12,325
Plus incremental shares from assumed conversions:				
Dilutive effect of restricted stock	—	—	—	—
Dilutive effect of stock options	—	—	—	—
Dilutive effect of warrants	—	—	—	—
Weighted average common shares outstanding — Diluted	13,401	12,337	12,877	12,325
Net income (loss) per share:				
Basic	$(0.17)	$(0.57)	$(0.03)	$(1.38)
Diluted	$(0.17)	$(0.57)	$(0.03)	$(1.38)

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.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in thousands)			
Stock options	1,945	1,602	1,833	1,591
Warrants	1,314	765	965	766
Unvested restricted stock awards	62	34	52	30
Total	3,321	2,401	2,850	2,387

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Note 11. Segment and Geographic Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Revenues	(in thousands)			
Headset	$60,805	$19,084	$101,673	