GoPro, Inc.
Form 10-Q
August 03, 2018

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

þ 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: 001-36514

GOPRO, INC.
(Exact name of registrant as specified in its charter)

Delaware	77-0629474
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3000 Clearview Way San Mateo, California	94402
(Address of principal executive offices)	(Zip Code)

(650) 332-7600
(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. Yes þ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Check one).

Large accelerated filer þ	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company	Emerging growth company	

If an emerging growth company, indicated 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 þ

As of July 31, 2018, 112,834,367 and 35,956,784 shares of Class A and Class B common stock were outstanding, respectively.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
GoPro, Inc.
Condensed Consolidated Balance Sheets
(unaudited)

(in thousands, except par values)	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$114,843	$ 202,504
Marketable securities	24,951	44,886
Accounts receivable, net	116,573	112,935
Inventory	86,095	150,551
Prepaid expenses and other current assets	37,657	62,811
Total current assets	380,119	573,687
Property and equipment, net	56,566	68,587
Intangible assets, net	18,511	24,499
Goodwill	146,459	146,459
Other long-term assets	23,900	37,014
Total assets	$625,555	$ 850,246
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$110,415	$ 138,257
Accrued liabilities	129,854	213,030
Deferred revenue	15,279	19,244
Total current liabilities	255,548	370,531
Long-term taxes payable	19,448	21,188
Long-term debt	134,416	130,048
Other long-term liabilities	28,428	29,774
Total liabilities	437,840	551,541
Commitments, contingencies and guarantees (Note 9)		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 5,000 shares authorized; none issued	—	—
Common stock and additional paid-in capital, $0.0001 par value, 500,000 Class A shares authorized, 103,548 and 101,034 shares issued and outstanding, respectively; 150,000 Class B shares authorized, 35,958 and 35,966 shares issued and outstanding, respectively	874,939	854,452
Treasury stock, at cost, 10,710 and 10,710 shares, respectively	(113,613)	(113,613)
Accumulated deficit	(573,611)	(442,134)
Total stockholders' equity	187,715	298,705
Total liabilities and stockholders' equity	$625,555	$ 850,246

The accompanying notes are an integral part of these condensed consolidated financial statements.

GoPro, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Revenue	$282,677	$296,526	$485,023	$515,140
Cost of revenue	199,308	190,894	356,738	340,942
Gross profit	83,369	105,632	128,285	174,198
Operating expenses:				
Research and development	38,225	55,497	89,204	121,663
Sales and marketing	60,256	56,678	109,426	124,534
General and administrative	15,724	18,440	35,230	41,199
Total operating expenses	114,205	130,615	233,860	287,396
Operating loss	(30,836)	(24,983)	(105,575)	(113,198)
Other income (expense):				
Interest expense	(4,621)	(3,784)	(9,188)	(4,598)
Other income, net	(1,106)	222	(929)	383
Total other expense, net	(5,727)	(3,562)	(10,117)	(4,215)
Loss before income taxes	(36,563)	(28,545)	(115,692)	(117,413)
Income tax (benefit) expense	706	1,991	(2,076)	24,273
Net loss	$(37,269)	$(30,536)	$(113,616)	$(141,686)
Net loss per share:				
Basic	$(0.27)	$(0.22)	$(0.82)	$(1.02)
Diluted	$(0.27)	$(0.22)	$(0.82)	$(1.02)
Shares used to compute net loss per share:				
Basic	139,166	136,288	138,515	139,575
Diluted	139,166	136,288	138,515	139,575

The accompanying notes are an integral part of these condensed consolidated financial statements.

GoPro, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Six months ended June 30,	
(in thousands)	2018	2017
Operating activities:		
Net loss	$(113,616)	$(141,686)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18,080	23,160
Stock-based compensation	20,834	24,360
Deferred income taxes	(625)	(1,894)
Non-cash restructuring charges	3,256	2,800
Non-cash interest expense	3,952	1,530
Other	(567)	3,763
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,936)	69,321
Inventory	64,456	40,484
Prepaid expenses and other assets	23,475	6,633
Accounts payable and other liabilities	(111,011)	(178,536)
Deferred revenue	(2,458)	699
Net cash used in operating activities	(98,160)	(149,366)
Investing activities:		
Purchases of property and equipment, net	(6,878)	(10,112)
Purchases of marketable securities	(14,896)	—
Maturities of marketable securities	35,000	14,160
Sale of marketable securities	—	11,623
Net cash provided by investing activities	13,226	15,671
Financing activities:		
Proceeds from issuance of common stock	3,425	6,629
Taxes paid related to net share settlement of equity awards	(3,752)	(8,210)
Proceeds from issuance of convertible senior notes	—	175,000
Prepayment of forward stock repurchase transaction	—	(78,000)
Payment of deferred acquisition-related consideration	(2,450)	(75)
Payment of debt issuance costs	—	(5,250)
Net cash provided by (used in) financing activities	(2,777)	90,094
Effect of exchange rate changes on cash and cash equivalents	50	1,242
Net decrease in cash and cash equivalents	(87,661)	(42,359)
Cash and cash equivalents at beginning of period	202,504	192,114
Cash and cash equivalents at end of period	$114,843	$149,755

The accompanying notes are an integral part of these condensed consolidated financial statements.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

1. Summary of business and significant accounting policies
GoPro, Inc. and its subsidiaries (GoPro or the Company) is enabling the way people capture and share their lives from a perspective only achieved with a GoPro. What began as an idea to help athletes document themselves engaged in sport, GoPro has become a mobile storytelling solution that helps the world share itself through immersive content. To date, the Company's cameras and mountable and wearable accessories have generated substantially all of its revenue. The Company sells its products globally through retailers, wholesale distributors and on its website. The Company's global corporate headquarters are located in San Mateo, California.
Basis of presentation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Company's fiscal year ends on December 31, and its fiscal quarters end on March 31, June 30 and September 30. The condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, that management believes are necessary for the fair statement of the Company's financial statements, but are not necessarily indicative of the results expected for the full fiscal year or any other future period. The condensed consolidated balance sheet at December 31, 2017 has been derived from the audited financial statements at that date, but does not include all the disclosures required by GAAP. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K (Annual Report) for the year ended December 31, 2017. Except for accounting policies related to revenue recognition and income tax impacts of intra-entity asset transfers that were updated as a result of adopting Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, and ASU 2016-16, Income Taxes — Intra-Entity Transfers of Assets Other Than Inventory, there have been no significant changes in the Company's accounting policies from those disclosed in its Annual Report.
Principles of consolidation. These condensed consolidated financial statements include all the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.
Use of estimates. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the Company's condensed consolidated financial statements and accompanying notes. Significant estimates and assumptions made by management include those related to revenue recognition (including sales incentives, sales returns and implied post contract support (PCS)), stock-based compensation, inventory valuation, product warranty liabilities, the valuation and useful lives of long-lived assets (property and equipment, intangible assets and goodwill) and income taxes. The Company bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from management's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations could be affected.
Comprehensive income (loss). For all periods presented, comprehensive income (loss) approximated net income (loss). Therefore, the condensed consolidated statements of comprehensive income (loss) have been omitted.
Accounts receivable and allowance for doubtful accounts. Accounts receivable are stated at invoice value less estimated allowances for doubtful accounts. Allowances are recorded based on the Company's assessment of various factors, such as: historical experience, credit quality of its customers, age of the accounts receivable balances, geographic related risks, economic conditions and other factors that may affect a customer's ability to pay. The allowance for doubtful accounts as of June 30, 2018 and December 31, 2017 was $0.6 million and $0.8 million, respectively.
Warranty. The Company records a liability for estimated product warranty costs at the time product revenue is recognized. The Company's standard warranty obligation to its end-users generally provides a 12-month warranty coverage on all of its products except in the European Union where the Company provides a 2-year warranty. The Company also offers extended warranty programs for a fee. The Company's estimate of costs to service its warranty

obligations is based on its historical experience of repair and replacement of the associated products

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and expectations of future conditions. The warranty obligation is affected by product failure rates and the related use of materials, labor costs and freight incurred in correcting any product failure.

Revenue recognition. Revenue is primarily comprised of product revenue, net of returns and variable consideration, including sales incentives provided to customers. The Company derives substantially all of its revenue from the sale of cameras, drones, mounts and accessories and the related implied post contract support to customers. The Company recognizes revenue when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. For most of the Company's revenue, revenue is recognized at the time products are delivered and when collection is deemed probable. For customers who purchase products directly from the Company's website, the Company retains a portion of the risk of loss on these sales during transit, which are accounted for as fulfillment costs. The Company provides sales commissions to internal and external sales representatives which are earned in the period in which revenue is recognized. As a result, the Company expenses such costs as incurred under ASU 2014-19.

The Company's standard terms and conditions of sale for non-web based sales do not allow for product returns other than under warranty. However, the Company grants limited rights of return to certain large retailers. The Company reduces revenue and cost of sales for the estimated returns based on analyses of historical return trends by customer class and other factors. An estimated refund liability along with a right to recover assets are recorded for future product returns. Return trends are influenced by product life cycles, new product introductions, market acceptance of products, product sell-through, the type of customer, seasonality and other factors. Return rates may fluctuate over time but are sufficiently predictable to allow the Company to estimate expected future product returns.

The Company's camera and drone sales contain multiple performance obligations that generally include the following three separate obligations: a) a hardware component (camera or drone) and the embedded firmware essential to the functionality of the hardware component delivered at the time of sale, b) the implicit right to the Company's downloadable free apps and software solutions, and c) the implied right for the customer to receive support after the initial sale (post contract support or PCS). The Company's PCS includes the right to receive on a when and if available basis, future unspecified firmware upgrades and features as well as bug fixes, and email and telephone support. The Company allocates the transaction price to PCS based on a cost-plus method. The transaction price is allocated to the remaining performance obligations on a residual value method. The Company's process to allocate the transaction price considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable, including: the level of support provided to customers, estimated costs to provide the Company's support, the amount of time and cost that is allocated to the Company's efforts to develop the undelivered elements and market trends in the pricing for similar offerings.

The transaction prices allocated to the delivered hardware, related embedded firmware and free software solutions are recognized as revenue at the time of sale provided the conditions for recognition of revenue have been met. The transaction price allocated to PCS is deferred and recognized as revenue on a straight-line basis over the estimated term of the support period, which is estimated to be 15 months based on historical experience. Deferred revenue as of June 30, 2018 and December 31, 2017 also included immaterial amounts related to the Company's GoPro Care and GoPro Plus fee-based service offerings. The Company's deferred revenue balance related to PCS was $13.8 million as of June 30, 2018 and the Company recognized $5.2 million and $10.7 million of related revenue during the three and six months ended June 30, 2018.

Sales incentives. The Company offers sales incentives through various programs, including cooperative advertising, price protection, marketing development funds and other incentives. Sales incentives are considered to be variable consideration, which the Company estimates and records as a reduction to revenue at the date of sale. The Company estimates sales incentives based on historical experience, product sell-through and other factors.

Sales taxes. Sales taxes collected from customers and remitted to respective governmental authorities are recorded as liabilities and are not included in revenue.

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Notes to Condensed Consolidated Financial Statements

Segment information. The Company operates as one operating segment as it only reports financial information on an aggregate and consolidated basis to its Chief Executive Officer, who is the Company's chief operating decision maker.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

Recent accounting standards

Standard	Description	Company's date of adoption	Effect on the condensed consolidated financial statements or other significant matters
Standards that were adopted			
Income Taxes ASU No. 2016-16 (Topic 740)	This standard requires entities to recognize the income tax consequences of intra-entity asset transfers when they occur, which removes the exception to postpone recognition until the asset has been sold to an outside party.	January 1, 2018	Adoption of the standard resulted in the recognition of previously unrecognized deferred charges using a modified retrospective method. The Company recorded a reversal of $15.0 million of deferred charges, an increase to U.S. deferred tax assets of $1.2 million with a corresponding U.S. valuation allowance of $1.2 million. The net impact to equity was an increase in the accumulated deficit of approximately $15.0 million upon adoption.
Stock Compensation ASU No. 2017-09 (Topic 718)	This standard clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under this standard, modification accounting is required only if the fair value, the vesting conditions or the classification of an award as equity or liability changes as a result of the change in terms or conditions.	January 1, 2018	The Company adopted ASU 2017-09 which did not impact its condensed consolidated financial statements and related disclosures. The Company adopted the amendment on a prospective basis.
Revenue from Contracts with Customers ASU No. 2014-09, 2015-14, 2016-08, 2016-10 and 2016-12 (Topic 606)	The updated revenue standard establishes principles for recognizing revenue and develops a common revenue standard for all industries. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard requires that entities disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with	January 1, 2018	Under the updated revenue standard, the recognition of product revenue at the time the product is delivered, and PCS revenue on a straight-line basis remains consistent with the Company's previous revenue policy. Sales incentives are considered variable consideration under the new standard and are accounted for as a reduction to the transaction price. This change resulted in a reduction of revenue being recorded earlier than under the previous guidance. As a result of the adoption of the new standard, the Company recorded a $2.9 million increase to its accumulated deficit on January 1, 2018, of which $4.9 million related to certain estimated sales incentives which would have been recognized at the time the product was shipped in the prior period. Additionally, for customers who purchased products directly from the Company's website, the new standard provides for a policy election whereby the Company has recorded revenue when the related product was shipped. This change resulted in recognition of revenue earlier than

customers.	under previous guidance. Upon adoption, the Company's accumulated deficit decreased by $2.0 million related to revenue that would have been recognized in the prior period from the Company's website sales that had shipped but had not been delivered as of December 31, 2017. In addition, the Company recorded a $1.0 million increase to deferred tax assets and a corresponding $1.0 million increase in valuation allowance. Additionally, under the new standard, the Company reclassed its refund liability from an offset to accounts receivable to an increase in accrued liabilities, which increased the Company's days sales outstanding. The Company adopted the standard using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Prior periods were not retrospectively adjusted. Refer below for the impact on each financial statement line item as of and for the three and six months ended June 30, 2018 due to the adoption of the standard.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

The cumulative effect of the changes made to the Company’s condensed consolidated January 1, 2018 balance sheet for the adoption of ASU 2014-09, Revenue from Contracts with Customers and ASU 2016-16, Income Taxes — Intra-Entity Transfers of Assets Other Than Inventory, were as follows:

(in thousands)	Balance at December 31, 2017	Adjustment due to ASU 2014-09	Adjustment due to ASU 2016-16	Balance at January 1, 2018
Accumulated deficit	$(442,134)	$ (2,872)	$(14,990)	$(459,996)

As mentioned above, the adoption of ASU 2014-09 impacted the timing of revenue recognized related to certain sales incentives and sales from the Company’s website, which impacted the revenue and current deferred revenue financial statement line items. Additionally, under ASU 2014-09, the Company presents an estimated refund liability along with a right to recover asset for future product returns, which impacts the accounts receivable, net, inventory, net, prepaid expenses and other assets, and accrued liabilities financial statement line items resulting in an increase in the Company’s accounts receivable days sales outstanding (DSO) calculation. The above adjustments do not impact net cash used in operating activities, however, they do impact the changes in operating assets and liabilities for the related accounts within the disclosure of operating activities on the statement of cash flow. Refer to the tables below for the quantitative impact to the Company’s financial statements for the periods ended June 30, 2018 due to the adoption of ASU 2014-09 (ASC 606).

	Three months ended June 30, 2018			Six months ended June 30, 2018		
(in thousands)	As Reported Under ASC 606	Effect of Change	Balance Under ASC 605	As Reported Under ASC 606	Effect of Change	Balance Under ASC 605
Revenue	$282,677	$(3,691)	$278,986	$485,023	$3,265	$488,288

	As of June 30, 2018		
(in thousands)	As Reported Under ASC 606	Effect of Change	Balance Under ASC 605
Accounts receivable, net	$116,573	$(21,673)	$94,900
Inventory, net	86,095	9,903	95,998
Prepaid expenses and other current assets	37,657	(9,903)	27,754
Accrued liabilities	129,854	(21,673)	108,181
Current deferred revenue	15,279	1,122	16,401

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Standard	Description	Expected date of adoption	Effect on the condensed consolidated financial statements or other significant matters
Standards not yet adopted			
Leases ASU No. 2016-02(Topic 842)	This standard requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. Lessees would recognize a right-to-use asset and lease liability for all leases with terms of more than 12 months. The new standard should be applied on a modified retrospective basis or cumulative effect transition method.	January 1, 2019	The Company is currently in the process of identifying the population of potential lease arrangements and evaluating these arrangements in the context of the new guidance. The Company expects that most of its operating lease commitments will result in the recognition of a right-of-use asset and lease liability, which will increase total assets and liabilities on the Company's condensed consolidated financial statements.
Intangible - Goodwill and Other ASU No. 2017-04 (Topic 350)	This standard simplifies the accounting for goodwill and removes Step 2 of the annual goodwill impairment test. Upon adoption, goodwill impairment will be determined based on the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017, and requires a prospective transition method.	January 1, 2020	The Company does not expect that the adoption of this standard will have a material impact on its condensed consolidated financial statements and related disclosures.

Although there are several other new accounting standards issued or proposed by the FASB, which the Company has adopted or will adopt, as applicable, the Company does not believe any of these additional accounting pronouncements has had or will have a material impact on its financial statements.

2. Fair value measurements

The Company's assets that are measured at fair value on a recurring basis within the fair value hierarchy are summarized as follows:

	June 30, 2018			December 31, 2017		
(in thousands)	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash equivalents [1]:						
Money market funds	$38,289	$—	$38,289	$25,251	$—	$25,251
Commercial paper	—	—	—	14,981	—	14,981
Corporate debt securities	—	—	—	—	2,500	2,500
Agency securities	—	—	—	—	4,999	4,999
Total cash equivalents	$38,289	$—	$38,289	$40,232	$7,499	$47,731
Marketable securities:						
U.S. treasury securities	$—	$—	$—	$—	$4,995	$4,995
Commercial paper	12,465	—	12,465	19,888	—	19,888
Corporate debt securities	—	12,486	12,486	—	20,003	20,003

Total marketable securities	$12,465	$12,486	$24,951	$19,888	$24,998	$44,886

(1) Included in cash and cash equivalents in the accompanying condensed consolidated balance sheets. Cash balances were $76.6 million and $154.8 million as of June 30, 2018 and December 31, 2017, respectively.

There were no transfers of financial assets between levels for the periods presented.

Cash equivalents and marketable securities are classified as Level 1 or Level 2 because the Company uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

their fair value. The contractual maturities of available-for-sale marketable securities as of June 30, 2018 and December 31, 2017 were all less than one year in duration. At June 30, 2018 and December 31, 2017, the Company had no financial assets or liabilities that were classified as Level 3, which are valued based on inputs supported by little or no market activity.
At June 30, 2018 and December 31, 2017, the amortized cost of the Company's cash equivalents and marketable securities approximated their fair value and there were no material realized or unrealized gains or losses, either individually or in the aggregate.
In April 2017, the Company issued $175.0 million principal amount of Convertible Senior Notes due 2022 (Notes) (see Note 4, Financing Arrangements). The estimated fair value of the Notes is based on quoted market prices of the Company's instruments in markets that are not active and are classified as Level 2 within the fair value hierarchy. The Company estimated the fair value of the Notes by evaluating quoted market prices and calculating the upfront cash payment a market participant would require to assume these obligations. The calculated fair value of the Notes, of $159.3 million, is highly correlated to the Company's stock price and as a result, significant changes to the Company's stock price will have a significant impact on the calculated fair value of the Notes.
For certain other financial assets and liabilities, including accounts receivable, accounts payable and other current assets and liabilities, the carrying amounts approximate their fair value primarily due to the relatively short maturity of these balances.

3. Condensed consolidated financial statement details
The following sections and tables provide details of selected balance sheet items.
Inventory

(in thousands)	June 30, 2018	December 31, 2017
Components	$21,349	$ 18,995
Finished goods	64,746	131,556
Total inventory	$86,095	$ 150,551

Property and equipment, net

(in thousands)	June 30, 2018	December 31, 2017
Leasehold improvements	$66,847	$ 67,713
Production, engineering and other equipment	47,911	47,502
Tooling	25,059	24,871
Computers and software	20,822	20,636
Furniture and office equipment	15,132	14,895
Tradeshow equipment and other	7,319	7,237
Construction in progress	531	347
Gross property and equipment	183,621	183,201
Less: Accumulated depreciation and amortization	(127,055)	(114,614)
Property and equipment, net	$56,566	$ 68,587

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Intangible assets

(in thousands)	June 30, 2018 Gross carrying value	Accumulated amortization	Net carrying value
Purchased technology	$49,901	$ (32,005)	$17,896
In-process research and development (IPR&D)	615	—	615
Total intangible assets	$50,516	$ (32,005)	$18,511

(in thousands)	December 31, 2017 Gross carrying value	Accumulated amortization	Net carrying value
Purchased technology	$49,901	$ (26,017)	$23,884
IPR&D	615	—	615
Total intangible assets	$50,516	$ (26,017)	$24,499

For the three and six months ended June 30, 2018 and 2017, the Company did not record any impairment charges for in-process research and development (IPR&D) assets. As of June 30, 2018, technological feasibility has not been established for the remaining IPR&D assets, which have no alternative future use and as such, continue to be accounted for as indefinite-lived intangible assets.

Amortization expense was $3.3 million and $2.2 million for the three months ended June 30, 2018 and 2017, respectively, and $6.0 million and $4.5 million for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, expected amortization expense of intangible assets with definite lives for future periods is as follows:

(in thousands)	Total
Year ending December 31,	
2018 (remaining 6 months)	$5,326
2019	7,458
2020	4,242
2021	870
2022	—
	$17,896

Other long-term assets

(in thousands)	June 30, 2018	December 31, 2017
Point of purchase (POP) displays	$13,844	$ 16,451
Long-term deferred tax assets	1,239	825
Deposits and other	8,817	19,738
Other long-term assets	$23,900	$ 37,014

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Accrued liabilities

(in thousands)	June 30, 2018	December 31, 2017
Accrued payables [1]	$31,294	$ 44,582
Employee related liabilities [1]	14,186	24,945
Accrued sales incentives	34,398	89,549
Refund liability	21,673	—
Warranty liability	10,230	9,934
Customer deposits	2,622	8,700
Income taxes payable	188	1,247
Purchase order commitments	4,899	6,162
Inventory received	4,702	14,470
Other	5,662	13,441
Accrued liabilities	$129,854	$ 213,030

[1] See Note 11 Restructuring charges, for amounts associated with restructuring liabilities.

Product warranty

The following table summarizes the warranty liability activity:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Beginning balance	$9,407	$11,442	$10,373	$11,945
Charged to cost of revenue	7,108	3,181	13,108	7,407
Settlement of warranty claims	(5,823)	(4,649)	(12,789)	(9,378)
Ending balance	$10,692	$9,974	$10,692	$9,974

4. Financing Arrangements

Credit Facility

In March 2016, the Company entered into a Credit Agreement (Credit Agreement) with certain banks which provides for a secured revolving credit facility (Credit Facility) under which the Company may borrow up to an aggregate amount of $250.0 million. The Company and its lenders may increase the total commitments under the Credit Facility to up to an aggregate amount of $300.0 million, subject to certain conditions. The Credit Facility will terminate and any outstanding borrowings become due and payable in March 2021.

The amount that may be borrowed under the Credit Facility is determined at periodic intervals and is based upon the Company’s inventory and accounts receivable balances. Borrowed funds accrue interest, at the Company’s election, based on an annual rate of (a) London Interbank Offered Rate (LIBOR) or (b) the administrative agent’s base rate, plus an applicable margin of between 1.50% and 2.00% for LIBOR rate loans, and between 0.50% and 1.00% for base rate loans. The Company is required to pay a commitment fee on the unused portion of the Credit Facility of 0.25% or 0.375% per annum, based on the level of utilization of the Credit Facility. Amounts owed under the Credit Agreement and related credit documents are guaranteed by GoPro, Inc. and its material subsidiaries. GoPro, Inc. and its Cayman and Netherlands subsidiaries have also granted security interests in substantially all of their assets to collateralize this obligation.

The Credit Agreement contains customary covenants, such as financial statement reporting requirements and limiting the ability of the Company and its subsidiaries to pay dividends or incur debt, create liens and encumbrances, make investments, and redeem or repurchase stock. The Company is required to maintain a

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minimum fixed charge coverage ratio if and when the unborrowed availability under the Credit Facility is less than the greater of $25.0 million or 10.0% of the borrowing base at such time. The Credit Agreement also contains customary events of default, such as the failure to pay obligations when due, initiation of bankruptcy or insolvency proceedings, or defaults on certain other indebtedness. Upon an event of default, the lenders may, subject to customary cure rights, require the immediate payment of all amounts outstanding and foreclose on collateral.

At June 30, 2018 and December 31, 2017, the Company could borrow up to approximately $59.1 million and $118.0 million, respectively, under the Credit Facility, and was in compliance with all financial covenants contained in the Credit Agreement. The Company has made no borrowings from the Credit Facility to date.

Convertible Notes

In April 2017, the Company issued $175.0 million aggregate principal amount of 3.50% Convertible Senior Notes due 2022 (Notes). The Notes are senior, unsecured obligations of GoPro and mature on April 15, 2022 (Maturity Date), unless earlier repurchased or converted into shares of Class A common stock under certain circumstances. The Notes are convertible into cash, shares of the Company's Class A common stock, or a combination thereof, at the Company's election, at an initial conversion rate of 94.0071 shares of Class A common stock per $1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately $10.64 per share of common stock, subject to adjustment. Based on current and projected liquidity, the Company has the intent and ability to deliver cash up to the principal amount of the Notes then outstanding upon conversion. The Company pays interest on the Notes semi-annually in arrears on April 15 and October 15 of each year.

The $175.0 million of proceeds received from the issuance of the Notes were allocated between long-term debt (liability component) of $128.3 million and additional paid-in-capital (equity component) of $46.7 million on the condensed consolidated balance sheet. The fair value of the liability component was measured using rates determined for similar debt instruments without a conversion feature. The carrying amount of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the aggregate face value of the Notes. The liability component will be accreted up to the face value of the Notes of $175.0 million, which will result in additional non-cash interest expense being recognized in the condensed consolidated statements of operations through the Notes' Maturity Date. The accretion of the Notes to par and debt issuance cost is amortized into interest expense over the term of the Note using an effective interest rate of approximately 10.5%. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

The Company incurred approximately $5.7 million of issuance costs related to the issuance of the Notes, of which $4.2 million and $1.5 million were recorded to long-term debt and additional paid-in capital, respectively. The $4.2 million of issuance costs recorded as long-term debt on the condensed consolidated balance sheet are being amortized over the five-year contractual term of the Notes using the effective interest method.

The Company may not redeem the Notes prior to the Maturity Date and no sinking fund is provided for the Notes. The Indenture includes customary terms and covenants, including certain events of default after which the Notes may be due and payable immediately.

Holders have the option to convert the Notes in multiples of $1,000 principal amount at any time prior to January 15, 2022, but only in the following circumstances:

- during any calendar quarter beginning after the calendar quarter ending on September 30, 2017, if the last reported sale price of Class A common stock for at least 20 trading days (whether or not consecutive) during the last 30 consecutive trading days of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price of the Notes on each applicable trading day;
- during the five-business day period following any five consecutive trading day period in which the trading price for the Notes is less than 98% of the product of the last reported sale price of Class A common stock and the conversion rate for the Notes on each such trading day; or
- upon the occurrence of specified corporate events.

At any time on or after January 15, 2022 until the second scheduled trading day immediately preceding the Maturity Date of the Notes on April 15, 2022, a holder may convert its Notes, in multiples of $1,000 principal

amount. Holders of the Notes who convert their Notes in connection with a make-whole fundamental change (as defined in the Indenture) are, under certain circumstances, entitled to an increase in the conversion rate. In addition, in the event of a fundamental change prior to the Maturity Date, holders will, subject to certain conditions, have the right, at their option, to require the Company to repurchase for cash all or part of the Notes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest up to, but excluding, the repurchase date.

As of June 30, 2018, the outstanding principal on the Notes was $175.0 million, the unamortized debt discount was $37.4 million, the unamortized debt issuance cost was $3.2 million and the net carrying amount of the liability component was $134.4 million, which was recorded as long-term debt within the condensed consolidated balance sheet. For the three months ended June 30, 2018 and 2017, the Company recorded interest expense of $1.5 million and $1.2 million, respectively, for contractual coupon interest, $0.2 million for amortization of debt issuance costs, and $2.0 million and $1.5 million, respectively, for amortization of the debt discount. For the six months ended June 30, 2018 and 2017, the Company recorded interest expense of $3.1 million and $1.2 million, respectively, for contractual coupon interest, $0.4 million and $0.2 million, respectively, for amortization of debt issuance costs, and $4.0 million and $1.5 million, respectively, for amortization of the debt discount.

In connection with the offering, the Company entered into a prepaid forward stock repurchase transaction (Prepaid Forward) with a financial institution (Forward Counterparty). Pursuant to the Prepaid Forward, the Company used approximately $78.0 million of the net proceeds from the offering of the Notes to fund the Prepaid Forward. The aggregate number of shares of the Company’s Class A common stock underlying the Prepaid Forward was approximately 9.2 million. The expiration date for the Prepaid Forward is April 15, 2022, although it may be settled earlier in whole or in part. Upon settlement of the Prepaid Forward, at expiration or upon any early settlement, the Forward Counterparty will deliver to the Company the number of shares of Class A common stock underlying the Prepaid Forward or the portion thereof being settled early. The shares purchased under the Prepaid Forward are treated as treasury stock on the condensed consolidated balance sheet (and not outstanding for purposes of the calculation of basic and diluted earnings per share), but will remain outstanding for corporate law purposes, including for purposes of any future stockholders’ votes, until the Forward Counterparty delivers the shares underlying the Prepaid Forward to the Company. The Company’s Prepaid Forward hedge transaction exposes the Company to credit risk to the extent that its counterparty may be unable to meet the terms of the transaction. The Company mitigates this risk by limiting its counterparty to a major financial institution.

5. Employee benefit plans

Equity incentive plans. The Company has outstanding equity grants from its three stock-based employee compensation plans: the 2014 Equity Incentive Plan (2014 Plan), the 2010 Equity Incentive Plan (2010 Plan) and the 2014 Employee Stock Purchase Plan (ESPP). No new options or awards have been granted under the 2010 Plan since June 2014. Outstanding options and awards under the 2010 Plan continue to be subject to the terms and conditions of the 2010 Plan. Options granted under the 2014 Plan generally expire within ten years from the date of grant and generally vest over one to four years. Restricted stock units (RSUs) granted under the 2014 Plan generally vest over two to four years based upon continued service and are settled at vesting in shares of the Company’s Class A common stock. Performance stock units (PSUs) granted under the 2014 Plan generally vest over three years based upon continued service and the Company achieving certain revenue targets, and are settled at vesting in shares of the Company’s Class A common stock. The ESPP allows eligible employees to purchase shares of the Company’s Class A common stock through payroll deductions at a price equal to 85% of the lesser of the fair market value of the stock as of the first date or the ending date of each six month offering period. For additional information regarding the Company’s equity incentive plans, refer to the audited financial statements contained in the 2017 Annual Report.

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Stock options

A summary of the Company's stock option activity for the six months ended June 30, 2018 is as follows:

	Shares (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2017	9,809	$ 11.16	6.00	$ 19,971
Granted	1,166	5.75		
Exercised	(542)	0.75		
Forfeited/Cancelled	(1,412)	14.79		
Outstanding at June 30, 2018	9,021	$ 10.52	4.09	$ 14,367
Vested and expected to vest at June 30, 2018	9,011	$ 10.52	4.08	$ 14,367
Exercisable at June 30, 2018	7,287	$ 11.19	2.84	$ 13,558

The aggregate intrinsic value of the stock options outstanding as of June 30, 2018 represents the value of the Company's closing stock price on June 30, 2018 in excess of the exercise price multiplied by the number of options outstanding.

Restricted stock units

A summary of the Company's RSU activity for the six months ended June 30, 2018 is as follows:

	Shares (in thousands)	Weighted-average grant date fair value
Non-vested shares at December 31, 2017	9,483	$ 11.87
Granted	945	5.82
Vested	(1,996)	10.95
Forfeited	(2,527)	12.00
Non-vested shares at June 30, 2018	5,905	$ 11.16

In June 2014, the Company granted an award of 4.5 million RSUs covering shares of the Company's Class B common stock to the Company's CEO (CEO RSUs), which included 1.5 million RSUs that vested immediately upon grant and 3.0 million RSUs that were subject to both a market-based vesting condition and a three year service-based vesting condition. The market-based condition was achieved in January 2015. Stock-based compensation expense related to the CEO RSUs was zero and $0.1 million, respectively, for the three months ended June 30, 2018 and 2017, and zero and $0.6 million, respectively, for the six months ended June 30, 2018 and 2017, respectively.

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Performance stock units
In May 2018, the Company granted PSUs to certain executives and employees. PSUs are subject to both a one year performance-based vesting condition and a three year service-based vesting condition. The performance-based condition is related to the Company achieving certain revenue targets.
A summary of the Company's PSU activity for the six months ended June 30, 2018 is as follows:

	Shares (in thousands)	Weighted-average grant date fair value
Non-vested shares at December 31, 2017	—	$ —
Granted	265	5.74
Vested	—	—
Forfeited	—	—
Non-vested shares at June 30, 2018	265	$ 5.74

Employee stock purchase plan. For the six months ended June 30, 2018 and 2017, the Company issued 632,046 and 625,811 shares under its ESPP, respectively, at weighted average prices of $4.78 and $8.02, respectively.
Stock-based compensation expense. The Company measures compensation expense for all stock-based payment awards based on the estimated fair values on the date of the grant. The fair value of stock options granted and ESPP issuance is estimated using the Black-Scholes option pricing model. The fair value of RSUs and PSUs are determined using the Company's closing stock price on the date of grant. The Company accounts for forfeitures of stock-based payment awards in the period they occur. There have been no significant changes in the Company's valuation assumptions from those disclosed in its 2017 Annual Report.
The following table summarizes stock-based compensation expense included in the condensed consolidated statements of operations:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Cost of revenue	$490	$415	$872	$910
Research and development	4,960	5,390	9,965	11,072
Sales and marketing	2,313	1,995	5,060	4,686
General and administrative	2,248	3,435	4,937	7,692
Total stock-based compensation expense	$10,011	$11,235	$20,834	$24,360

The income tax benefit related to stock-based compensation expense was zero for the three and six months ended June 30, 2018 and 2017 due to a full valuation allowance on the Company's U.S. net deferred tax assets (see Note 7 Income taxes, below).
At June 30, 2018, total unearned stock-based compensation of $56.7 million related to stock options, RSUs, PSUs and ESPP shares is expected to be recognized over a weighted average period of 1.9 years.

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6. Net loss per share
The following table presents the calculations of basic and diluted net loss per share:

(in thousands, except per share data)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Numerator:				
Net loss	$(37,269)	$(30,536)	$(113,616)	$(141,686)
Denominator:				
Weighted-average common shares—basic for Class A and Class B common stock	139,166	136,288	138,515	139,575
Effect of dilutive stock-based awards	—	—	—	—
Weighted-average common shares—diluted for Class A and Class B common stock	139,166	136,288	138,515	139,575
Net loss per share				
Basic	$(0.27)	$(0.22)	$(0.82)	$(1.02)
Diluted	$(0.27)	$(0.22)	$(0.82)	$(1.02)

The following potentially dilutive shares were not included in the calculation of diluted shares outstanding as the effect would have been anti-dilutive:

(in thousands)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Effect of anti-dilutive stock-based awards	15,233	19,474	16,411	20,235

The Company's Notes mature on April 15, 2022, unless earlier repurchased or converted into shares of Class A common stock under certain circumstances as described further in Note 4, Financing Arrangements, above. The Notes are convertible into cash, shares of the Company's Class A common stock, or a combination thereof, at the Company's election. Based on the Company's current and projected liquidity, the Company has the intent and ability to deliver cash up to the principal amount of the Notes subject to conversion. As such, no shares associated with the Note conversion were included in the Company's weighted-average number of common shares outstanding for any periods presented. While the Company has the intent and ability to deliver cash up to the principal amount, the maximum number of shares issuable upon conversion of the Notes is 20.6 million shares of Class A common stock. Additionally, the calculation of weighted-average shares outstanding for the three months ended June 30, 2018 and 2017 excludes approximately 9.2 million shares and 8.1 million shares, respectively, and for the six months ended June 30, 2018 and 2017, excludes approximately 9.2 million shares and 4.1 million shares, respectively, effectively repurchased and held in treasury stock on the condensed consolidated balance sheet as a result of the Prepaid Forward transaction entered into in connection with the Note offering.

The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock is convertible at any time at the option of the stockholder into one share of Class A common stock and has no expiration date. Each share of Class B common stock will convert automatically into one share of Class A common stock upon the date when the outstanding shares of Class B common stock represent less than 10% of the aggregate number of shares of common stock then outstanding. Class A common stock is not convertible into Class B common stock. The computation of the diluted net loss per share of Class A common stock assumes the conversion of Class B common stock.

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7. Income taxes

The Company's income tax expense and the resulting effective tax rate are based upon the estimated annual effective tax rates applicable for the respective period, including losses generated in countries where the Company is projecting annual losses for which deferred tax assets are not anticipated to be recognized. In the fourth quarter of 2016, the Company recorded a full valuation allowance against its net U.S. deferred tax assets, and for the foreseeable future anticipates providing a valuation allowance against any additional deferred tax assets until such time it is more likely than not the benefit of these deferred tax assets may be recognized.

The Company's tax provision and the resulting effective tax rate for interim periods is determined based upon its estimated annual effective tax rate, adjusted for the effect of discrete items arising in that quarter. The Company also includes jurisdictions with a projected loss for the year (or year-to-date loss) where the Company cannot or does not expect to recognize a tax benefit from its estimated annual effective tax rate. The impact of such inclusions could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings or losses versus annual projections. In each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual tax rate changes, a cumulative adjustment is made in that quarter.

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Income tax (benefit) expense	$706	$1,991	$(2,076)	$24,273
Effective tax rate	(1.9)%	(7.0)%	1.8 %	(20.7)%

The Company recorded an income tax expense of $0.7 million for the three months ended June 30, 2018 on a pre-tax net loss of $36.6 million, which resulted in a negative effective tax rate of 1.9%. The Company's income tax expense for the three months ended June 30, 2018 was composed of $0.5 million of tax expense incurred on pre-tax income in profitable foreign jurisdictions, and $1.5 million of net non-deductible equity tax expense, partially offset by a $1.3 million net decrease in the valuation allowance. The Company recorded an income tax benefit of $2.1 million for the six months ended June 30, 2018 on a pre-tax net loss of $115.7 million, which resulted in an effective tax rate of 1.8%. The Company's income tax benefit for the six months ended June 30, 2018 was composed of $0.9 million of tax expenses incurred on pre-tax income in profitable foreign jurisdictions, one-time items that included $10.9 million of tax benefit primarily relating to the conclusion of the IRS audit and the release of uncertain tax positions, $4.4 million of tax benefit relating to restructuring expenses, $2.6 million of net non-deductible equity tax expense, and $0.3 million tax expense relating to other items, partially offset by $9.4 million net increase in the valuation allowance.

For the three months ended June 30, 2017, the Company recorded an income tax provision of $2.0 million on a pre-tax net loss of $28.5 million, which resulted in a negative effective tax rate of 7.0%. The Company recorded an income tax provision of $24.3 million for the six months ended June 30, 2017 on a pre-tax net loss of $117.4 million, which resulted in a negative effective tax rate of 20.7%. The Company's income tax provision for the three and six months ended June 30, 2017 were principally composed of tax expenses incurred on pre-tax income in profitable foreign jurisdictions. Due to certain tax structure changes effective January 1, 2018, including the planned liquidation of the Company's subsidiary, Woodman Labs Cayman, Inc., the Company's tax provision and resulting effective tax rate for interim periods in 2018 and future years is expected to be subject to less volatility and fluctuation quarter over quarter than in 2017. Further, for both 2018 and 2017, while the Company incurred pre-tax losses in the United States and certain lower-rate jurisdictions, the Company does not expect to recognize any tax benefits on pre-tax losses in the United States due to a full valuation allowance recorded against its U.S. deferred tax assets.

During the six months ended June 30, 2018, the Internal Revenue Service concluded its audit for the 2012 through 2015 tax years. The Closing Agreement was received on January 24, 2018 and the Company received an income tax refund of approximately $32.9 million, net of IRS adjustments, in February 2018. As a result, the Company recognized a reduction in gross unrecognized tax benefits of $26.0 million and an income tax benefit, net of valuation allowance, of approximately $2.6 million.

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At June 30, 2018 and December 31, 2017, the Company's gross unrecognized tax benefits were $33.7 million and $58.6 million, respectively. If recognized, $16.9 million of these unrecognized tax benefits (net of U.S. federal benefit) at June 30, 2018 would be recorded as a reduction of future income tax provision. These unrecognized tax benefits relate primarily to unresolved matters with taxing authorities regarding tax positions based on the Company's interpretation of certain U.S. trial and appellate court decisions, which remain subject to appeal and therefore could be overturned in future periods and tax positions on IP transfers. Although the completion, settlement and closure of any audits is uncertain, it is reasonably possible that the total amount of unrecognized tax benefits will not materially increase within the next 12 months. However, given the number of years remaining that are subject to examination, the range of the reasonably possible change cannot be estimated reliably.
U.S. Tax Reform. The Tax Cuts and Jobs Act (TCJA) of 2017, enacted on December 22, 2017, reduced the U.S. statutory tax rate from 35% to 21%, effective January 1, 2018. The TCJA also implemented a territorial tax system. Under the territorial tax system, in general, the Company's foreign earnings would no longer be subject to tax in the U.S. As part of transitioning to the territorial tax system, the TCJA includes a mandatory deemed repatriation of all undistributed foreign earnings that are subject to a U.S. income tax. The Company estimates that the deemed repatriation will not result in any additional U.S. income tax. This estimate may be impacted by a number of additional considerations, including, but not limited to, the issuance of final regulations and the Company's ongoing analysis of the new law.

While the TJCA provides for a territorial tax system, beginning in 2018, it includes two new U.S. tax base erosion provisions, the global intangible low-taxed income (GILTI) provisions and the base-erosion and anti-abuse tax (BEAT) provisions. The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. The BEAT provisions in the TCJA eliminate the deduction of certain base-erosion payments made to related foreign corporations and impose a minimum tax if greater than regular tax. The BEAT or GILTI provisions did not result in significant additional U.S. tax beginning in 2018.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) 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 TCJA. The Company has recognized the provisional tax impacts related to deemed repatriated earnings and the revaluation of deferred tax assets and liabilities to the extent needed and included these amounts in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the TCJA. The accounting is expected to be complete when the 2017 U.S. corporate income tax return is filed in 2018.

8. Related party transactions

The Company incurs costs for Company-related chartered aircraft fees for the use of the CEO's private plane. The Company recorded a $0.2 million expense in the three and six months ended June 30, 2018 and zero expense in the three and six months ended June 30, 2017. As of June 30, 2018 and December 31, 2017, the Company had $0.1 million and zero accounts payable associated with these aircraft fees, respectively.

9. Commitments, contingencies and guarantees

Facility Leases. The Company leases its facilities under long-term operating leases, which expire at various dates through 2027. As of June 30, 2018, the Company's total future minimum lease payments under non-cancelable operating leases were $116.3 million. There have been no material changes to the Company's lease commitments since December 31, 2017. Rent expense was $3.3 million and $4.8 million for the three months ended June 30, 2018 and 2017, respectively, and $6.7 million and $10.0 million for the six months ended June 30, 2018 and 2017, respectively.

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Other Commitments. In the ordinary course of business, the Company enters into multi-year agreements to purchase sponsorships with event organizers, resorts and athletes as part of its marketing efforts; software licenses related to its financial and IT systems; debt agreements; and various other contractual commitments. As of June 30, 2018, the Company's total undiscounted future expected obligations under multi-year agreements described above with terms longer than one year was $182.4 million. There have been no material changes to the Company's other commitments since December 31, 2017.

Legal proceedings. From time to time, the Company is involved in legal proceedings in the ordinary course of business, including the litigation matters described in Part II, Item 1 of this Quarterly Report on Form 10-Q. Due to inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of these matters. The Company is unable at this time to determine whether the outcome of the litigation would have a material impact on the results of operations, financial condition or cash flows of the Company.

Indemnifications. In the normal course of business, the Company enters into agreements that contain a variety of representations and warranties and provide for general indemnification. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. It is not possible to determine the maximum potential amount under these indemnification agreements due to the Company's limited history with indemnification claims and the unique facts and circumstances involved in each particular agreement. As of June 30, 2018, the Company has not paid any claims nor has it been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations.

10. Concentrations of risk and geographic information

Customer concentration. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables. The Company believes that credit risk for accounts receivable is mitigated by the Company's credit evaluation process, relatively short collection terms and dispersion of its customer base. The Company generally does not require collateral and losses on trade receivables have historically been within management's expectations.

Customers who represented 10% or more of the Company's net accounts receivable balance were as follows:

	June 30, 2018	December 31, 2017
Customer A	18%	16%
Customer B	20%	32%
Customer C	*	12%
Customer D	*	11%

The following table summarizes the Company's accounts receivables sold, without recourse, and factoring fees paid:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Accounts receivable sold	$33,858	$41,574	$52,454	$78,962
Factoring fees	434	368	655	680

Customers who represented 10% or more of the Company's total revenue were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Customer A	16%	17%	15%	16%
Customer B	*	12%	11%	*

* Less than 10% of total revenue for the period indicated

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Supplier concentration. The Company relies on third parties for the supply and manufacture of its products, some of which are sole-source suppliers. The Company believes that outsourcing manufacturing enables greater scale and flexibility. As demand and product lines change, the Company periodically evaluates the need and advisability of adding manufacturers to support its operations. In instances where a supply and manufacture agreement does not exist or suppliers fail to perform their obligations, the Company may be unable to find alternative suppliers or satisfactorily deliver its products to its customers on time, if at all. The Company also relies on third parties with whom it outsources supply chain activities related to inventory warehousing, order fulfillment, distribution and other direct sales logistics.

Geographic information

Revenue by geographic region, based on ship-to destinations, was as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Americas	$131,580	$157,027	$222,052	$252,734
Europe, Middle East and Africa (EMEA)	90,841	80,214	153,151	148,077
Asia and Pacific (APAC)	60,256	59,285	109,820	114,329
Total revenue	$282,677	$296,526	$485,023	$515,140

Revenue in the United States, which is included in the Americas geographic region, was $113.6 million and $140.6 million for the three months ended June 30, 2018 and 2017, respectively, and $192.5 million and $227.4 million for the six months ended June 30, 2018 and 2017, respectively. No other individual country exceeded 10% of total revenue for any period presented. The Company does not disclose revenue by product category as it does not track sales incentives and other revenue adjustments by product category to report such data.

As of June 30, 2018 and December 31, 2017, long-lived assets, which represent gross property and equipment, located outside the United States, primarily in Hong Kong and China, were $80.5 million and $79.7 million, respectively.

11. Restructuring charges

Restructuring charges for each period were as follows:

	Six months ended June 30,	
(in thousands)	2018	2017
Cost of revenue	$1,242	$418
Research and development	9,744	7,381
Sales and marketing	3,847	5,603
General and administrative	2,677	1,409
Total restructuring charges	$17,510	$14,811

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First quarter 2018 restructuring

On January 2, 2018, the Company approved a restructuring plan to further reduce future operating expense and better align resources around its long-term business strategy. The restructuring provided for a reduction of the Company's global workforce of approximately 18%, the closure of the Company's aerial group and the consolidation of certain leased office facilities. Under the first quarter 2018 restructuring plan, the Company recorded restructuring charges of $15.2 million, including $12.2 million related to severance and $3.0 million related to other charges.

The following table provides a summary of the Company's restructuring activities for the six months ended June 30, 2018 and the related liabilities recorded in accrued liabilities on the condensed consolidated balance sheet.

(in thousands)	Severance	Other	Total
Restructuring liability as of December 31, 2017	$ —	$—	$—
Restructuring charges	12,243	2,983	15,226
Cash paid	(11,470)	(835)	(12,305)
Non-cash reductions	(485)	(1,136)	(1,621)
Restructuring liability as of June 30, 2018	$ 288	$1,012	$1,300

First quarter 2017 restructuring

On March 15, 2017, the Company approved a restructuring plan to reduce future operating expenses and further align resources around its long-term business strategy. The restructuring provided for a reduction of the Company's global workforce by approximately 270 positions, and the consolidation of certain leased office facilities. Under the first quarter 2017 restructuring plan, the Company recorded restructuring charges of $19.1 million, including $10.3 million related to severance, and $8.8 million related to accelerated depreciation and other charges. The actions associated with the first quarter 2017 restructuring plan were substantially completed by the fourth quarter of 2017. While the Company anticipates that any additional charges related to this restructuring will be immaterial, actual results may differ from current estimates as it relates to the consolidation of certain leased office facilities.

The following table provides a summary of the Company's restructuring activities for the six months ended June 30, 2018 and the related liabilities recorded in accrued liabilities on the condensed consolidated balance sheet.

(in thousands)	Severance	Other	Total
Restructuring liability as of December 31, 2017	$ —	$3,550	$3,550
Restructuring charges	—	2,139	2,139
Cash paid	—	(1,638)	(1,638)
Non-cash charges	—	324	324
Restructuring liability as of June 30, 2018	$ —	$4,375	$4,375

Fourth quarter 2016 restructuring

On November 29, 2016, the Company approved a restructuring plan to reduce future operating expenses. The restructuring provided for a reduction of the Company's global workforce of approximately 15%, the closure of the Company's entertainment group to concentrate on its core business and the consolidation of certain leased office facilities. Under the fourth quarter 2016 restructuring plan, the Company recorded restructuring charges of $39.9 million, including $36.7 million related to severance, and $3.2 million related to accelerated depreciation and other charges. The actions associated with the fourth quarter 2016 restructuring plan were completed by March 31, 2017, with only small incremental charges recorded through June 30, 2018.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

The following table provides a summary of the Company's restructuring activities for the six months ended June 30, 2018 and the related liabilities recorded in accrued liabilities on the condensed consolidated balance sheet.

(in thousands)	Severance	Other	Total
Restructuring liability as of December 31, 2017	$ 400	$ 50	$ 450
Restructuring charges	147	—	147
Cash paid	(244)	—	(244)
Restructuring liability as of June 30, 2018	$ 303	$ 50	$ 353

First quarter 2016 restructuring

On January 12, 2016, the Company approved a restructuring plan that provided for a reduction in the Company's global workforce of approximately 7%. Under the first quarter 2016 restructuring plan, the Company recorded restructuring charges of $6.5 million in the first quarter of 2016, which primarily included cash-based severance costs. The Company completed this plan at the end of the first quarter of 2016 and all costs have been paid. No charges were recorded in periods after March 31, 2016.

GoPro, Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)
Our MD&A is provided in addition to the accompanying condensed consolidated financial statements and accompanying notes to assist readers in understanding our results of operations, financial condition and cash flows. This MD&A is organized as follows:

- Overview. Discussion of our business and overall analysis of financial and other highlights affecting the Company in order to provide context for the remainder of MD&A.
- Results of Operations. Analysis of our financial results comparing the second quarter and first six months of 2018 to 2017.
- Liquidity and Capital Resources. Analysis of changes in our balance sheets and cash flows, and discussion of our financial condition and potential sources of liquidity.
- Contractual Commitments. Overview of our contractual obligations, including expected payment schedule and indemnifications as of June 30, 2018.
- Critical Accounting Policies and Estimates. Accounting estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.
- Non-GAAP Financial Measures. A presentation of our results reconciling GAAP to non-GAAP adjusted measures.

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017 and the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q of GoPro, Inc. and its subsidiaries (GoPro or we or the Company). Our MD&A contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects, product and marketing plans, or future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward-looking. To identify forward-looking statements, we may use such words as "expect," "anticipate," "believe," "may," "will," "estimate," "continue," "intend," "target," "goal," "plan," or variations of such words ar expressions. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. If any of management's assumptions prove incorrect or should unanticipated circumstances arise, the Company's actual results could materially differ from those anticipated by such forward-looking statements. The differences could be caused by a number of factors or combination of factors including, but not limited to, those factors identified and detailed in Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2018. Forward-looking statements include new product offering plans and key hardware and software features, research and development plans, marketing plans, plans for international expansion and revenue growth drivers, plans to reduce operating expense and drive profitability, plans to settle note conversion in cash and projections of results of operations, and any discussion of the trends and other factors that drive our business and future results in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, and other sections of this Quarterly Report on Form 10-Q including but not limited to Item 1A Risk Factors. Readers are strongly encouraged to consider the foregoing including those factors when evaluating any forward-looking statements concerning the Company. The Company does not undertake any obligation to update any forward-looking statements in this Quarterly Report on Form 10-Q to reflect future events or developments.

Overview

GoPro is enabling the way people capture and share their lives from a perspective only achieved with a GoPro. What began as an idea to help athletes document themselves engaged in sport, GoPro has become a mobile storytelling solution that helps the world share itself through immersive content.

Helping people capture, share experiences and manage content is at the core of our business. We are committed to developing solutions that create an easy, seamless experience for consumers to capture, create, enjoy and store engaging personal content. When consumers use our products and services, those products and services

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enable compelling, authentic content that organically increases awareness for GoPro, driving a virtuous cycle and a self-reinforcing demand for our products. We believe revenue growth may be driven by the introduction of new cameras, offerings, accessories and software applications. We believe new camera features and related services drive a replacement cycle and attract new users. Our investments in mobile editing and sharing solutions, auto-upload capabilities, local language user-interfaces and voice recognition in multiple languages drive the expansion of our total addressable market.

In the first quarter of 2018, we began shipping our newest cloud connected entry-level camera, HERO, which features image stabilization, cloud connectivity, voice control and a touch display. We also launched an updated GoPro PLUS subscription service in the United States which includes our “You Break It, We Replace It” camera replacement program. Our flagship HERO6 Black camera, powered by GoPro’s custom designed GP1 processor, is the most powerful and performance featured GoPro camera to date. We offer many professional-grade features with our current good-better-best camera offering with HERO, HERO5 Black and HERO6 Black. Our cameras are compatible with our ecosystem of mountable and wearable accessories, and feature automatic uploading capabilities for photos and videos to GoPro Plus, our premium cloud-based solution that enables subscribers to easily access, edit, store and share their content. All of our cameras are also compatible with GoPro QuikStories, our mobile experience that seamlessly uploads a user’s GoPro photos and video clips to his or her smartphone and transforms them into a ready-to-share video. GoPro QuikStories makes it simple to automatically create shareable video edits complete with music, effects and transitions.

Our product offerings also include our waterproof 360-degree spherical camera, Fusion, and our drone and stabilization solution, Karma.

The following is a summary of measures presented in our condensed consolidated financial statements and key metrics used to evaluate our business, measure our performance, develop financial forecasts and make strategic decisions.

(units and dollars in thousands, except per share amounts)	Q2 2018	Q1 2018	Q2 2017	% Change Q2 2018 vs. Q1 2018	Q2 2018 vs. Q2 2017
Revenue	$282,677	$202,346	$296,526	40 %	(5)%
Camera units shipped [1]	1,071	758	1,061	41 %	1 %
Gross margin [2]	29.5 %	22.2 %	35.6 %	730 bps	(610) bps
Operating expenses	$114,205	$119,655	$130,615	(5)%	(13)%
Net loss	$(37,269)	$(76,347)	$(30,536)	(51)%	22 %
Diluted net loss per share	$(0.27)	$(0.55)	$(0.22)	(51)%	23 %
Cash used in operations	$(1,048)	$(97,112)	$(11,428)	(99)%	(91)%
Other financial information:					
Adjusted EBITDA [3]	$(8,697)	$(34,537)	$5,120	(75)%	(270)%
Non-GAAP net loss [4]	$(20,843)	$(47,364)	$(12,914)	(56)%	61 %
Non-GAAP loss per share	$(0.15)	$(0.34)	$(0.09)	(56)%	67 %

[1] Represents the number of camera units that are shipped during a reporting period, including camera units that are shipped with drones, net of any returns. Camera units shipped does not include drones sold without a camera, mounts or accessories.

[2] One basis point (bps) is equal to 1/100th of 1%.

[3] We define adjusted EBITDA as net loss adjusted to exclude the impact of: provision for income taxes, interest income, interest expense, depreciation and amortization, POP display amortization, stock-based compensation, impairment charges and restructuring costs.

(4) We define non-GAAP net loss as net loss adjusted to exclude stock-based compensation, acquisition-related costs, restructuring costs, non-cash interest expense and income tax adjustments. Acquisition-related costs include amortization and impairment write-downs of acquired intangible assets (if applicable) as well as third-party transaction costs for legal and other professional services.

Reconciliations of non-GAAP adjusted measures to the most directly comparable GAAP measures are presented under Non-GAAP Financial Measures below.

GoPro, Inc.
Management’s Discussion and Analysis of Financial Condition and Results of Operations

Second quarter 2018 financial performance
Revenue for the second quarter of 2018 was $282.7 million, a 5% decrease year-over-year from $296.5 million in the same period of 2017 primarily attributable to a decrease in drone and accessories revenue. Camera units shipped in the second quarter of 2018 of 1.07 million units was slightly up compared to 1.06 million units in the same period of 2017. Gross margin in the second quarter of 2018 was 29.5%, down from 35.6% a year ago, primarily attributable to an increase in sales of low margin cameras at $299 and below price points as compared to 2017. Our second quarter operating expenses of $114.2 million decreased 13% year-over-year, despite the doubling of our advertising expenses to $21.7 million, resulting from our continued focus on cost management and the financial benefits recognized from our restructuring actions.
Net loss in the second quarter of 2018 was $37.3 million, or $0.27 per share, an increase of $6.7 million, or 22.0%, when compared to 2017. For the second quarter of 2018, non-GAAP net loss was $20.8 million, or $0.15 per share, and adjusted EBITDA decreased to negative $8.7 million. Non-GAAP net loss excludes, where applicable, the effects of stock-based compensation, acquisition-related costs, restructuring costs, non-cash interest expense and the tax impact of these items. See Results of Operations and Non-GAAP Financial Measures below for additional information.
Factors affecting performance
We believe that our future success will be dependent on many factors, including those further discussed below. While these areas represent opportunities for us, they also represent challenges and risks that we must successfully address in order to continue the growth of our business and improve our results of operations.
Driving profitability through improved efficiency, lower costs and better execution. We incurred material operating losses in 2016, 2017 and in the first half of 2018. Our restructuring actions have significantly reduced our operating expenses in 2017 and the first half of 2018 resulting in a flatter, more efficient global organization that has allowed for improved communication and alignment among our functional teams. If we are unable to generate adequate revenue growth, and continue to manage our expenses, we may incur significant losses in the future and may not be able to achieve profitability. Refer to our Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.
Investing in research and development and enhancing our customer experience. Our performance is significantly dependent on the investments we make in research and development, including our ability to attract and retain highly skilled and experienced research and development personnel. We expect the timing of new product releases to continue to have a significant impact on our revenue and we must continually develop and introduce innovative new cameras, mobile applications and other new products and services. We plan to further build upon our integrated mobile and cloud-based storytelling solutions and subscription offerings in future periods. Our investments, including marketing and advertising expenses, may not successfully drive increased revenue and our users may not adopt our new offerings. If we fail to innovate and enhance our brand, our products, our integrated storytelling solution and the value proposition of our subscriptions, our market position and revenue will be adversely affected. Further, we have incurred substantial research and development expenses and if our efforts are not successful, we may not recover the value of these investments.
Growing our total addressable market globally. We continue to believe that international markets represent a significant growth opportunity for GoPro. Revenue from outside the United States comprised 60% of total revenue in the first half of 2018. While the total market for digital cameras has declined in recent periods, as smartphone and tablet camera quality has improved, we continue to believe our consumers’ differentiated use of GoPro cameras, our integrated storytelling solution and our brand helps insulate our business from many of the negative trends facing this category. However, we expect that the markets in which we conduct our business will remain highly competitive. We plan to increase our presence internationally through the active promotion of our brand, the creation and cultivation of regional strategic and marketing partnerships, the continued introduction of localized products in international markets with region specific marketing, and an investment focus on the biggest opportunities in both Europe and the Asia Pacific region.

Our growth also depends on expanding our total addressable market with our updated subscription service, Plus, as well as other services and capture solutions, including spherical, which are all resource intensive initiatives in

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highly competitive markets. If we are not successful in penetrating additional markets, we might not be able to grow revenue and we may not recognize benefits from our investment in new areas.

Marketing the improved GoPro experience to our extended community. We intend to continue investing resources in our marketing, advertising and brand management efforts. Historically, our growth has largely been fueled by the adoption of our products by people looking to self-capture images of themselves participating in exciting physical activities. Our future growth depends on continuing to reach, expand and re-engage with this core demographic and grow it. In addition, we need to expand our user base to include a broader group of consumers. We believe that consumers in many markets are not familiar with our brand and products and believe there is an opportunity for GoPro to expand awareness through a range of advertising and promotional programs and campaigns, including social media. Sales and marketing investments will often occur in advance of any sales benefits from these activities, and it may be difficult for us to determine if we are efficiently allocating our resources in this area.

Seasonality. Historically, we have experienced the highest levels of revenue in the fourth quarter of the year, coinciding with the holiday shopping season, particularly in the United States and Europe. While we have implemented operational changes aimed at reducing the impact of fourth quarter seasonality on full year performance, timely and effective product introductions and forecasting, whether just prior to the holiday season or otherwise, are critical to our operations and financial performance.

Results of Operations

The following table sets forth the components of our condensed consolidated statements of operations for each of the periods presented, and each component as a percentage of revenue:

	Three months ended June 30,				Six months ended June 30,			
(dollars in thousands)	2018		2017		2018		2017	
Revenue	$282,677	100 %	$296,526	100 %	$485,023	100 %	$515,140	100 %
Cost of revenue	199,308	71	190,894	64	356,738	74	340,942	66
Gross profit	83,369	29	105,632	36	128,285	26	174,198	34
Operating expenses:								
Research and development	38,225	14	55,497	19	89,204	18	121,663	24
Sales and marketing	60,256	21	56,678	19	109,426	23	124,534	24
General and administrative	15,724	5	18,440	6	35,230	7	41,199	8
Total operating expenses	114,205	40	130,615	44	233,860	48	287,396	56
Operating loss	(30,836)	(11)	(24,983)	(8)	(105,575)	(22)	(113,198)	(22)
Other income (expense):								
Interest expense	(4,621)	(2)	(3,784)	(1)	(9,188)	(2)	(4,598)	(1)
Other income, net	(1,106)	—	222	—	(929)	—	383	—
Total other expense, net	(5,727)	(2)	(3,562)	(1)	(10,117)	(2)	(4,215)	(1)
Loss before income taxes	(36,563)	(13)	(28,545)	(9)	(115,692)	(24)	(117,413)	(23)
Income tax (benefit) expense	706	—	1,991	1	(2,076)	—	24,273	5
Net loss	$(37,269)	(13)%	$(30,536)	(10)%	$(113,616)	(24)%	$(141,686)	(28)%

GoPro, Inc.
Management’s Discussion and Analysis of Financial Condition and Results of Operations

Revenue

	Three months ended June 30,			Six months ended June 30,		
(camera units and dollars in thousands)	2018	2017	% Change	2018	2017	% Change
Camera units shipped	1,071	1,061	1 %	1,829	1,799	2 %
Direct channel	$145,323	$169,672	(14)%	$245,026	$284,437	(14)%
Percentage of revenue	51 %	57 %		51 %	55 %	
Distribution channel	$137,354	$126,854	8 %	$239,997	$230,703	4 %
Percentage of revenue	49 %	43 %		49 %	45 %	
Total revenue	$282,677	$296,526	(5)%	$485,023	$515,140	(6)%
Americas	$131,580	$157,027	(16)%	$222,052	$252,734	(12)%
Percentage of revenue	47 %	53 %		46 %	49 %	
Europe, Middle East and Africa (EMEA)	$90,841	$80,214	13 %	$153,151	$148,077	3 %
Percentage of revenue	32 %	27 %		31 %	29 %	
Asia and Pacific (APAC)	$60,256	$59,285	2 %	$109,820	$114,329	(4)%
Percentage of revenue	21 %	20 %		23 %	22 %	
Total revenue	$282,677	$296,526	(5)%	$485,023	$515,140	(6)%

Our camera units shipped during the second quarter of 2018 was slightly up at 1.07 million units compared to 1.06 million units in the same period in 2017. However, the year-over-year decrease in revenue for the second quarter of 2018 was primarily attributable to lower drone and accessories revenue and the result of a higher product sales mix of lower price point cameras, compared to the same period in 2017. Drone shipments, which have a higher average selling price compared to our standalone camera offerings, have decreased as we have continued to sell through our remaining Karma drone inventory following the announcement of our exit of the aerial business in the first quarter of 2018. Our average selling price decreased 6% year-over-year primarily due to the decrease in Karma drone shipments and a shift in camera mix to lower priced cameras.

The year-over-year decrease in revenue for the first half of 2018 was primarily attributable to lower accessories and drone revenue, and higher sales incentives when compared to the same period in 2017.

Cost of revenue and gross margin

	Three months ended June 30,			Six months ended June 30,		
(dollars in thousands)	2018	2017	% Change	2018	2017	% Change
Cost of revenue	$195,481	$189,259	3 %	$348,635	$337,184	3 %
Stock-based compensation	490	415	18 %	872	910	(4)%
Acquisition-related costs	3,334	1,195	179 %	5,989	2,430	146 %
Restructuring costs	3	25	(88)%	1,242	418	197 %
Total cost of revenue	$199,308	$190,894	4 %	$356,738	$340,942	5 %
Gross margin	29.5 %	35.6 %		26.4 %	33.8 %	

Gross margin of 29.5% in the second quarter of 2018 decreased from 35.6% in 2017, or (610) bps, reflecting an increase in camera units shipped with price points lower than $399, which carry lower margins, (480) bps, and an increase in operational expenses, (70) bps.

Gross margin of 26.4% in the first half of 2018 decreased from 33.8% in the first half of 2017, or (740) bps, reflecting our product sales mix, which included a higher proportion of lower priced, lower margin cameras when

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compared to 2017, (480) bps, an increase in operational expenses, (230) bps, partially offset by the sale of previously written off cameras in the first half of 2017, 110 bps.

Research and development

(dollars in thousands)	Three months ended June 30, 2018	2017	% Change	Six months ended June 30, 2018	2017	% Change
Research and development	$33,120	$47,459	(30)%	$69,495	$101,128	(31)%
Stock-based compensation	4,960	5,390	(8)%	9,965	11,072	(10)%
Acquisition-related costs	—	946	(100)%	—	2,082	(100)%
Restructuring costs	145	1,702	(91)%	9,744	7,381	32 %
Total research and development	$38,225	$55,497	(31)%	$89,204	$121,663	(27)%
Percentage of revenue	13.5 %	18.7 %		18.4 %	23.6 %	

Year-over-year total research and development expense decreased $17.3 million, or 31%, and $32.5 million, or 27%, in the second quarter and first half of 2018, respectively, compared to the same periods in 2017. The fluctuations in the second quarter and first half of 2018 reflect an $8.1 million and $20.1 million decrease, respectively, in cash-based personnel-related costs due to a reduction in global research and development headcount, a $4.1 million and $7.5 million decrease, respectively, in depreciation and other supporting overhead expenses and a $1.8 million and $3.5 million decrease, respectively, in consulting and professional services costs.

Research and development headcount has decreased 32% from June 30, 2017, principally as a result of our restructuring actions. See Restructuring costs below for additional information regarding restructuring charges recorded in 2018 and 2017.

Sales and marketing

(dollars in thousands)	Three months ended June 30, 2018	2017	% Change	Six months ended June 30, 2018	2017	% Change
Sales and marketing	$57,714	$54,322	6 %	$100,519	$114,245	(12)%
Stock-based compensation	2,313	1,995	16 %	5,060	4,686	8 %
Restructuring costs	229	361	(37)%	3,847	5,603	(31)%
Total sales and marketing	$60,256	$56,678	6 %	$109,426	$124,534	(12)%
Percentage of revenue	21.3 %	19.1 %		22.6 %	24.2 %	

The year-over-year increase of $3.6 million, or 6%, in total sales and marketing expenses in the second quarter of 2018 compared to 2017 reflected an $11.2 million increase in advertising to $21.7 million, partially offset by a $4.4 million decrease in other marketing activities, $2.2 million decrease in cash-based personnel-related costs due to a reduction in global sales and marketing headcount, a $0.6 million decrease in consulting and professional services costs and a $0.2 million decrease in depreciation and other supporting overhead expenses.

The year-over-year decrease of $15.1 million, or 12%, in total sales and marketing expenses in the first half of 2018 compared to 2017 reflected a $10.5 million decrease in marketing activities, $6.6 million decrease in cash-based personnel-related costs due to a reduction in global sales and marketing headcount, a $3.1 million decrease in consulting and outside professional service costs and a $1.3 million decrease in travel and entertainment, partially offset by an $8.2 million increase in advertising expenses, of which, primarily occurred in the second quarter of 2018.

Sales and marketing headcount has decreased 15% from June 30, 2017 principally as a result of our restructuring activities. See Restructuring costs below for additional information regarding restructuring charges recorded in 2018 and 2017.

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General and administrative

(dollars in thousands)	Three months ended June 30, 2018	2017	% Change	Six months ended June 30, 2018	2017	% Change
General and administrative	$13,081	$14,736	(11)%	$27,613	$32,120	(14)%
Stock-based compensation	2,248	3,435	(35)%	4,937	7,692	(36)%
Acquisition-related costs	—	1	(100)%	3	(22)	(114)%
Restructuring costs	395	268	47 %	2,677	1,409	90 %
Total general and administrative	$15,724	$18,440	(15)%	$35,230	$41,199	(14)%
Percentage of revenue	5.6 %	6.2 %		7.3 %	8.0 %	

The year-over-year decrease of $2.7 million, or 15%, in total general and administrative expenses in the second quarter of 2018 compared to 2017 reflected a $1.7 million decrease in cash-based personnel-related costs due to a global general and administrative headcount reduction and a $1.2 million decrease in stock-based compensation, partially offset by a $0.7 million increase in administrative charges.

The year-over-year decrease of $6.0 million, or 14%, in total general and administrative expenses in the first half of 2018 compared to 2017 reflected a $3.5 million decrease in cash-based personnel-related costs due to a reduction in global general and administrative headcount, a $2.8 million decrease in stock-based compensation and a $1.0 million decrease in consulting and professional services costs, partially offset by a $0.2 million increase in administrative charges.

General and administrative headcount has decreased 18% from June 30, 2017, principally as a result of our restructuring actions. See Restructuring costs below for additional information regarding restructuring charges recorded in 2018 and 2017.

Restructuring costs

First quarter 2018 restructuring plan. On January 2, 2018, we approved a restructuring plan to further reduce future operating expenses and better align resources around our long-term business strategy. The restructuring provided for a reduction of our global workforce of approximately 18%, the closure of our aerial group and the consolidation of additional office facilities. Under the first quarter 2018 restructuring plan, we recorded restructuring charges of $15.2 million, including $12.2 million related to severance and $3.0 million related to accelerated depreciation and other charges.

First quarter 2017 restructuring plan. On March 15, 2017, we approved a restructuring plan that provided for a reduction of our global workforce by approximately 270 positions, and the consolidation of certain leased office facilities. Under the first quarter 2017 restructuring plan, we recorded restructuring charges of $19.1 million, including $10.3 million related to severance, and $8.8 million related to accelerated depreciation and other charges. The actions associated with the first quarter 2017 restructuring plan were completed by the fourth quarter of 2017. While we anticipate that any additional charges related to this restructuring will be immaterial, actual results may differ from current estimates as it relates to the consolidation of certain leased office facilities.

Fourth quarter 2016 restructuring plan. On November 29, 2016, we approved a restructuring plan that provided for a reduction in our global workforce of approximately 15%, the closure of our entertainment group and the consolidation of certain leased office facilities. Under the fourth quarter 2016 restructuring plan, we recorded restructuring charges of $39.9 million, including $36.7 million related to severance, and $3.2 million related to accelerated depreciation and other charges. The actions associated with the fourth quarter 2016 restructuring plan were completed by March 31, 2017, with only small incremental charges recorded through June 30, 2018.

First quarter 2016 restructuring plan. On January 12, 2016, we approved a restructuring plan that provided for a reduction in our global workforce of approximately 7%. Under the first quarter 2016 restructuring plan, we recorded restructuring charges of $6.5 million in the first quarter of 2016, which primarily included cash-based severance costs. We completed this plan at the end of the first quarter of 2016 and all costs have been paid. No charges were recorded in periods after March 31, 2016.

See Note 11 Restructuring charges, to the Notes to Condensed Consolidated Financial Statements above.

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Other income (expense)

	Three months ended June 30,			Six months ended June 30,		
(dollars in thousands)	2018	2017	% Change	2018	2017	% Change
Interest expense	$(4,621)	$(3,784)	22 %	$(9,188)	$(4,598)	100 %
Other income, net	(1,106)	222	(598)%	(929)	383	(343)%
Total other expense, net	$(5,727)	$(3,562)	61 %	$(10,117)	$(4,215)	140 %

Total other expense, net increased $2.2 million and $5.9 million in the second quarter and first half of 2018, respectively, compared to the same periods in 2017. The increase compared to 2017 was primarily attributable to interest expense related to our Convertible Notes, as well as foreign exchange rate-based transaction gains and losses.

Income taxes

	Three months ended June 30,			Six months ended June 30,		
(dollars in thousands)	2018	2017	% Change	2018	2017	% Change
Income tax (benefit) expense	$706	$1,991	(65)%	$(2,076)	$24,273	(109)%
Effective tax rate	(1.9)%	(7.0)%		1.8 %	(20.7)%	

We recorded an income tax expense of $0.7 million for the three months ended June 30, 2018 on a pre-tax net loss of $36.6 million, which resulted in a negative effective tax rate of 1.9%. Our income tax expense for the three months ended June 30, 2018 was composed of $0.5 million of tax expense incurred on pre-tax income in profitable foreign jurisdictions, and $1.5 million of net non-deductible equity tax expense, partially offset by $1.3 million net decrease in the valuation allowance. We recorded an income tax benefit of $2.1 million for the six months ended June 30, 2018 on a pre-tax net loss of $115.7 million, which resulted in an effective tax rate of 1.8%. Our income tax benefit for the six months ended June 30, 2018 was composed of $0.9 million of tax expenses incurred on pre-tax income in profitable foreign jurisdictions, one-time items that included $10.9 million of tax benefit primarily relating to the conclusion of the IRS audit and the release of uncertain tax positions, $4.4 million of tax benefit relating to restructuring expenses, $2.6 million of net non-deductible equity tax expense, and $0.3 million tax expense relating to other items, partially offset by $9.4 million net increase in the valuation allowance.

For the three months ended June 30, 2017, we recorded an income tax provision of $2.0 million on a pre-tax net loss of $28.5 million, which resulted in a negative effective tax rate of 7.0%. We recorded an income tax provision of $24.3 million for the six months ended June 30, 2017 on a pre-tax net loss of $117.4 million, which resulted in a negative effective tax rate of 20.7%. Our income tax provision for the three and six months ended June 30, 2017 were principally composed of tax expenses incurred on pre-tax income in profitable foreign jurisdictions. Due to certain tax structure changes effective January 1, 2018, including the planned liquidation of the Company's subsidiary, Woodman Labs Cayman, Inc., our tax provision and resulting effective tax rate for interim periods in 2018 and future years is expected to be subject to less volatility and fluctuation quarter over quarter than in 2017. Further, for both 2018 and 2017, while we incurred pre-tax losses in the United States and certain lower-rate jurisdictions, we do not expect to recognize any tax benefits on pre-tax losses in the United States due to a full valuation allowance recorded against our U.S. deferred tax assets (see Note 7 Income taxes, to the Notes to Condensed Consolidated Financial Statements above).

During the six months ended June 30, 2018, the Internal Revenue Service concluded its audit for the 2012 through 2015 tax years. The Closing Agreement was received on January 24, 2018 and we received an income tax refund of approximately $32.9 million, net of IRS adjustments, in February 2018. As a result, we recognized a reduction in gross unrecognized tax benefits of $26.0 million and an income tax benefit, net of valuation allowance, of approximately $2.6 million.

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Future changes in our forecast annual income (loss) projections, tax rate changes, or discrete tax items could result in significant adjustments to quarterly income tax expense (benefit) in future periods.

Liquidity and Capital Resources
The following table presents selected financial information as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	June 30, 2018	December 31, 2017
Cash and cash equivalents	$114,843	$202,504
Marketable securities	24,951	44,886
Total cash, cash equivalents and marketable securities	$139,794	$247,390
Percentage of total assets	22 %	29 %

Our primary source of cash is receipts from sales. Other sources of cash were from proceeds from employee participation in the employee stock purchase plan and the exercise of employee stock options. The primary uses of cash are for inventory procurement, payroll-related expenses, general operating expenses, including advertising, marketing and office rent, purchases of property and equipment, and other costs of revenue.
As of June 30, 2018, our cash, cash equivalents and marketable securities of $139.8 million were down $107.6 million, or 43.5%, compared to December 31, 2017. The decrease was primarily due to payments on accounts payable and price protection charges related to price reductions in the fourth quarter of 2017 and first quarter of 2018. The net cash used in operations of $98.2 million as of June 30, 2018 was primarily due to the impact of price reductions in the first quarter of 2018. As of June 30, 2018, $42.1 million of cash was held by our foreign subsidiaries.
Convertible Notes
In April 2017, we issued $175.0 million aggregate principal amount of 3.50% Convertible Senior Notes in a private placement to purchasers for resale to qualified institutional buyers. The Notes mature on April 15, 2022, unless earlier repurchased or converted into shares of Class A common stock subject to certain conditions. The Notes are convertible into cash, shares of the Class A common stock, or a combination thereof, at our election, at an initial conversion rate of 94.0071 shares of common stock per $1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately $10.64 per share of common stock, subject to adjustment. We pay interest on the Notes semi-annually in arrears on April 15 and October 15 of each year. Proceeds received from the issuance of the Notes were allocated between a liability component (long-term debt) and an equity component (additional paid-in capital). The fair value of the liability component was measured using rates determined for similar debt instruments without a conversion feature.
In connection with the Notes offering, we entered into a prepaid forward stock repurchase transaction agreement (Prepaid Forward) with a financial institution. Pursuant to the Prepaid Forward, we used approximately $78.0 million of the proceeds from the offering of the Notes to pay the prepayment amount. The aggregate number of shares of our Class A common stock underlying the Prepaid Forward is approximately 9.2 million shares. The expiration date for the Prepaid Forward is April 15, 2022, although it may be settled earlier in whole or in part. Upon settlement of the Prepaid Forward, at expiration or upon any early settlement, the forward counterparty will deliver to us the number of shares of Class A common stock underlying the Prepaid Forward or the portion thereof being settled early. The shares purchased under the Prepaid Forward were treated as treasury stock on the condensed consolidated balance sheet (and not outstanding for purposes of the calculation of basic and diluted earnings per share), but remain outstanding for corporate law purposes, including for purposes of any future stockholders’ votes, until the forward counterparty delivers the shares underlying the Prepaid Forward to us. The net proceeds from the Convertible Senior Notes offering of approximately $91 million were used for general corporate purposes.

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Liquidity

We believe, based on our most current projections, that our cash, cash equivalents and marketable securities, and amounts available under our credit facility, will be sufficient to address our working capital needs, capital expenditures, outstanding commitments and other liquidity requirements for at least the next 12 months.

- We expect that operating expenses and inventory purchases will constitute a material use of our cash balances. We intend to continue to manage our operating activities in line with our existing cash and available financial resources. We continue to believe that the restructuring actions and other cost saving initiatives we have taken will enable us to continue to significantly reduce our operating expenses to below $400 million on a non-GAAP basis for the full year 2018.
- We expect to spend significantly less on capital expenditures in 2018 compared to 2017. Our actual future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of spending on research and development efforts and other business initiatives, the timing of new product introductions, market acceptance of our products and overall economic conditions, as set forth in our Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.
- In March 2016, we entered into a credit agreement with a syndicate of banks that provided for a secured revolving credit facility under which we could borrow up to an aggregate of $250.0 million. Our credit facility terminates in March 2021. No borrowings have been made from the credit facility to date. (See Note 4 Financing Arrangements, in the Notes to Condensed Consolidated Financial Statements for additional information.)
- We have completed acquisitions in the past and we may evaluate additional possible acquisitions of, or strategic investments in, businesses, products and technologies that are complementary to our business, which may require the use of cash.

In the future, we may require additional funding to respond to business opportunities, challenges or unforeseen circumstances. If we are unable to obtain adequate financing under our credit facility, or other sources, when we require it, our ability to grow or support our business and to respond to business challenges could be significantly limited. In the event additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all.

Summary of Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Six months ended June 30,		
(in thousands)	2018	2017	% Change
Net cash provided by (used in):			
Operating activities	$(98,160)	$(149,366)	(34)%
Investing activities	$13,226	$15,671	(16)%
Financing activities	$(2,777)	$90,094	(103)%

Cash flows from operating activities

Cash used in operating activities of $98.2 million was primarily attributable to an adjusted net loss of $68.7 million (net loss adjusted for non-cash expenses of $44.9 million) and a net cash outflow of $29.5 million from changes in operating asset and liabilities. Cash outflow related to operating assets and liabilities consisted of decreases in accounts payable and other liabilities of $111.0 million due to payments of 2017 year-end liabilities, offset by a $64.5 million decrease in inventory and a $23.5 million decrease in prepaid expenses and other assets.

Cash flows from investing activities

Our primary investing activities consist of purchases, maturities and sales of marketable securities, and purchases of property and equipment. Cash provided by investing activities was $13.2 million in the first half of

2018 resulting from the maturities of marketable securities of $35.0 million, partially offset by the purchases of marketable securities of $14.9 million, and $6.9 million for net purchases of property and equipment.

Cash flows from financing activities

Our primary financing activities consisted of the issuance of equity securities under our common stock plans. Cash used in financing activities was $2.8 million in the first half of 2018 resulting from $3.8 million in tax payments for net RSU settlements and $2.5 million for deferred acquisition-related payments, partially offset by $3.4 million received from stock purchases made through our ESPP and employee stock option exercises.

Contractual Commitments

Contractual obligations. See Note 4 Financing Arrangements, for discussion regarding our Convertible Senior Notes and Note 9 Commitments, contingencies and guarantees, for discussion regarding facility leases and other contractual commitments in the Notes to the Condensed Consolidated Financial Statements.

Off-balance sheet arrangements. During the periods presented, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Indemnifications. We have entered into indemnification agreements with our directors and executives which require us to indemnify our directors and executives against liabilities that may arise by reason of their status or service. In addition, in the normal course of business, we enter into agreements that contain a variety of representations and warranties and provide for general indemnification. It is not possible to determine the maximum potential amount under these indemnification agreements due to our limited history with prior indemnification claims and the unique facts and circumstances involved in each particular agreement. To date, the payments we have made under these agreements have not had a material effect on our operating results, financial position or cash flows. However, we may record charges in the future as a result of these indemnification agreements.

Critical Accounting Policies and Estimates

Except for the accounting policies related to revenue recognition and intra-entity asset transfers that were updated as a result of adopting Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers and ASU 2016-16, Income Taxes — Intra-Entity Transfers of Assets Other Than Inventory, there have been no material changes to our critical accounting policies and estimates from those disclosed in our 2017 Annual Report.

Non-GAAP Financial Measures

We report net income (loss) and diluted net income (loss) per share in accordance with U.S. generally accepted accounting principles (GAAP) and on a non-GAAP basis. Additionally, we report non-GAAP adjusted EBITDA. We use non-GAAP financial measures to help us understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short-term and long-term operational plans. Our management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing our operating results. These non-GAAP financial measures should not be considered in isolation from, or as an alternative to, the measures prepared in accordance with GAAP, and are not based on any comprehensive set of accounting rules or principles. We believe that these non-GAAP measures, when read in conjunction with our GAAP financials, provide useful information to investors by facilitating:

- the comparability of our on-going operating results over the periods presented;
- the ability to identify trends in our underlying business; and
- the comparison of our operating results against analyst financial models and operating results of other public companies that supplement their GAAP results with non-GAAP financial measures.

These non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. Some of these limitations are:

- adjusted EBITDA does not reflect tax payments that reduce cash available to us;
- adjusted EBITDA excludes depreciation and amortization and, although these are non-cash charges, the property and equipment being depreciated and amortized often will have to be replaced in the future, and adjusted EBITDA does not reflect any cash capital expenditure requirements for such replacements;
- adjusted EBITDA excludes the amortization of POP display assets because it is a non-cash charge, and is treated similarly to depreciation of property and equipment and amortization of acquired intangible assets;
- adjusted EBITDA and non-GAAP net income (loss) exclude the impairment of intangible assets because it is a non-cash charge that is inconsistent in amount and frequency;
- adjusted EBITDA and non-GAAP net income (loss) exclude restructuring costs which primarily include severance-related costs, stock-based compensation expenses and facilities consolidation charges recorded in connection with restructuring actions announced in the first and fourth quarters of 2016, first quarter of 2017 and first quarter of 2018. These expenses were tied to unique circumstances related to organizational restructuring, do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of current operating performance or comparisons to the operating performance in other periods;
- adjusted EBITDA and non-GAAP net income (loss) exclude stock-based compensation expense related to equity awards granted primarily to our workforce. We exclude stock-based compensation expense because we believe that the non-GAAP financial measures excluding this item provide meaningful supplemental information regarding operational performance. In particular, we note that companies calculate stock-based compensation expense for the variety of award types that they employ using different valuation methodologies and subjective assumptions. These non-cash charges are not factored into our internal evaluation of net income (loss) as we believe their inclusion would hinder our ability to assess core operational performance;
- non-GAAP net income (loss) excludes acquisition-related costs including the amortization of acquired intangible assets (primarily consisting of acquired technology), the impairment of acquired intangible assets (if applicable), as well as third-party transaction costs incurred for legal and other professional services. These costs are not factored into our evaluation of potential acquisitions, or of our performance after completion of the acquisitions, because these costs are not related to our core operating performance or reflective of ongoing operating results in the period, and the frequency and amount of such costs are inconsistent and vary significantly based on the timing and magnitude of our acquisition transactions and the maturities of the businesses being acquired;
- non-GAAP net income (loss) excludes non-cash interest expense. In connection with the issuance of the Convertible Senior Notes in April 2017, we are required to recognize non-cash interest expense in accordance with the authoritative accounting guidance for convertible debt that may be settled in cash;
- non-GAAP net income (loss) includes income tax adjustments. Beginning in the first quarter of 2017, we implemented a cash-based non-GAAP tax expense approach (based upon expected annual cash payments for income taxes) for evaluating operating performance as well as for planning and forecasting purposes. This non-GAAP tax approach eliminates the effects of period specific items, which can vary in size and frequency and does not necessarily reflect our long-term operations. Historically, we computed a non-GAAP tax rate based on non-GAAP pre-tax income on a quarterly basis, which considered the income tax effects of the adjustments above; and
- other companies may calculate these non-GAAP financial measures differently than we do, limiting their usefulness as comparative measures.

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The following tables present a reconciliation of net loss to adjusted EBITDA:

(in thousands)	Three months ended June 30, 2018	March 31, 2018	June 30, 2017
Net loss	$(37,269)	$(76,347)	$(30,536)
Income tax (benefit) expense	706	(2,782)	1,991
Interest income, net	4,299	4,212	3,652
Depreciation and amortization	9,173	8,907	11,467
POP display amortization	3,611	3,912	4,955
Stock-based compensation	10,011	10,823	11,235
Restructuring costs	772	16,738	2,356
Adjusted EBITDA	$(8,697)	$(34,537)	$5,120

The following table present a reconciliation of net loss to non-GAAP net loss:

(in thousands, except per share data)	Three months ended June 30, 2018	March 31, 2018	June 30, 2017
Net loss	$(37,269)	$(76,347)	$(30,536)
Stock-based compensation	10,011	10,823	11,235
Acquisition-related costs	3,334	2,658	2,142
Restructuring costs	772	16,738	2,356
Non-cash interest expense	2,018	1,934	1,530
Income tax adjustments	291	(3,170)	359
Non-GAAP net loss	$(20,843)	$(47,364)	$(12,914)
Non-GAAP loss per share	$(0.15)	$(0.34)	$(0.09)
GAAP shares for diluted net loss per share	139,166	137,857	136,288
Add: effect of potentially dilutive shares	—	—	—
Non-GAAP shares for diluted net loss per share	139,166	137,857	136,288

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The fair value of our Senior Convertible Notes is subject to interest rate risk, market risk and other factors due to the convertible feature. The fair value of the Notes will generally increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of the Notes will generally increase as our Class A common stock price increases and will generally decrease as the common stock price declines. The interest and market value changes affect the fair value of the Notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation.

There have been no other material changes to our market risk during the six months ended June 30, 2018. Refer to our market risk disclosures set forth in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk of our 2017 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company’s management, with the participation of the Company’s principal executive officer and principal financial officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (Exchange Act), as of June 30, 2018. Based on such evaluation, the Company’s principal executive officer and principal financial officer have concluded that, as of June 30, 2018, the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed in the Company’s 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 is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Shareholder class action lawsuits

On January 25, 2016, a purported shareholder class action lawsuit was filed in the Superior Court of the State of California, County of San Mateo, against the Company, certain of its current and former directors and executive officers and underwriters of the Company's IPO ("Defendants"). The complaint purported to bring suit on behalf of shareholders who purchased the Company's stock pursuant or traceable to the Registration Statement and Prospectus issued in connection with the Company's IPO and alleged claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933. The suit sought unspecified damages and other relief. A similar complaint was filed on May 13, 2016, and consolidated on June 7, 2016. Defendants filed a demurrer (motion to dismiss) to the consolidated action. On July 13, 2016, the court sustained the demurrer dismissing the complaint with leave to amend the complaint. The plaintiff filed an amended complaint on October 7, 2016. Defendants filed a demurrer to the amended complaint on October 28, 2016. On December 16, 2016, the court overruled the demurrer with respect to the Section 11 and 15 claims and sustained the demurrer in part and overruled the demurrer in part with respect to the Section 12(a)(2) claim. Defendants answered the amended complaint on January 3, 2017. On November 20, 2017, the parties reached an agreement in principle to settle the action. The court preliminarily approved the settlement on March 28, 2018 and a final settlement approval hearing is scheduled for July 27, 2018.

On November 16, 2016, a purported shareholder class action lawsuit (the "2016 Shareholder Class Action") was filed in the U.S. District Court for the Northern District of California against the Company and Mr. Woodman, our Chairman and CEO, Brian McGee, our CFO, and Anthony Bates, our former President ("Defendants"). The complaint purports to bring suit on behalf of shareholders who purchased the Company's publicly traded securities between September 19, 2016 and November 4, 2016. The complaint purports to allege that Defendants made false and misleading statements about the Company's business, operations and prospects in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and seeks unspecified compensatory damages, fees and costs. On February 6, 2017, the court appointed lead plaintiff and lead counsel. On March 14, 2017, the lead plaintiff filed an amended complaint against the Company and certain of its officers ("GoPro Defendants") on behalf of shareholders who purchased the Company's publicly traded securities between September 19, 2016 and November 8, 2016. On April 13, 2017, the GoPro Defendants filed a motion to dismiss the amended complaint. On July 26, 2017, the court denied that motion and directed plaintiff to amend its complaint to add all defendants the plaintiff intended to sue. On August 4, 2017, plaintiff filed a second amended complaint, which Defendants answered on September 8, 2017.

On November 8, 2017, a purported shareholder derivative lawsuit was filed in the U.S. District Court for the Northern District of California against certain of GoPro's current and former directors and executive officers and naming the Company as a nominal defendant. The action is based on allegations similar to those in the 2016 Shareholder Class Action and asserts causes of action against the individual defendants for breach of fiduciary duty for allegedly disseminating false and misleading information, breach of fiduciary duty for allegedly misappropriating information and for insider stock sales, unjust enrichment, violation of Section 25402 of the California Corporations Code, and for contribution and indemnification. On January 4, 2018, the court signed an order relating this case to the 2016 Shareholder Class Action. On January 22, 2018, defendants filed a motion to dismiss for lack of subject matter jurisdiction and improper forum. Before briefing on that motion was complete, the plaintiff voluntarily dismissed the action on February 22, 2018.

Beginning on January 9, 2018, the first of four purported shareholder class action lawsuits (the "2018 Shareholder Class Action") were filed in the U.S. District Court for the Northern District of California against the Company, Mr. Woodman, and Mr. McGee. Similar complaints were filed on January 11, 2018 and January 24, 2018. On April 20, 2018, the court consolidated the four cases and appointed lead plaintiff and lead counsel. On June 18, 2018, plaintiffs filed their Consolidated Amended Complaint (the "Complaint"). The Complaint purports to bring suit on behalf of shareholders who purchased the Company's publicly traded securities between November 2, 2017 and January 5, 2018. The Complaint adds Mr. Prober, GoPro's former COO, as a defendant (together with GoPro, Mr. Woodman and Mr. McGee ("Defendants"), and purports to allege that Defendants made false and misleading

statements about the Company's business, operations and prospects in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "1934 Act"), asserts claims under Section 20A of the 1934 Act against Mr. Woodman and Mr. McGee, and seeks unspecified compensatory damages, fees and costs. The time for Defendants to respond to the Complaint has not yet passed.

On February 13, 2018 and February 27, 2018, two purported shareholder derivative lawsuits (the "Derivative Actions") were filed in the U.S. District Court for the Northern District of California against certain of GoPro's current and former directors and executive officers and naming the Company as a nominal defendant. The Derivative Actions are based on allegations similar to those in both the 2016 Shareholder Class Action and the 2018 Shareholder Class Actions and assert causes of action against the individual defendants for breach of fiduciary duty, and for making false and misleading statements about the Company's business, operations and prospects in violation of Sections 10(b) and 14(a) of the Securities Exchange Act of 1934. Plaintiffs seek corporate reforms, disgorgement of profits from stock sales, and fees and costs. On March 15, 2018, the court signed orders relating the Derivative Actions to the 2016 Shareholder Class Action. The court consolidated the Derivative Actions on April 6, 2018. On May 8, 2018, the court stayed the Derivative Actions pending resolution of the 2016 Shareholder Class Action or commencement of any shareholder derivative action alleging substantially the same facts as those in the Derivative Actions, whichever occurs first.

We are currently, and in the future, may continue to be subject to litigation, claims and assertions incidental to our business, including patent infringement litigation and product liability claims, as well as other litigation of a non-material nature in the ordinary course of business. Due to inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of these matters. We are unable at this time to determine whether the outcome of the litigation would have a material effect on our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors

The risks described in Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2017, and as supplemented below, could materially and adversely affect our business, financial condition and results of operations. We do not believe any of the updates below constitute material changes from the risk factors previously disclosed in our 2017 Annual Report. These risk factors do not identify all risks that we face; our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. In that event, the trading price of our shares may decline, and you may lose part or all of your investment.

Risks related to our business and industry

We may not be able to achieve revenue growth or profitability in the future.

Since 2015, our revenue has declined in each of the two succeeding years. Our historical results should not be considered as indicative of our future performance. For example, our annual revenue grew rapidly from $985.7 million in 2013 to $1.62 billion in 2015 and then declined to $1.185 billion and $1.18 billion in 2016 and 2017, respectively. In future periods, we could continue to experience declines in revenue, or revenue could grow more slowly than we expect, which could have a material negative effect on our future operating results.

In addition, we incurred substantial operating losses of $105.6 million and $113.2 million for the first half of 2018 and 2017, respectively. We also incurred a substantial operating loss of $163.5 million and $373.0 million for the full year 2017 and 2016, respectively, as compared to operating income of $54.7 million for the full year 2015. Lower levels of revenue or higher levels of operating expense in future periods may result in additional losses or limited profitability. In the first quarter of 2018, we implemented a company-wide restructuring of our business resulting in a reduction in our global workforce and the elimination of certain open positions, as well as the elimination of several high-cost initiatives, including the closure of our aerial products business, in order to focus our resources on our core hardware camera and software business. We previously implemented company-wide restructurings of our business in the first and fourth quarters of 2016, the first quarter of 2017, and first quarter of 2018, including our exit of the aerial business in order to focus our resources on our hardware and integrated storytelling solution, and the consolidation of certain leased office facilities. We may not realize the cost savings expected from these actions. We may continue to incur significant losses in the future for a number of reasons,

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including other risks described in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors.

Our future growth depends in part on further penetrating our total addressable market, and we may not be successful in doing so.

Our growth historically has largely been fueled by the adoption of our products by people looking to self-capture images of themselves participating in exciting physical activities. We believe that our future growth depends on continuing to reach and expand our core community of users, followers and fans, and then utilizing that energized community as brand ambassadors to an extended community. We believe that in order to expand our market, we must provide both innovative and easy-to-use products, as well as intuitive and simple software tools that enable effortless sharing of content, with the smartphone central to the GoPro experience. We believe our subscription offerings will increase our total addressable market, but we cannot be certain that these efforts will be successful. We may not be able to expand our market through this strategy on a timely basis, or at all, and we may not be successful in providing tools that our users adopt or believe are easy to use.

In the first quarter of 2018, we began shipping our newest entry level cloud connected camera, HERO, which includes an LCD screen. Additionally, in the first quarter of 2018 in the United States, we launched an updated GoPro PLUS subscription service which now includes our “You Break It, We Replace It” camera replacement and released updated versions of our GoPro and Quik mobile applications. In the third quarter of 2017, we began shipping our flagship cloud connected camera, HERO6 Black, which is powered by GoPro’s custom designed GP1 processor. We plan to further build upon our integrated storytelling solution in future periods, and our investments in this solution, including marketing and advertising expenses, may not successfully drive increased sales of our products and our users may not adopt our new offerings. If we are not successful in broadening our user base with our integrated solution, our future revenue growth will be negatively affected and we may not recognize benefits from our investments in the various components of our storytelling solution and the marketing, sales and advertising costs to promote our solution.

Our growth also depends on expanding our market with new capture perspectives, including spherical, which is a resource-intensive initiative in a highly competitive market. While we are investing resources, including in software development, sales and marketing, to reach these expanded and new consumer markets, we cannot be assured that we will be successful in doing so. If we are not successful in penetrating additional markets, we might not be able to grow our revenue and we may not recognize benefits from our investment in new areas. For example, we made significant investments in the aerial market, but recently decided to close our aerial business in light of difficult market conditions and margin challenges. Moving forward, we expect to sell our remaining inventory of Karma drones, which may not be successful, depending on consumer demand for a product that is end of life.

To remain competitive and stimulate consumer demand, we must effectively manage product introductions, product transitions, product pricing and marketing.

We believe that we must continually develop and introduce new products, enhance our existing products and effectively stimulate customer demand for new and upgraded products to maintain or increase our revenue.

The success of new product introductions depends on a number of factors including, but not limited to, timely and successful research and development, pricing, market and consumer acceptance, the effective forecasting and management of product demand, purchase commitments and inventory levels, the availability of products in appropriate quantities to meet anticipated demand, the ability to obtain timely and adequate delivery of components for our new products from third-party suppliers, the management of any changes in major component suppliers, the management of manufacturing and supply costs, the management of risks associated with new product production ramp-up issues, and the risk that new products may have quality issues or other defects or bugs in the early stages of introduction. With respect to management and supply costs, we will likely be impacted by an overall worldwide increase in demand for memory products and potential allocations for such products, in addition to pricing pressure on commodity supplies such as batteries or memory. Such supply shortages may affect our ability to manage appropriate supply levels of our products and pricing pressures may negatively affect our gross margins.

For example, in Fall 2016, we experienced production issues that resulted in delayed unit shipments of our HERO5 Black camera in the third and fourth quarters of 2016. In addition, in November 2016, we announced the recall of all Karma drones after we discovered that some Karma units lost power during operation. As a result of these issues, our revenues and operating results for the second half of 2016 were negatively affected. The Karma drone was re-launched and available for sale domestically in February 2017 and distribution in international markets began a month later. Subsequently, in January 2018 we announced the closure of our aerial business and we expect to sell through our remaining inventory of Karma drones throughout 2018.

In addition, the introduction or announcement of new products or product enhancements may shorten the life cycle of our existing products or reduce demand for our current products, thereby offsetting any benefits of successful product introductions and potentially lead to challenges in managing inventory of existing products. For example, the introduction of the HERO6 Black camera at $499, while keeping the price point of the HERO5 Black camera at $399, negatively affected consumer demand for HERO5 Black, and we ultimately reduced the price of HERO5 Black to increase channel sell through rates. The HERO5 Black price adjustment had a cascading effect that resulted in price reductions for HERO5 Session and ultimately HERO6 Black cameras. Reduced product margins resulting from lower pricing may decrease the number of retailers willing to offer and promote our product lineup. Failure to manage and complete product transitions effectively or in a timely manner could harm our brand and lead to, among other things, lower revenue, excess prior generation product inventory, or a deficit of new product inventory and reduced profitability. For example, as a result of reducing the price of our HERO5 Black cameras in December 2017, we incurred price protection charges which resulted in a reduction in both our revenue and gross margins.

Additionally, our brand and product marketing efforts are critical to stimulating consumer demand. We market our products globally through a range of advertising and promotional programs and campaigns, including social media. If we do not successfully market our products, the lack of success or increased costs of promotional programs could have an adverse effect on our business, financial condition and results of operations.

We depend on sales of our cameras, mounts and accessories for substantially all of our revenue, and any decrease in the sales or change in sales mix of these products would harm our business.

We expect to derive the substantial majority of our revenue from sales of cameras, mounts and accessories for the foreseeable future. A decline in the price or unit demand for these products, whether due to macroeconomic conditions including variable tariff rates, competition or otherwise, or our inability to increase sales of these products, would harm our business and operating results more seriously than it would if we derived significant revenue from a variety of product lines and services. In particular, a decline in the price or unit demand of our HERO6 Black, HERO5 Black, HERO and Fusion cameras or our inability to increase sales of these products, could materially harm our business and operating results. In addition, we have driven our inventory down on our HERO6 Black, HERO5 Black and HERO cameras in anticipation of new product launch in the Fall of 2018. If we experience delays or issues with our new product launch, this could have a material adverse effect on our business, financial condition and results of operations. While we have developed and released products and services to add to our offerings, we may not be successful in achieving future revenue growth driven by newly released products and services. For example, concurrently with our HERO6 Black camera launch, we highlighted QuikStories, our integrated storytelling solution within the Quik app to make editing and sharing content from our HERO5 and HERO6 cameras easier for our users. If all the components of the storytelling solution do not work together seamlessly or our users do not adopt them, they may not drive camera sales and our operating results could be adversely affected. In addition, we recently announced our new spherical camera, Fusion, and continue to expend resources to develop a solution for editing and sharing software to deliver and experience spherical content. If the software does not function as expected or users do not adopt our solution, sales of our spherical camera may be negatively affected. We cannot be assured that our investments in the development of software-related products and services will result in either increased revenue or profit. Changes in product mix may harm our financial results. If there is a shift in consumer demand from our higher-priced to lower-priced cameras without a corresponding increase in units sold, our revenues and gross profit could decrease and losses could increase. As a result, our future growth and financial performance may continue to depend heavily on our ability to develop and sell enhanced versions of our cameras, mounts and accessories. If we fail to deliver product enhancements,

new releases or new products and services that appeal to consumers, our future financial condition, operating results and cash flows will be materially affected. Product introductions may not always be successful and could be costly to develop and exit if ultimately unsuccessful. For example, we invested significant resources in development, marketing and support for the launch of our Karma drone, which we subsequently determined faced margin challenges and other obstacles, and we began exiting the aerial business in the first quarter of 2018.

We rely on third-party suppliers, some of which are sole-source suppliers, to provide components for our products which may lead to supply shortages, long lead times for components, and supply changes, any of which could disrupt our supply chain and may increase our costs.

Our ability to meet customer demand depends, in part, on our ability to obtain timely and adequate delivery of components for our products. All of the components that go into the manufacturing of our cameras and accessories are sourced from third-party suppliers.

Some of the key components used to manufacture our products come from a limited or single source of supply or by a supplier that could potentially become a competitor. Our contract manufacturers generally purchase these components on our behalf, subject to certain approved supplier lists. We are subject to the risk of shortages and long lead times in the supply of these components and the risk that our suppliers discontinue or modify components used in our products. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. We have in the past experienced, are currently experiencing, and may in the future, experience component shortages, and the predictability of the availability of these components may be limited.

If we lose access to components from a particular supplier or experience a significant disruption in the supply of products and components from a current supplier, we may be unable to locate alternative suppliers of comparable quality at an acceptable price, or at all, and our business could be materially and adversely affected. In addition, if we experience a significant increase in demand for our products, our suppliers might not have the capacity or elect not to meet our needs as they allocate components to other customers. Developing suitable alternate sources of supply for these components may be time-consuming, difficult, and costly and we may not be able to source these components on terms that are acceptable to us, or at all, which may adversely affect our ability to meet our requirements or to fill our orders in a timely or cost-effective manner. Identifying a suitable supplier is an involved process that requires us to become satisfied with the supplier’s quality control, responsiveness and service, financial stability and labor and other ethical practices, and if we seek to source materials from new suppliers there can be no assurance that we could do so in a manner that does not disrupt the manufacture and sale of our products.

Our reliance on single source, or a small number of, suppliers involves a number of additional risks, including risks related to supplier capacity constraints, price increases, timely delivery, component quality, failure of a key supplier to remain in business and adjust to market conditions, delays in, or the inability to execute on, a supplier roadmap for components and technologies; and natural disasters, fire, acts of terrorism or other catastrophic events.

In particular, for our camera designs we incorporate image processors, sensors, lens, batteries and memory solutions that critically impact the performance of our products. These components have unique performance profiles, and, as a result, it is not commercially practical to support multiple sources for these components for our products. For example, we incorporate video compression and image processing semiconductors from Ambarella, Inc. in our HERO5 and HERO cameras and we incorporate the GP1 image signal processor from Socionext, Inc. in our HERO6 Black camera. We do not currently have alternative suppliers for several key components. In addition, our products also require passive components such as resistors and multi-layer ceramic capacitors which are experiencing supply shortages and lengthening lead-times within the consumer electronics industry and may impact our supply chain. In the event that any of our key suppliers are unable to supply the components that we need to produce our products to meet anticipated customer demand, our business would be materially and adversely affected.

If we are unable to anticipate consumer preferences and successfully develop desirable products and solutions, we might not be able to maintain or increase our revenue and achieve profitability.

Our success depends on our ability to identify and originate product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty and lead times for our products may make it more difficult for us to respond rapidly to new or changing product or consumer preferences. Additionally, our products are discretionary items for consumers subject to changing preferences. The overall market for consumer electronics is highly competitive and consumers may choose to spend their dollars on products or devices offered by our competitors or other consumer electronics companies instead of on GoPro products, which may adversely affect our sales. If we are unable to introduce appealing new products or novel technologies in a timely manner, or our new products or technologies are not accepted or adopted by consumers, our competitors may increase their market share, which could hurt our competitive position.

Our research and development efforts are complex and require us to incur substantial expenses to support the development of our next generation cameras, editing applications and other new products and services. Our research and development expense was $229.3 million, $358.9 million and $241.7 million for 2017, 2016 and 2015, respectively. We expect that our research and development expenses will continue to be substantial in 2018, but less than expense levels incurred in 2017 as a result of recent cost management measures and our exit from the aerial business. Our more limited research and development investment in 2018 may require us to forego investment in certain products or features which might have been successful had we invested in them, and we may not choose the right features, products, or services to update or enhance. Unanticipated problems in developing products could also divert substantial resources, which may impair our ability to develop new products and enhancements of existing products, and could further increase our costs. For example, in the fourth quarter of 2016, we diverted resources to investigate and resolve an issue related to our Karma drone after discovering that a few Karma units lost power during operation, an issue that was resolved and shipments of Karma resumed in February 2017.

We may not be able to achieve an acceptable return, if any, on our research and development efforts, and our business may be adversely affected. As we continually seek to enhance our products, we will incur additional costs to incorporate new or revised features. We might not be able to, or determine that it is not in our interests to, raise prices to compensate for any additional costs.

We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can, which could result in a loss of our market share and a decrease in our revenue and profitability.

The market for cameras is highly competitive. Further, competition has intensified as existing competitors have introduced new and more competitive offerings alongside their existing products, and as new market entrants have introduced new products into our markets. Increased competition and changing consumer preferences may result in pricing pressures, reduced profit margins and may impede our ability to continue to increase the sales of our products or cause us to lose market share, any of which could substantially harm our business and results of operations.

We compete against established, well-known camera manufacturers such as Canon Inc., Fujifilm Corporation, Nikon Corporation, Olympus Corporation and Vivitar Corporation, as well as large, diversified electronics companies such as, Panasonic Corporation, Samsung Electronics Co. and Sony Corporation and specialty companies such as Garmin Ltd. Many of our current competitors have substantial market share, diversified product lines, well-established supply and distribution systems, strong worldwide brand recognition and greater financial, marketing, research and development and other resources than we do. Many of our existing and potential competitors enjoy substantial competitive advantages, such as longer operating histories; the capacity to leverage their sales efforts and marketing expenditures across a broader portfolio of products; broader distribution and established relationships with channel partners; access to larger established customer bases; greater resources to make acquisitions; larger intellectual property portfolios; and the ability to bundle competitive offerings with other products and services. Further, new companies may emerge and offer competitive products. We are aware that certain companies have developed cameras designed and packaged to appear similar to our products, which may confuse consumers or distract consumers from purchasing GoPro products.

Moreover, smartphones and tablets with photo and video functionality have significantly displaced the market for traditional cameras, and the makers of those devices also have mobile and other content editing applications and storage for content captured with those devices. Our GoPro and Quik mobile and desktop editing applications, GoPro mobile application and our GoPro Plus service may not be as compelling a solution as those offered by other companies, such as Apple, Inc. and Google, although the Quik mobile application supports content from other platforms including content from Apple and Google. Manufacturers of smartphones and tablets, such as Apple, Google, and Samsung may continue to design them for use in a range of conditions, including challenging physical environments, and waterproof capabilities, or develop products with features similar to ours. Additionally, we are exiting the drone business given the intensely competitive market and regulatory concerns. We competed against established and start-up drone manufacturers, such as DJI Technology Co., and Parrot SA, who currently have or are attempting to gain a substantial share in the global drone market, and may decide to add adjacent products to their product roadmap, such as cameras, which could add additional competitive threats to our core businesses. Although we made significant investments in the aerial market, we recently decided to exit our aerial products business in light of difficult market conditions, low margins and regulatory challenges. Moving forward, we expect to sell through our remaining inventory of Karma drones, which may not be successful, depending on consumer demand for a product that is end of life.

We depend on key personnel to operate and grow our business. If we are unable to retain, attract and integrate qualified personnel, our ability to develop and successfully grow our business could be harmed.

We believe that our future success is highly dependent on the contributions of our CEO and our executive officers, as well as our ability to attract and retain highly skilled and experienced research and development, sales and marketing and other personnel in the United States and abroad. All of our employees, including our executive officers, are free to terminate their employment relationship with us at any time, and their knowledge of our business and industry may be difficult to replace.

Since March 2016, we have implemented four global reductions-in-force and other restructuring actions to reduce our future operating expenses. Furthermore, in January 2018, we announced that our COO, Charles “CJ” Prober departed the Company, and our General Counsel, Sharon Zezima, resigned from the Company. Additionally, other senior leadership positions were impacted in the restructuring announced in January 2018. In March 2018, we announced that Eve Saltman was named Vice President, Corporate/Business Development, General Counsel, and Secretary of the Company. These changes, and any future changes, in our operations and management team could be disruptive to our operations. Our restructuring actions and any future restructuring actions could have an adverse effect on our business as a result of decreases in employee morale and the failure to meet operational targets due to the loss of employees. If more of our key employees leave, we may not be able to fully integrate new personnel or replicate the prior working relationships, and our operations could suffer.

Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. While we utilize competitive salary, bonus and long-term incentive packages to recruit new employees, many of the companies with which we compete for experienced personnel also have greater resources than we do. Competition for qualified personnel is particularly intense in the San Francisco Bay Area, where our headquarters are located. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. Fluctuations in the price of our Class A common stock may make it more difficult or costly to use equity compensation to motivate, incentivize and retain our employees. For example, during 2017, our closing stock price ranged from a high of $11.12 in the fourth quarter to a low of $7.24 in the first quarter. If we are unable to attract and retain highly skilled personnel, we may not be able to achieve our strategic objectives, and our business, financial condition and operating results could be adversely affected.

If our sales fall below our forecasts, especially during the holiday season, our overall financial condition and results of operations could be adversely affected.

Seasonal consumer shopping patterns significantly affect our business. We have traditionally experienced greater revenue in the fourth quarter of each year due to demand related to the holiday season, and in some years, including 2017, demand associated with the launch of new products heading into the holiday season. Fourth quarter revenue comprised 28%, 46% and 27% of our 2017, 2016 and 2015 revenue, respectively. Given the

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strong seasonal nature of our sales, appropriate forecasting is critical to our operations. We anticipate that this seasonal impact is likely to continue and any shortfalls in expected fourth quarter revenue, due to macroeconomic conditions, product release patterns, a decline in the effectiveness of our promotional activities, pricing pressures, supply chain disruptions, or for any other reason, could cause our annual results of operations to suffer significantly.
In addition, we typically experience lower revenue in the first half of the year. For example, revenue of $515.1 million for the first half of 2017 decreased $266.1 million, or 34%, sequentially from $781.2 million in the last half of 2016. First half revenue comprised 44%, 34% and 48% of our annual 2017, 2016 and 2015 revenue, respectively.
In contrast, a substantial portion of our expenses are personnel-related and include salaries, stock-based compensation, benefits and incentive-based compensation plan expenses, which are not seasonal in nature. Accordingly, in the event of revenue shortfalls, we are generally unable to mitigate a negative impact on operating margins in the short term. For example, we recorded a substantial net loss for 2017 due to lower levels of revenue and higher levels of operating expense investment. To the extent such revenue shortfalls recur in future periods, our operating results would be harmed.
We face substantial risks related to inventory, purchase commitments and long-lived assets, and we could incur material charges related to these items that adversely affect our operating results.
To ensure adequate inventory supply and meet the demands of our retailers and distributors, we must forecast inventory needs and place orders with our contract manufacturers and component suppliers based on our estimates of future demand for particular products as well as accurately track the level of product inventory in the channel to ensure we are not in an over or under supply situation. To the extent we discontinue the manufacturing and sales of any products or services, we must manage the inventory liquidation, supplier commitments and customer expectations. For example, in the first quarter of 2018, we exited the aerial products business, but still have inventory of our Karma drone, which we plan to continue to sell and support for the life of that product line. Also, in the fourth quarter of 2015, the first quarter of 2016, and the fourth quarter of 2017, we recorded product charges of $57 million, $8 million, and $5 million, respectively, for excess purchase order commitments, excess inventory, and obsolete tooling, relating to the end-of-life of our former entry-level HERO product that was introduced in 2014, slower than anticipated overall demand, and for excess inventory relating to the end-of-life of our REMO accessory.
No assurance can be given that we will not incur additional charges in future periods related to our inventory management or that we will not underestimate or overestimate forecast sales in a future period. Our ability to accurately forecast demand for our products is affected by many factors, including product introductions by us and our competitors, channel inventory levels, unanticipated changes in general market demand, macroeconomic conditions or consumer confidence. If we do not accurately forecast customer demand for our products, we may in future periods be unable to meet consumer, retailer or distributor demand for our products, or may be required to incur higher costs to secure the necessary production capacity and components, and our business and operating results could be adversely affected.
If we fail to manage our operating expenses effectively, our financial performance may continue to suffer.
Our success will depend in part upon our ability to manage our operating expenses effectively. We incurred significant operating losses in 2017 and 2016 and, as of June 30, 2018, we had an accumulated deficit of $573.6 million. Beginning in March 2016 through the first quarter of 2018, we implemented global reductions-in-force and other restructuring actions to reduce our future operating expenses. Although we plan to seek to operate efficiently and to manage our costs effectively, we may not realize the cost savings expected from these actions. Aggregate charges for employee terminations and the timing to recognize these charges and other costs associated with the restructuring, including the estimates of related cash expenditures made in connection with the restructuring, may exceed estimated and disclosed amounts and may not lead to improvements in results of operations at expected levels.
We will need to continue to improve our operational, financial and management controls, reporting processes and procedures and financial and business information systems. We are also investing in areas we believe will grow revenue and our operating expenses might increase as a result of these investments. If we are unable to operate

efficiently and manage our costs, we may continue to incur significant losses in the future and may not be able to achieve or maintain profitability.

In the future, in response to unfavorable market conditions or consumer demand, we may again need to strategically realign our resources, adjust our product line and/or enact price reductions in order to stimulate demand, and implement additional restructurings and workforce reductions. For example, in the fourth quarter of 2017 and first quarter of 2018, we reduced the pricing on our entire camera product line to increase consumer demand, closed our aerial products business due to unfavorable market conditions, and implemented a workforce reduction. Any such actions may result in the recording of charges including inventory-related write-offs, or other restructuring costs. Additionally, our estimates with respect to the useful life or ultimate recoverability of our assets, including purchased intangible assets and tooling, could also change and result in impairment charges.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

In the future, we may require additional capital to respond to business opportunities, challenges, acquisitions or unforeseen circumstances and may determine to engage in equity or debt financings or enter into credit facilities for other reasons. We may not be able to timely secure additional financing on favorable terms, or at all. For example, our current credit facility contains restrictive covenants relating to our capital raising activities and other financial and operational matters, and any debt financing obtained by us in the future could involve further restrictive covenants, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Further, even if we are able to obtain additional financing, we may be required to use such proceeds to repay a portion of our debt. If we raise additional funds through the issuance of equity or convertible debt or other equity-linked securities, our existing stockholders could suffer significant dilution. If we are unable to obtain adequate financing under our credit facility, or alternative sources, when we require it, our ability to grow or support our business and to respond to business challenges could be significantly limited. In the event additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all.

An economic downturn or economic uncertainty in our key U.S. and international markets, as well as fluctuations in currency exchange rates or the imposition of new trade restrictions may adversely affect consumer discretionary spending and demand for our products.

Factors affecting the level of consumer spending include general market conditions, macroeconomic conditions, tax rates, fluctuations in foreign exchange rates and interest rates, and other factors such as consumer confidence, the availability and cost of consumer credit and levels of unemployment. The substantial majority of our sales occur in U.S. dollars and an increase in the value of the dollar against the Euro and other currencies could increase the real cost to consumers of our products in those markets outside the United States. For example, in countries where we sell in local currency, we are subject to exchange rate fluctuations that create inherent risks for us and may cause us to adjust pricing which may make our products more or less favorable to the consumer. If global economic conditions are volatile or if economic conditions deteriorate, consumers may delay or reduce purchases of our products resulting in consumer demand for our products that may not reach our sales targets. Strengthening of the U.S. dollar and/or weakness in the economies of Euro zone countries could adversely impact sales of our products in the European region, which would have a material negative impact on our future operating results. Our sensitivity to economic cycles and any related fluctuation in consumer demand could adversely affect our business, financial condition and operating results.

The United States and the countries in which our products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels. Countries impose, modify and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards, and customs restrictions, could increase the cost or reduce the supply of products available to us or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition and results of operations. We are dependent on international trade agreements and regulations. If the United States were to withdraw from

or materially modify certain international trade agreements, our business and operating results could be materially and adversely affected.

Our international business operations account for a significant portion of our revenue and operating expenses and are subject to challenges and risks.

Revenue from outside the United States comprised 55%, 53% and 52% of our revenue in 2017, 2016 and 2015, respectively, and we expect international revenue to continue to be significant in the future. Further, we currently have foreign operations in China, France, Germany, Hong Kong, Netherlands, Philippines, Romania and a number of other countries in Europe and Asia. Operating in foreign countries requires significant resources and considerable management attention, and we may enter new geographic markets where we have limited or no experience in marketing, selling, and deploying our products. International expansion has required and will continue to require us to invest significant funds and other resources and we cannot be assured our efforts will be successful. International sales and operations may be subject to risks such as:

- difficulties in staffing and managing foreign operations;
- burdens of complying with a wide variety of laws and regulations, including environmental, packaging and labeling, and drone regulations;
- adverse tax effects and foreign exchange controls making it difficult to repatriate earnings and cash;
- changes to the taxation of undistributed foreign earnings;
- the effect of foreign currency exchange rates and interest rates;
- political and economic instability;
- terrorist activities and natural disasters;
- trade restrictions;
- differing employment practices and laws and labor disruptions;
- the imposition of government controls;
- lesser degrees of intellectual property protection;
- tariffs and customs duties and the classifications of our goods by applicable governmental bodies;
- a legal system subject to undue influence or corruption; and
- a business culture in which illegal sales practices may be prevalent.

The occurrence of any of these risks could negatively affect our international business and consequently our business, operating results and financial condition.

We are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and our actual or perceived failure to comply with such obligations could adversely affect our business and operating results.

Personal privacy, data protection and information security are significant issues in the United States and the other jurisdictions where we offer our products and services. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Our handling of data is subject to a variety of laws and regulations, including regulation by various government agencies, including the U.S. Federal Trade Commission (FTC) and various state, local and foreign bodies and agencies.

The U.S. federal and various state and foreign governments have adopted or proposed limitations on the collection, distribution, use and storage of personal information of individuals, including end-customers and employees. In the United States, the FTC and many state attorneys general are applying federal and state consumer protection laws to the online collection, use and dissemination of data. Additionally, many foreign countries and governmental bodies, including in Australia, the European Union, India, Japan and numerous other jurisdictions in which we operate or conduct our business, have laws and regulations concerning the collection and use of personal information obtained from their residents or by businesses operating within their jurisdiction. These laws and regulations often are more restrictive than those in the United States. Such laws and regulations may require companies to implement new privacy and security policies, permit individuals to access, correct and delete personal information stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consent to use personal information for certain purposes.

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact of such future laws, regulations and standards may have on our business. Additionally, we expect that existing laws, regulations and standards may be interpreted in new manners in the future. There remains significant uncertainty surrounding the regulatory framework for the future of personal data transfers from the European Union to the United States with regulations such as the recently adopted General Data Protection Regulation, or GDPR, effective in May 2018, that will supersede current EU data protection legislation, impose more stringent EU data protection requirements, provide an enforcement authority, and impose large penalties for noncompliance. Future laws, regulations, standards and other obligations, including the adoption of the GDPR, as well as changes in the interpretation of existing laws, regulations, standards and other obligations could impair our ability to collect, use or disclose information relating to individuals, which could decrease demand for our products, require us to restrict our business operations, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue.

Although we are working to comply with those federal, state and foreign laws and regulations, industry standards, contractual obligations and other legal obligations that apply to us, those laws, regulations, standards and obligations are evolving and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another, other requirements or legal obligations, our practices or the features of our solutions. As such, we cannot assure ongoing compliance with all such laws or regulations, industry standards, contractual obligations and other legal obligations. Any failure or perceived failure by us to comply with federal, state or foreign laws or regulations, industry standards, contractual obligations or other legal obligations, or any actual or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of personal information or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business and operating results.

Security breaches and other disruptions including cyber-attacks could expose us to liability, damage our brand and reputation, compromise our ability to conduct business, require use to incur significant costs or otherwise adversely affect our financial results.

In the ordinary course of our business, we electronically maintain sensitive data, including intellectual property, our proprietary business information and that of our customers and suppliers, and some personally identifiable information of our customers and employees, in our facilities and on our networks. Through GoPro Plus, users may store video and image files, including any telemetry or metadata that the user has chosen to associate with those files in the cloud. In our e-commerce services, we process, store and transmit consumer data. We also collect user data through certain marketing activities. For all of the foregoing internal and customer or consumer facing data and content collection, we collect and store that information in our or our third-party providers' electronic systems. These systems may be targets of attacks, such as viruses, malware or phishing attempts by cyber criminals or other wrongdoers seeking to steal our users' content or data, or our customer's information for financial gain or to harm our business operations or reputation. Any security breach, unauthorized access or usage, virus or similar breach or disruption of our systems or software could result in the loss of confidential information, costly investigations, remediation efforts and costly notification to affected consumers. If such content were accessed by unauthorized third parties or deleted inadvertently by us or third parties, our brand and reputation could be adversely affected. Cyber-attacks could also adversely affect our operating results, consume internal resources, and result in litigation or potential liability for us and otherwise harm our business. Further, we are subject to general consumer regulations and laws, as well as regulations and laws specifically related to security and privacy of consumer data or content. In the event of an incident affecting the security of consumer data or content, regulators may open an investigation or pursue fines or penalties for non-compliance with these laws, or private plaintiffs may sue us, resulting in additional costs and reputational harm to our business.

Any significant cybersecurity incidents or disruption of our information systems, and our reliance on Software-as-a-Service (SaaS) technologies from third parties, could adversely affect our business operations and financial results.

We are increasingly dependent on information systems to process transactions, manage our supply chain and inventory, ship goods on a timely basis, maintain cost-efficient operations, complete timely and accurate financial reporting, operate our e-commerce website and respond to customer inquiries.

Our information systems and those of third parties we use in our operations are vulnerable to cybersecurity risk, including cyber-attacks such as distributed denial of service (DDoS) attacks, computer viruses, physical or electronic break-ins that damage operating systems, and similar disruptions. For instance, in December 2017, researchers identified significant CPU architecture vulnerabilities commonly known as “Spectre” and “Meltdown” that have required software updates and patches, including for providers of public cloud services, to mitigate such vulnerabilities and such updates and patches may require servers to be offline and potentially slow their performance. Additionally, these systems periodically experience directed attacks intended to lead to interruptions and delays in our operations as well as loss, misuse or theft of data. We have implemented physical, technical and administrative safeguards to protect our systems. To date, unauthorized users have not had a material effect on our systems; however, there can be no assurance that attacks will not be successful in the future. In addition, our information systems must be constantly updated, patched and upgraded to protect against known vulnerabilities and optimize performance. Material disruptions or slowdown of our systems, including a disruption or slowdown could occur if we are unable to successfully update, patch and upgrade our systems.

System disruptions, failures and slowdowns, whether caused by cyber-attacks, update failures or other causes, could affect our financial systems and operations. This could cause delays in our supply chain or cause information, including data related to customer orders, to be lost or delayed which could result in delays in the delivery of merchandise to our stores and customers or lost sales, especially if the disruption or slowdown occurred during our seasonally strong fourth quarter. Any of these events could reduce demand for our products, impair our ability to complete sales through our e-commerce channels and cause our revenue to decline. If changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose customers or our business and operating results could be adversely affected.

The information systems used by our third-party service providers are vulnerable to these risks as well. In particular, we are heavily reliant on SaaS enterprise resource planning systems to conduct our order and inventory management, e-commerce and financial transactions and reporting. In addition, we utilize third-party cloud computing services in connection with our business operations. Problems faced by us or our third-party hosting/cloud computing providers, or content delivery network providers, including technological or business-related disruptions, as well as cybersecurity threats, could adversely affect our business and operating results, our ability to accurately report our financial results, as well as the experience of our consumers, which in turn could adversely affect our business and operating results.

As we expand our operations, we expect to utilize additional systems and service providers that may also be essential to managing our business. Our ability to manage our business would suffer if one or more of our providers suffer an interruption in their business, or experience delays, disruptions or quality control problems in their operations, or we have to change or add systems and services. While we conduct reasonable diligence on our service providers, we may not always be able to control the quality of the systems and services we receive from these providers, which could impair our ability to maintain appropriate internal control over financial reporting and complete timely and accurate financial reporting, and may affect our business, operating results and financial condition.

Any significant disruption to our e-commerce business could result in lost sales.

Online sales through gopro.com represent less than 10% of our total revenue. Nonetheless, system interruptions or delays could cause potential consumers to fail to purchase our products and could harm our reputation and brand. The operation of our direct to consumer e-commerce business through gopro.com depends on the ability to maintain the efficient and uninterrupted operation of online order-taking and fulfillment operations. Our e-commerce operations subject us to certain risks that could have an adverse effect on our operating results, including risks related to the computer systems that operate our website and related support systems, such as system failures, viruses, cyberattacks, computer hackers and similar disruptions. If we or our designated third-party contractors are unable to maintain and upgrade our e-commerce website or if we encounter system interruptions or delays, our operating results could be adversely affected.

We may acquire other businesses, which could require significant management attention, disrupt our business, dilute stockholder value and adversely affect our operating results.

We have completed several acquisitions and may evaluate additional acquisitions of, or strategic investments in, other companies, products or technologies that we believe are complementary to our business. For example, in the first half of 2016, we acquired two mobile editing application companies for aggregate cash consideration of approximately $104 million.

We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by users or investors. In addition, if we fail to successfully integrate such acquisitions, or the technologies associated with such acquisitions, the revenue and operating results of the combined company could be adversely affected. Acquisitions may disrupt our ongoing operations, divert management from their primary responsibilities, subject us to additional liabilities, increase our expenses and adversely affect our business, financial condition, operating results and cash flows. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial effect of an acquisition transaction, including accounting charges. We have recorded significant goodwill and intangible assets in connection with our acquisitions, and in the future, if our acquisitions do not yield expected revenue, we may be required to take material impairment charges that could adversely affect our results of operations.

We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could affect our financial condition or the value of our capital stock. The sale of equity to finance any such acquisitions could result in dilution to our stockholders. If we incur debt it would result in increased fixed obligations and could also subject us to covenants or other restrictions that would impede our ability to manage our operations. In addition, our future operating results may be affected by performance earnouts or contingent payments. For example, for our 2016 acquisitions, deferred cash and stock compensation was payable to certain continuing employees subject to meeting specified future employment conditions. Furthermore, acquisitions may require large one-time charges and can result in increased debt or contingent liabilities, adverse tax consequences, additional stock-based compensation expense and the recording and subsequent amortization or impairments of amounts related to certain purchased intangible assets, any of which could negatively affect our future results of operations.

Our success depends on our ability to maintain the value and reputation of our brand.

Our success depends on the value and reputation of our brand, including our primary trademarks “GOPRO,” “HERO,” “SESSION,” “KARMA” and the GoPro logos. The GoPro brand is integral to the growth of our business and expansion into new markets. Maintaining, promoting and positioning our brand will largely depend on the success of our marketing and merchandising efforts, our ability to provide consistent, high quality products and services, and our consumers’ satisfaction with the technical support and software updates we provide. Failure to grow and maintain our brand or negative publicity related to our products, our consumers’ user-generated content, the athletes we sponsor, the celebrities we are associated with, or the labor policies of any of our suppliers or manufacturers could adversely affect our brand, business and operating results. Maintaining and enhancing our brand also requires substantial financial investments, although there is no guarantee that these investments will increase sales of our products or positively affect our operating results.

If we do not effectively maintain and further develop our sales channels, including developing and supporting our retail sales channel and distributors, our business could be harmed.

We depend upon effective sales channels to reach the consumers who are the ultimate purchasers of our products. In the United States, we primarily sell our products directly through a mix of retail channels, including big box, mid-market and specialty retailers, and we reach certain U.S. markets through distributors. In international markets, we primarily sell through distributors who in turn sell to local retailers; however, we also have direct sales relationships with certain customers.

We depend on retailers to provide adequate and attractive space for our products and POP displays in their stores. We further depend on our retailers to employ, educate and motivate their sales personnel to effectively sell our products. If our retailers do not adequately display our products, choose to reduce the space for our products and POP displays in their stores or locate them in less than premium positioning, or choose not to carry some or all of our products or promote competitors' products over ours or do not effectively explain to customers the advantages of our products, our sales could decrease and our business could be harmed. Similarly, our business could be adversely affected if any of our large retail customers were to experience financial difficulties, or change the focus of their businesses in a way that deemphasized the sale of our products. We also continue to invest in providing new retailers with POP displays and expanding the footprint of our POP displays in existing stores, and there can be no assurance that this investment will lead to increased revenue.

Our distributors generally offer products from several different manufacturers. Accordingly, we are at risk that these distributors may give higher priority to selling other companies' products. We have consolidated our distributor channels in certain regions, and if we were to lose the services of a distributor, we might need to find another distributor in that area and there can be no assurance of our ability to do so in a timely manner or on favorable terms. Further, our distributors build inventory in anticipation of future sales, and if such sales do not occur as rapidly as they anticipate, our distributors will decrease the size of their future product orders. We are also subject to the risks of our distributors encountering financial difficulties, which could impede their effectiveness and also expose us to financial risk if they are unable to pay for the products they purchase from us. Additionally, our international distributors buy from us in U.S. dollars and generally sell to retailers in local currency so significant currency fluctuations could affect their profitability, and in turn, affect their ability to buy future products from us. For example, the Brexit referendum vote in the U.K. caused significant short term volatility in global stock markets as well as currency exchange rate fluctuations.

We have converted portions of our distributors' business into direct sales, and if we were to do this on a larger scale, it could create significant disruptions to our distribution channel and the associated revenue. Any reduction in sales by our current distributors, loss of key distributors or decrease in revenue from our distributors could adversely affect our revenue, operating results and financial condition.

A small number of retailers and distributors account for a substantial portion of our revenue, and if our relationships with any of these retailers or distributors were to be terminated or the level of business with them significantly reduced, our business could be harmed.

Our ten largest customers, measured by the revenue we derive from them, accounted for 48%, 50% and 52% of our revenue for 2017, 2016 and 2015, respectively. One retailer accounted for 15%, 17% and 14% of our revenue for 2017, 2016 and 2015, respectively. A second retailer accounted for less than 10% of our revenue in 2017 but accounted for 11% and 12% of our revenue in 2016 and 2015, respectively. The loss of a small number of our large customers, or the reduction in business with one or more of our large customers, could have a significant adverse effect on our operating results. In addition, we may choose to temporarily or permanently stop shipping product to customers who do not follow the policies and guidelines in our sales agreements, which could have a material negative effect on our revenues and operating results. Our sales agreements with these large customers do not require them to purchase any meaningful amount of our products annually and we grant limited rights to return product to some of these large customers.

If we encounter problems with our distribution system, our ability to deliver our products to the market and to meet customer expectations could be harmed.

We rely on third-party distribution facilities for substantially all of our product distribution to distributors and directly to retailers. Our distribution facilities include computer controlled and automated equipment, which means their operations may be vulnerable to computer viruses or other security risks, the proper operation of software and hardware, electronic or power interruptions or other system failures. Further, because substantially all of our products are distributed from only a few locations and by a small number of companies, our operations could be interrupted by labor difficulties, extreme or severe weather conditions, or floods, fires or other natural disasters near our distribution centers, or port shutdowns or other transportation-related interruptions along our distribution

routes. Additionally, we use one primary supplier for the third-party distribution and if this supplier were to experience financial difficulties, it could adversely affect our business.

We may be subject to 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 business and operating results.

We generally provide a 12-month warranty on all of our products, except in the European Union, or EU, where we provide a two-year warranty on all of our products. The occurrence of any material defects in our products could make us liable for damages and warranty claims in excess of our current reserves. In addition, we could incur significant costs to correct any defects, warranty claims or other problems, including costs related to product recalls. Any negative publicity related to the perceived quality and safety of our products could affect our brand image, decrease retailer, distributor and consumer confidence and demand, and adversely affect our operating results and financial condition. Also, while our warranty is limited to repairs and returns, warranty claims may result in litigation, the occurrence of which could adversely affect our business and operating results. Based on our historical experience with our camera products, we have an established methodology for estimating warranty liabilities with respect to cameras and accessories. However, we have insufficient data and historical experience to be able to predict future warranty claims related to our Fusion spherical camera.

In 2016, we launched GoPro Care, a fee-based service that offers a range of support options to our consumers, including extended warranty and accidental damage coverage in the United States, and we plan to expand GoPro Care internationally. Accidental damage coverage and extended warranties are regulated in the United States on a state level and are treated differently by state. Additionally, outside the United States, regulations for extended warranties and accidental damage vary from country to country. Changes in interpretation of the insurance regulations or other laws and regulations concerning extended warranties and accidental damage coverage on a federal, state, local or international level may cause us to incur costs or have additional regulatory requirements to meet in the future in order to continue to offer GoPro Care in compliance with any similar laws adopted in other jurisdictions. Our failure to comply with past, present and future similar laws could result in reduced sales of our products, reputational damage, penalties and other sanctions, which could harm our business and financial condition.

Consumers may be injured while engaging in activities with our products, and we may be exposed to claims, or regulations could be imposed, which could adversely affect our brand, operating results and financial condition.

Consumers use our cameras, drones and their associated mounts and accessories to self-capture their participation in a wide variety of physical activities, including extreme sports, which in many cases carry the risk of significant injury or death. Consumers may also use our drones for a wide range of flight activity, including aerial data collection, videography and photography. We may be subject to claims that users have been injured or harmed by or while using our products, including false claims or erroneous reports relating to safety, security or privacy issues, or that personal property has been damaged as a result of use of our drone. Although we maintain insurance to help protect us from the risk of such claims, such insurance may not be sufficient or may not apply to all situations. Similarly, proprietors of establishments at which consumers engage in challenging physical activities could seek to ban the use of our products in their facilities to limit their own liability. In addition, if lawmakers or governmental agencies were to determine that the use of our products increased the risk of injury or harm to all or a subset of our users or should otherwise be restricted to protect consumers, they may pass laws or adopt regulations that limit the use of our products or increase our liability associated with the use of our products. Any of these events could adversely affect our brand, operating results and financial condition.

Our intellectual property and proprietary rights may not adequately protect our products and services, and our business may suffer if it is alleged or determined that our technology, products, or another aspect of our business infringes third-party intellectual property or if third parties infringe our rights.

We own patents, trademarks, copyrights, trade secrets, and other intellectual property (collectively “intellectual property”) related to aspects of our products, software, services and designs. Our commercial success may depend in part on our ability to obtain, maintain and protect these rights in the United States and abroad.

We regularly file patent applications to protect innovations arising from our research, development and design as we deem appropriate. We may fail to apply for patents on important products, services, technologies or designs in a timely fashion, or at all. We may not have sufficient intellectual property rights in all countries where unauthorized third-party copying or use of our proprietary technology occurs and the scope of our intellectual property might be more limited in certain countries. Our existing and future patents may not be sufficient to protect our products, services, technologies or designs and/or may not prevent others from developing competing products, services, technologies or designs. We cannot predict the validity and enforceability of our patents and other intellectual property with certainty.

We have registered, and applied to register, certain of our trademarks in several jurisdictions worldwide. In some of those jurisdictions, third-party filings exist for the same, similar or otherwise related products or services, which could block the registration of our marks. Even if we are able to register our marks, competitors may adopt or file similar marks to ours, seek to cancel our trademark registrations, register domain names that mimic or incorporate our marks, or otherwise infringe upon or harm our trademark rights. Although we police our trademark rights carefully, there can be no assurance that we are aware of all third-party uses or that we will prevail in enforcing our rights in all such instances. Any of these negative outcomes could affect the strength, value and effectiveness of our brand, as well as our ability to market our products. We have also registered domain names for websites, or URLs, that we use in our business, such as gopro.com. If we are unable to protect our domain names, our brand, business, and operating results could be adversely affected. Domain names similar to ours have already been registered in the United States and elsewhere, and we may not be able to prevent third parties from acquiring and using domain names that infringe, are similar to, or otherwise decrease the value of, our trademarks. In addition, we might not be able to, or may choose not to, acquire or maintain trademark registrations, domain names, or other related rights in certain jurisdiction.

Litigation may be necessary to enforce our intellectual property rights. Initiating infringement proceedings against third parties can be expensive, take significant time, and divert management’s attention from other business concerns. We may not prevail in litigation to enforce our intellectual property against unauthorized use.

Third parties, including competitors and non-practicing entities, have brought intellectual property infringement claims against us. We expect to continue to receive such intellectual property claims in the future. While we will defend ourselves vigorously against any such existing and future legal proceedings, we may not prevail against all such allegations. We may seek licenses from third parties where appropriate, but they could refuse to grant us a license or demand commercially unreasonable terms. Further, an adverse ruling in an intellectual property infringement proceeding could force us to suspend or permanently cease the production or sale of products/services, face a temporary or permanent injunction, redesign our products/services, rebrand our products/services, pay significant settlement costs, pay third-party license fees or damage awards or give up some of our intellectual property. The occurrence of any of these events may adversely affect our business, financial condition and operating results.

If we are unable to maintain or acquire rights to include intellectual property owned by others in the content distributed by us, our marketing, sales or future business strategy could be affected or we could be subject to lawsuits relating to our use of this content.

The distribution of GoPro content helps to market our brand and our products. If we cannot continue to acquire rights to distribute user-generated content or acquire rights to use and distribute music, athlete and celebrity names and likenesses or other content for our original productions or third-party entertainment distribution channels or for our software products, our marketing efforts could be diminished, our sales could be harmed and our future content strategy could be adversely affected. In addition, third-party content providers or owners may allege that we have violated their intellectual property rights. If we are unable to obtain sufficient rights, successfully defend our use of or otherwise alter our business practices on a timely basis in response to claims of infringement, misappropriation, misuse or other violation of third-party intellectual property rights, our business may be adversely affected. As a user and distributor of content, we face potential liability for rights of publicity and privacy, as well as copyright, or trademark infringement or other claims based on the nature and content of materials that we distribute. If we are found to violate such third-party rights, then our business may suffer.

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If we encounter issues with our manufacturers or suppliers, our business, brand, and results of operations could be harmed and we could lose sales.

We do not have internal manufacturing capabilities and rely on several contract manufacturers, located primarily in China, to manufacture our products. We cannot be certain that we will not experience operational difficulties with our manufacturers, including reductions in the availability of production capacity, errors in complying with product specifications, insufficient quality control, failures to meet production deadlines, increases in manufacturing costs and increased lead times. We also rely on a number of supply chain partners to whom we outsource activities related to inventory warehousing, order fulfillment, distribution and other direct sales logistics. Our supply chain partners are located in China, Czech Republic, Hong Kong, Netherlands, Singapore and a number of other countries in Europe and the Asia Pacific region. Our manufacturers and supply chain partners may experience disruptions in their operations due to equipment breakdowns, labor strikes or shortages, natural disasters, component or material shortages, cost increases or other similar problems. Further, in order to minimize their inventory risk, our manufacturers might not order components from third-party suppliers with adequate lead time, thereby affecting our ability to meet our demand forecast. Therefore, if we fail to manage our relationship with our manufacturers and supply chain partners effectively, or if they experience operational difficulties, our ability to ship products to our retailers and distributors could be impaired and our competitive position and reputation could be harmed.

In the event that we receive shipments of products that fail to comply with our technical specifications or that fail to conform to our quality control standards, and we are not able to obtain replacement products in a timely manner, we risk revenue losses from the inability to sell those products, increased administrative and shipping costs, and lower profitability. Additionally, if defects are not discovered until after consumers purchase our products, they could lose confidence in the technical attributes of our products and our business could be harmed. For example, in the first quarter of 2018, we decided to end of life our REMO accessory due to issues related to battery performance.

We do not control our contract manufacturers or suppliers, including their labor, environmental or other practices. Environmental regulations or changes in the supply, demand or available sources of natural resources may affect the availability and cost of goods and services necessary to run our business. We require our contract manufacturers and suppliers to comply with our formal supplier code of conduct and relevant standards and have ongoing audit programs in place to assess our suppliers' compliance with our requirements. We periodically conduct audits of our contract manufacturers' and suppliers' compliance with our code of conduct, applicable laws and good industry practices. However, these audits may not be frequent or thorough enough to detect non-compliance. Deliberate violations of labor, environmental or other laws by our contract manufacturers or suppliers, or a failure of these parties to follow ethical business practices, could lead to negative publicity and harm our reputation or brand.

Failure to obtain new, and maintain existing, high-quality event, venue, athlete and celebrity sponsorships could harm our business.

Establishing relationships with high profile sporting and entertainment events, venues, sports leagues and sports associations, athletes and celebrity personalities to evaluate, promote and establish product credibility with consumers, including entering into sponsorship and licensing agreements, has and will continue to be a key element of our marketing strategy. However, as competition in our markets has increased, the costs of obtaining and retaining event, venue, athlete and celebrity sponsorships and licensing agreements have increased. Additionally, we may be forced to sign longer term sponsorships in order to retain relationships. If we are unable to maintain our current associations with our event, venue, athlete and celebrity partners, or to do so at a reasonable cost, we could lose the benefits of these relationships, and we may be required to modify and substantially increase our marketing investments. In addition, actions taken by endorsers of our products that harm their reputations could also harm our brand image with consumers. The failure to correctly identify high impact events and venues or build partnerships with those who develop and promote those events and venues, promising athletes or other appealing personalities to use and endorse our products, or poor performance by our endorsers, could adversely affect our brand and result in decreased sales of our products.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act or similar anti-bribery laws in other jurisdictions in which we operate.

The global nature of our business and the significance of our international revenue create various domestic and local regulatory challenges and subject us to risks associated with our international operations. The U.S. Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act 2010, or the U.K. Bribery Act, and similar anti-bribery and anti-corruption laws in other jurisdictions generally prohibit U.S.-based companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business, directing business to another, or securing an advantage. In addition, U.S. public companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. Under the FCPA, U.S. companies may be held liable for the corrupt actions taken by directors, officers, employees, agents, or other strategic or local partners or representatives. As such, if we or our intermediaries fail to comply with the requirements of the FCPA or similar legislation, governmental authorities in the United States and elsewhere could seek to impose substantial civil and/or criminal fines and penalties which could have a material adverse effect on our business, reputation, operating results and financial condition.

We operate in areas of the world that experience corruption by government officials to some degree and, in certain circumstances, compliance with anti-bribery and anti-corruption laws may conflict with local customs and practices. Our global operations require us to import and export to and from several countries, which geographically expands our compliance obligations. In addition, changes in such laws could result in increased regulatory requirements and compliance costs which could adversely affect our business, financial condition and results of operations. We cannot be assured that our employees or other agents will not engage in prohibited conduct and render us responsible under the FCPA or the U.K. Bribery Act. While we have compliance programs, they may not be effective to prevent violations from occurring and employees may engage in prohibited conduct nonetheless. If we are found to be in violation of the FCPA, the U.K. Bribery Act or other anti-bribery or anti-corruption laws (either due to acts or inadvertence of our employees, or due to the acts or inadvertence of others), we could suffer criminal or civil penalties or other sanctions, which could have a material adverse effect on our business.

We are subject to governmental export and import controls and economic sanctions laws that could subject us to liability and impair our ability to compete in international markets.

The U.S. and various foreign governments have imposed controls, export license requirements and restrictions on the import or export of some technologies. Our products are subject to U.S. export controls, and exports of our products must be made in compliance with various economic and trade sanctions laws. Furthermore, U.S. export control laws and economic sanctions prohibit the provision of products and services to countries, governments, and persons targeted by U.S. sanctions. Even though we take precautions to prevent our products from being provided to targets of U.S. sanctions, our products, including our firmware updates, could be provided to those targets or provided by our customers. Any such provision could have negative consequences, including government investigations, penalties and reputational harm. Our failure to obtain required import or export approval for our products could harm our international and domestic sales and adversely affect our revenue.

We could be subject to future enforcement action with respect to compliance with governmental export and import controls and economic sanctions laws that result in penalties, costs, and restrictions on export privileges that could have a material effect on our business and operating results.

Our effective tax rate and the intended tax benefits of our corporate structure and intercompany arrangements depend on the application of the tax laws of various jurisdictions and on how we operate our business.

We are subject to income taxes in the United States and various jurisdictions outside the United States. Our effective tax rate could fluctuate due to changes in the mix of earnings and losses in countries with differing statutory tax rates. For example, our effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates. Our tax expense could also be affected by changes in non-deductible expenses, changes in excess tax benefits related to exercises and vesting of stock-based expense, and the applicability of withholding taxes.

Additionally, in December 2017, the current U.S. administration signed an act referred to as the Tax Cuts and Jobs Act (TCJA), generally effective for taxable years beginning after December 31, 2017. The TCJA is complex and includes significant amendments to the Internal Revenue Code of 1986, as amended, including amendments that significantly change the taxation of offshore earnings and the deductibility of interest. The TCJA had a material impact on the value of our deferred tax assets and could increase our future U.S. tax expense. Furthermore, changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. We are currently assessing the effect of the TCJA on our business and condensed consolidated financial statements. See Note 7 Income taxes, to the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for further discussion of the TCJA.

Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. Our future effective tax rates could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in, or our interpretation, of tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of earnings in countries with low statutory tax rates, or by changes in the valuation of our deferred tax assets and liabilities. The United States, the European Commission, countries in the European Union, Australia and other countries where we do business have been considering changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals. These potential changes could adversely affect our effective tax rates or result in other costs to us.

In addition, we are subject to the examination of our income tax returns by the U.S. Internal Revenue Service (IRS) and other domestic and foreign tax authorities. These tax examinations are expected to focus on our intercompany transfer pricing practices as well as other matters. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and other taxes and have reserved for adjustments that may result from the current examinations. We cannot provide assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

If we are unable to maintain effective internal control in the future, we may not be able to produce timely and accurate financial statements, which could adversely affect our investors' confidence and our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to evaluate and determine the effectiveness of our internal control over financial reporting, and to include a management report assessing the effectiveness of our internal control over financial reporting. We expect that the requirements of these rules and regulations will continue to place significant demands on our financial and operational resources, as well as IT systems.

While we have determined that our internal control over financial reporting was effective as of December 31, 2017, we must continue to monitor and assess our internal control over financial reporting. Our control environment may not be sufficient to remediate or prevent future material weaknesses or significant deficiencies from occurring. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and all instances of fraud will be detected.

If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class A common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities.

We use open source software in our platform that may subject our technology to general release or require us to re-engineer our solutions, which may cause harm to our business.

We use open source software in connection with our services. From time to time, companies that incorporate open source software into their products have faced claims challenging the ownership of open source software and/or compliance with open source license terms. Therefore, we could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute or make available open source software as part of their software to publicly disclose all or part of the source code to such software or make available any derivative works of the open source code on unfavorable terms or at no cost. While we monitor our use of open source software and try to ensure that none is used in a manner that would require us to disclose the source code or that would otherwise breach the terms of an open source agreement, such use could nevertheless occur and we may be required to release our proprietary source code, pay damages for breach of contract, re-engineer our applications, discontinue sales in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business, financial condition or operating results.

Our reported financial results may be negatively impacted by the changes in the accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and may even affect the reporting of transactions completed before the announcement or effectiveness of a change. Other companies in our industry may apply these accounting principles differently than we do, which may affect the comparability of our financial statements. See Note 1 Summary of business and significant accounting policies, to the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for a discussion on recent accounting standards.

If our estimates or judgments relating to our critical accounting policies and estimates prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in our 2017 Annual Report on Form 10-K for the year ended December 31, 2017 in the section titled Management’s Discussion and Analysis of Financial Condition and Results of Operations. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, inventory valuation, stock-based compensation expense, warranty reserves, goodwill and acquired intangible assets, and accounting for income taxes including deferred tax assets and liabilities.

Catastrophic events or political instability could disrupt and cause harm to our business.

Our headquarters are located in the San Francisco Bay Area of California, an area susceptible to earthquakes. A major earthquake or other natural disaster, fire, act of terrorism or other catastrophic event in California or elsewhere that results in the destruction or disruption of any of our critical business operations or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be harmed. Our key manufacturing, supply and distribution partners have global operations including in China, Hong Kong, Japan, Netherlands, Singapore and Taiwan as well as the United States. Political instability or catastrophic events in any of those countries could adversely affect our business in the future, our financial condition and operating results.

If we fail to comply with environmental regulations and conflict minerals disclosures, our business, financial condition, operating results and reputation could be adversely affected.

We are subject to various federal, state, local and international environmental laws and regulations including laws regulating the manufacture, import, use, discharge and disposal of hazardous materials, labeling and notice requirements relating to potential consumer exposure to certain chemicals, and laws relating to the collection of and recycling of electrical and electronic equipment and their packaging.

We are also subject to the SEC's conflict minerals rule which requires disclosure by public companies of the origin, source and chain of custody of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. We have and will continue to incur costs associated with complying with the rule, such as costs related to sourcing of certain minerals (or derivatives thereof), the determination of the origin, source and chain of custody of the minerals used in our products, the adoption of conflict minerals-related governance policies, processes and controls, and possible changes to products or sources of supply as a result of such activities. Within our supply chain, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the data collection and due diligence procedures that we implement, which may harm our reputation.

Although we have policies and procedures in place requiring our contract manufacturers and major component suppliers to comply with applicable federal, state, local and international requirements, we cannot confirm that our manufacturers and suppliers consistently comply with these requirements. In addition, if there are changes to these or other laws (or their interpretation) or if new similar laws are passed in other jurisdictions, we may be required to re-engineer our products to use components compatible with these regulations. This re-engineering and component substitution could result in additional costs to us or disrupt our operations or logistics.

Changes in interpretation of any federal, state, local or international regulation may cause us to incur costs or have additional regulatory requirements to meet in the future in order to comply, or with any similar laws adopted in other jurisdictions. Our failure to comply with past, present and future similar laws could result in reduced sales of our products, substantial product inventory write-offs, reputational damage, penalties and other sanctions, which could harm our business and financial condition. We also expect that our products will be affected by new environmental laws and regulations on an ongoing basis. To date, our expenditures for environmental compliance have not had a material effect on our results of operations or cash flows and, although we cannot predict the future effect of such laws or regulations, they will likely result in additional costs and may increase penalties associated with violations or require us to change the content of our products or how they are manufactured, which could have a material adverse effect on our business and financial condition.

Risks related to Ownership of our Class A Common Stock

Our stock price has been and will likely continue to be volatile.

Since shares of our Class A common stock were sold in our IPO in July 2014 at a price of $24.00 per share, our closing stock price has ranged from $4.53 to $93.85 per share through June 30, 2018. Our stock price may fluctuate in response to a number of events and factors, such as quarterly operating results; changes in our financial projections provided to the public or our failure to meet those projections; the public's reaction to our press releases, other public announcements and filings with the SEC; significant transactions, or new features, products or services offered by us or our competitors; changes in our business lines and product lineup; changes in financial estimates and recommendations by securities analysts; media coverage of our business and financial performance; the operating and stock price performance of, or other developments involving, other companies that investors may deem comparable to us; trends in our industry; any significant change in our management; sales and purchases of any Class A common stock issued upon conversion of our convertible senior notes or in connection with the prepaid forward contract entered into in connection with such convertible senior notes, and general economic conditions. These factors, as well as the volatility of our Class A common stock, could also affect the price of our convertible senior notes.

In addition, the stock market in general, and the market prices for companies in our industry, have experienced volatility that often has been unrelated to operating performance. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Price volatility over a given period may cause the average price at which we repurchase our own stock to exceed the stock's price at a given

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point in time. Volatility in our stock price also affects the value of our equity compensation, which affects our ability to recruit and retain employees. In addition, some companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We are a defendant in three shareholder class action lawsuits as well as two shareholder derivative lawsuits and may continue to be a target for such litigation in the future. Securities litigation against us could result in substantial costs and liability and divert our management's attention from other business concerns, which could harm our business. See Legal Proceedings.
If we fail to meet expectations related to future growth, profitability, or other market expectations, our stock price may decline significantly, which could have a material adverse effect on investor confidence and employee retention. A sustained decline in our stock price and market capitalization could lead to impairment charges.
The dual class structure of our common stock has the effect of concentrating voting control with our CEO and we cannot predict the effect our dual class structure may have on our stock price or our business.
Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. Stockholders who hold shares of Class B common stock hold approximately 76.5% of the voting power of our outstanding capital stock as of December 31, 2017 with Mr. Woodman, our Chairman and CEO, holding approximately 76.2% of the outstanding voting power. Mr. Woodman is able to control all matters submitted to our stockholders, including the election of directors, amendments of our organizational documents and any merger, consolidation, sale of all or substantially all of our assets or other major corporate transaction. This concentrated control could delay, defer, or prevent a change of control, merger, consolidation, or sale of all or substantially all of our assets that our other stockholders support, or conversely this concentrated control could result in the consummation of such a transaction that our other stockholders do not support. This concentrated control could also discourage a potential investor from acquiring our Class A common stock due to the limited voting power of such stock relative to the Class B common stock and might harm the trading price of our Class A common stock.
In addition, we cannot predict whether our dual class structure, combined with the concentrated control by Mr. Woodman, will result in a lower or more volatile market price of our Class A common stock or in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple-class share structures in certain of their indexes. In July 2017, FTSE Russell announced that it plans to require new constituents of its indexes to have greater than 5% of the company's voting rights in the hands of public stockholders, and S&P Dow Jones announced that it will no longer admit companies with multiple-class share structures to certain of its indexes. Because of our dual class structure, we may be excluded from these indexes and we cannot assure you that other stock indexes will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indexes, exclusion from stock indexes would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors. As a result, the market price of our Class A common stock could be adversely affected.
If securities analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.
The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.
Delaware law and provisions in our restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our Class A common stock.
Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company

more difficult without the approval of our board of directors, or otherwise adversely affect the rights of the holders of our Class A and Class B common stock, including the following:

- our board of directors is not currently classified, but at such time as all shares of our Class B common stock have been converted into shares of our Class A common stock, our board of directors will be classified into three classes of directors with staggered three-year terms;
- so long as any shares of our Class B common stock are outstanding, special meetings of our stockholders may be called by the holders of 10% of the outstanding voting power of all then outstanding shares of stock, a majority of our board of directors, the chairman of our board of directors, our chief executive officer or our president;
- when no shares of our Class B common stock are outstanding, only the chairman of our board of directors, our chief executive officer, our president or a majority of our board of directors will be authorized to call a special meeting of stockholders;
- our stockholders may only take action at a meeting of stockholders and not by written consent;
- vacancies on our board of directors may be filled only by our board of directors and not by stockholders;
- directors may be removed from office with or without cause so long as our board of directors is not classified, and thereafter directors may be removed from office only for cause;
- our restated certificate of incorporation provides for a dual class common stock structure in which holders of our Class B common stock have the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the outstanding shares of our Class A and Class B common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets;
- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established, and shares of which may be issued, by our board of directors without stockholder approval and which may contain voting, liquidation, dividend and other rights superior to those of our Class A and Class B common stock; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

Risks related to our convertible senior notes

We have indebtedness in the form of convertible senior notes.

In April 2017, we completed an offering of $175.0 million aggregate principal amount of 3.50% convertible senior Notes due 2022 (Notes). As a result of this Notes offering, we incurred $175.0 million principal amount of indebtedness, the principal amount of which we may be required to pay at maturity in 2022. Holders of the Notes will have the right to require us to repurchase their Notes upon the occurrence of a fundamental change at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest, if any. In addition, the indenture for the Notes provides that we are required to repay amounts due under the indenture in the event that there is an event of default for the Notes that results in the principal, premium, if any, and interest, if any, becoming due prior to Maturity Date for the Notes. There can be no assurance that we will be able to repay this indebtedness when due, or that we will be able to refinance this indebtedness on acceptable terms or at all. In addition, this indebtedness could, among other things:

- heighten our vulnerability to adverse general economic conditions and heightened competitive pressures;
- require us to dedicate a larger portion of our cash flow from operations to interest payments, limiting the availability of cash for other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes.

In addition, our ability to purchase the Notes or repay prior to maturity any accelerated amounts under the Notes upon an event of default or pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our indebtedness outstanding at the time, including our credit facility. Our credit facility restricts our ability to repurchase the Notes for cash or repay prior to maturity any accelerated amounts under the Notes upon an event of default or pay cash upon conversion of the Notes to the extent that on the date of such repurchase, repayment or conversion, as the case may be, after giving pro forma effect to such payment,

our remaining borrowing capacity pursuant to such credit facility falls below (i) to the extent that our fixed charge coverage ratio is at least to 1.0, the greater of (A) $37.5 million and (B) 15% of the lesser of the aggregate commitments under such credit facility and the aggregate borrowing base then in effect or (ii) to the extent that our fixed charge coverage ratio is less than 1.0 to 1.0, the greater of (A) $50.0 million and (B) 20% of the lesser of the aggregate commitments under such credit facility and the aggregate borrowing base then in effect. Any of our future indebtedness may contain similar restrictions. Our failure to repurchase Notes at a time when the repurchase is required by the indenture (whether upon a fundamental change or otherwise under the indenture) or pay cash payable on future conversions of the Notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our existing or future indebtedness, including our credit facility. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness, repurchase the Notes or make cash payments upon conversions thereof.

Our credit facility imposes restrictions on us that may adversely affect our ability to operate our business.

Our credit facility contains restrictive covenants relating to our capital raising activities and other financial and operational matters which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, our credit facility contains, and the agreements governing the Notes will contain, a cross-default provision whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. For example, the occurrence of a default with respect to any indebtedness or any failure to repay debt when due in an amount in excess of $25 million would cause a cross default under the indenture governing the Notes, as well as under our credit facility. The occurrence of a default under any of these borrowing arrangements would permit the holders of the Notes or the lenders under our credit facility to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable. If the note holders or the trustee under the indenture governing the Notes or the lenders under our credit facility accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings.

Conversion of the Notes will, to the extent we deliver shares upon conversion of such Notes, dilute the ownership interest of existing stockholders, including holders who had previously converted their Notes, or may otherwise depress our stock price.

The conversion of some or all of the Notes will dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of any of the Notes. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions, or anticipated conversion of the Notes into shares of our common stock could depress our stock price.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than cash in lieu of any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders of the Notes do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, may have a material effect on our reported financial results.

Under GAAP, an entity must separately account for the debt component and the embedded conversion option of convertible debt instruments that may be settled entirely or partially in cash upon conversion, such as the Notes we are offering, in a manner that reflects the issuer's economic interest cost. The effect of the accounting treatment for such instruments is that the value of such embedded conversion option would be treated as original issue discount for purposes of accounting for the debt component of the Notes, and that original issue discount is amortized into interest expense over the term of the Notes using an effective yield method. As a result, we will initially be required to record a greater amount of non-cash interest expense because of the amortization of the original issue discount to the Notes' face amount over the term of the Notes and because of the amortization of the debt issuance costs.

Accordingly, we will report lower net income (or greater net loss) in our financial results because of the recognition of both the current period's amortization of the debt discount and the Notes' coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the if-converted method, the effect of which is that conversion will not be assumed for purposes of computing diluted earnings per share if the effect would be antidilutive. Under the if-converted method, for diluted earnings per share purposes, convertible debt is antidilutive whenever its interest, net of tax and nondiscretionary adjustments, per common share obtainable on conversion exceeds basic earnings per share. Dilutive securities that are issued during a period and dilutive convertible securities for which conversion options lapse, or for which related debt is extinguished during a period, will be included in the denominator of diluted earnings per share for the period that they were outstanding. Likewise, dilutive convertible securities converted during a period will be included in the denominator for the period prior to actual conversion. Moreover, interest charges applicable to the convertible debt will be added back to the numerator. We cannot be sure that the accounting standards in the future will continue to permit the use of the if-converted method. If we are unable to use the if-converted method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

In addition, if the conditional conversion feature of the Notes is triggered, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The prepaid forward may affect the value of the Notes and our common stock and may result in unexpected market activity in the Notes and/or our common stock.

In connection with the issuance of the Notes, we entered into a prepaid forward with a forward counterparty. The prepaid forward is intended to facilitate privately negotiated derivative transactions by which investors in the Notes will be able to hedge their investment. In connection with establishing its initial hedge of the prepaid forward, the forward counterparty (or its affiliate) entered into or expects to enter into one or more derivative transactions with respect to our Class A common stock with purchasers of the Notes concurrently with or after the offering of the Notes. The prepaid forward is intended to reduce the dilution to our stockholders from the issuance of our Class A common stock (if any) upon conversion of the Notes and to allow certain investors to establish short positions that generally correspond to commercially reasonable initial hedges of their investment in the Notes. In addition, the forward counterparty (or its affiliate) may modify its hedge position by entering into or unwinding one or more derivative transactions with respect to our Class A common stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions at any time, including following the offering of the Notes and immediately prior to or shortly after April 15, 2022, the Maturity Date of the Notes (and are likely to unwind their derivative transactions and/or purchase or sell our Class A common stock in connection with any conversion or repurchase of the Notes, in connection with the purchase or sale of Notes by certain investors and/or in the event that sufficient borrow of our Class A common stock becomes available). These activities could also cause or avoid an increase or a decrease in the market price of our Class A common stock or the Notes.

The prepaid forward initially facilitated privately negotiated derivative transactions relating to our Class A common stock, including derivative transactions by which investors in the Notes established short positions relating to our Class A common stock to hedge their investments in the Notes concurrently with, or shortly after, the placement of the Notes. Neither we nor the forward counterparty control how such investors may use such derivative transactions. In addition, such investors may enter into other transactions in connection with such

derivative transactions, including the purchase or sale of our Class A common stock, at any time. As a result, the existence of the prepaid forward, such derivative transactions, and any related market activity could cause more sales of our Class A common stock over the term of the prepaid forward than there would have otherwise been had we not entered into the prepaid forward. Such sales could potentially affect the market price of our Class A common stock and/or the Notes.

The fundamental change repurchase feature of the Notes may delay or prevent an otherwise beneficial attempt to take over our company.

The terms of the Notes require us to repurchase the Notes in the event of a fundamental change. A takeover of our company would trigger an option of the holders of the Notes to require us to repurchase the Notes. In addition, if a make-whole fundamental change occurs prior to the Maturity Date of the Notes, we will in some cases be required to increase the conversion rate for a holder that elects to convert its Notes in connection with such make-whole fundamental change. Furthermore, the indenture for the Notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes. These and other provisions of the indenture may have the effect of delaying or preventing a takeover of our company.

We are subject to counterparty risk with respect to the prepaid forward.

We will be subject to the risk that the forward counterparty might default under the prepaid forward. Our exposure to the credit risk of the forward counterparty will not be secured by any collateral. Global economic conditions have in the recent past resulted in, and may again result in, the actual or perceived failure or financial difficulties of many financial institutions. If the forward counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings, with a claim equal to our exposure at that time under our transactions with the forward counterparty. Our exposure will depend on many factors, but, generally, an increase in our exposure will be correlated to an increase in the market price of our common stock. In addition, upon a default by the forward counterparty, we may suffer more dilution than we currently anticipate with respect to our Class A common stock. We can provide no assurances as to the financial stability or viability of the forward counterparty to the prepaid forward.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Sales of unregistered securities. Not applicable.

Issuer purchases of equity securities. No shares of our Class A or Class B common stock were purchased by the Company during the second quarter of 2018.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits
Exhibit Listing

Exhibit Number	Exhibit Title	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
31.01	Certification of Principal Executive Officer Required Under Rule 13(a)-14(a) and 15(d)-14(a) of the Securities Exchange Act of 1934, as amended.					X
31.02	Certification of Principal Financial Officer Required Under Rule 13(a)-14(a) and 15(d)-14(a) of the Securities Exchange Act of 1934, as amended.					X
32.01‡	Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.					X
101.INS	XBRL Instance Document					
101.SCH	XBRL Taxonomy Extension Schema					
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					
101.LAB	XBRL Taxonomy Extension Label Linkbase					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					
101.DEF	XBRL Taxonomy Extension Definition Linkbase					

‡ As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the SEC and are not incorporated by reference in any filing of GoPro, Inc. under the Securities Act of 1933 or the Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.

SIGNATURES

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

GoPro, Inc.
(Registrant)

Dated:	August 2, 2018	By: /s/ Nicholas Woodman
		Nicholas Woodman
		Chief Executive Officer
		(Principal Executive Officer)
Dated:	August 2, 2018	By: /s/ Brian McGee
		Brian McGee
		Chief Financial Officer
		(Principal Financial Officer)