GoPro, Inc.
Form 10-Q
August 04, 2017

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, 2017

OR

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

For the transition period from _____ to _____

Commission file number: 001-36514
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 June 30, 2017, 107,841,904 and 36,867,151 shares of Class A and Class B common stock were outstanding, respectively.

GoPro, Inc.
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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, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$149,755	$ 192,114
Marketable securities	—	25,839
Accounts receivable, net	95,872	164,553
Inventory	126,708	167,192
Prepaid expenses and other current assets	29,515	38,115
Total current assets	401,850	587,813
Property and equipment, net	71,833	76,509
Intangible assets, net	29,001	33,530
Goodwill	146,459	146,459
Other long-term assets	72,828	78,329
Total assets	$721,971	$ 922,640
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$76,208	$ 205,028
Accrued liabilities	151,317	211,323
Deferred revenue	15,036	14,388
Total current liabilities	242,561	430,739
Long-term taxes payable	20,865	26,386
Long-term debt	125,817	—
Other long-term liabilities	19,906	18,570
Total liabilities	409,149	475,695
Commitments, contingencies and guarantees (Note 8)		
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, 98,766 and 104,647 shares issued and outstanding, respectively; 150,000 Class B shares authorized, 36,867 and 36,712 shares issued and outstanding, respectively	827,382	757,226
Treasury stock, at cost, 10,710 and 1,545 shares, respectively	(113,613)	(35,613)
Accumulated deficit	(400,947)	(274,668)
Total stockholders’ equity	312,822	446,945
Total liabilities and stockholders’ equity	$721,971	$ 922,640

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

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

(in thousands, except per share data)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenue	$296,526	$220,755	$515,140	$404,291
Cost of revenue	190,894	127,753	340,942	251,575
Gross profit	105,632	93,002	174,198	152,716
Operating expenses:				
Research and development	55,497	93,049	121,663	170,028
Sales and marketing	56,678	84,888	124,534	164,337
General and administrative	18,440	24,442	41,199	49,163
Total operating expenses	130,615	202,379	287,396	383,528
Operating loss	(24,983)	(109,377)	(113,198)	(230,812)
Other income (expense):				
Interest expense	(3,784)	(516)	(4,598)	(659)
Other income, net	222	1,176	383	1,012
Total other income (expense), net	(3,562)	660	(4,215)	353
Loss before income taxes	(28,545)	(108,717)	(117,413)	(230,459)
Income tax expense (benefit)	1,991	(16,950)	24,273	(31,233)
Net loss	$(30,536)	$(91,767)	$(141,686)	$(199,226)
Net loss per share:				
Basic	$(0.22)	$(0.66)	$(1.02)	$(1.44)
Diluted	$(0.22)	$(0.66)	$(1.02)	$(1.44)
Shares used to compute net loss per share:				
Basic	136,288	138,942	139,575	138,243
Diluted	136,288	138,942	139,575	138,243

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

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

(in thousands)	Six months ended June 30, 2017	June 30, 2016
Operating activities:		
Net loss	$(141,686)	$(199,226)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	23,160	17,804
Stock-based compensation	24,360	33,135
Excess tax benefit from stock-based compensation [1]	—	(917)
Deferred income taxes	(1,894)	(13,494)
Non-cash restructuring charges	2,800	—
Non-cash interest expense	1,530	—
Other	3,763	1,162
Changes in operating assets and liabilities:		
Accounts receivable, net	69,321	80,699
Inventory	40,484	98,343
Prepaid expenses and other assets	6,633	(9,282)
Accounts payable and other liabilities	(178,536)	(85,492)
Deferred revenue	699	(1,457)
Net cash used in operating activities	(149,366)	(78,725)
Investing activities:		
Purchases of property and equipment, net	(10,112)	(12,192)
Maturities of marketable securities	14,160	71,302
Sale of marketable securities	11,623	6,791
Acquisitions, net of cash acquired	—	(104,353)
Net cash provided by (used in) investing activities	15,671	(38,452)
Financing activities:		
Proceeds from issuance of common stock	6,629	5,265
Taxes paid related to net share settlement of equity awards	(8,210)	(860)
Proceeds from issuance of convertible senior notes	175,000	—
Prepayment of forward stock repurchase transaction	(78,000)	—
Excess tax benefit from stock-based compensation [1]	—	917
Payment of deferred acquisition-related consideration	(75)	(950)
Payment of debt issuance costs	(5,250)	(3,221)
Net cash provided by financing activities	90,094	1,151
Effect of exchange rate changes on cash and cash equivalents	1,242	(134)
Net decrease in cash and cash equivalents	(42,359)	(116,160)
Cash and cash equivalents at beginning of period	192,114	279,672
Cash and cash equivalents at end of period	$149,755	$163,512

[1] Effective January 1, 2017, the Company adopted an accounting standard which addresses, among other items, updates to the presentation and treatment of excess tax benefits related to stock-based compensation. See "Recent Accounting Standards" in Note 1 below.

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. (GoPro or the Company) makes mountable and wearable cameras, drones and accessories. The Company's products are sold globally through retailers, wholesale distributors and on the Company's 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, 2016 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, 2016. 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 returns, implied post contract support and marketing allowances), 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.

Prior period reclassifications. Reclassifications of certain prior period amounts in the condensed consolidated financial statements have been made to conform to the current period presentation.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

Recent accounting standards

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
Standards that were adopted			
Stock Compensation Accounting Standards Update (ASU) No. 2016-09 (Topic 718)	This standard simplifies certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification on the statement of cash flows. The new guidance also allows an entity to make a policy election to account for forfeitures as they occur.	January 1, 2017	Adoption of the standard resulted in the recognition of previously unrecognized excess tax benefits using the modified retrospective method. The Company recorded an increase to U.S. deferred tax assets of $179 million which was recorded directly against accumulated deficit. The increased deferred tax asset allowed for an offset against long-term income tax payable of $16 million. A full valuation allowance was provided on the remaining U.S. deferred tax asset of $163 million, which was also recorded against accumulated deficit. The net impact to equity was a decrease in the accumulated deficit of approximately $16 million. The Company elected to apply the change in presentation to the statements of cash flows prospectively and elected to account for forfeitures as they occur.
Standards not yet adopted			
Revenue from Contracts with Customers ASU No. 2014-09, 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 customers. Early adoption is permitted, but not earlier than the first quarter of 2017. The retrospective or cumulative effect transition method is permitted.	January 1, 2018	The Company completed an initial analysis of the impact of the standard on its sales contract portfolio by reviewing its current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to its sales contracts. The Company's analysis of its contracts under the new standard supports the recognition of most of its revenue at the time product is shipped, consistent with its current revenue policy. Although the Company is continuing to review certain aspects of its policies and practices, it expects that, as a result of the adoption of the new guidance, the timing of recognizing certain sales incentives as a reduction of revenue will generally be earlier than under the existing guidance. (The Company recognized approximately $19 and $42 million as a reduction to revenue for such sales incentives for the first six months of 2017 and for the full year 2016, respectively.) The Company does not expect that the adoption of ASU 2014-09 will have a material impact to the quarterly or yearly sales incentives recognized. The Company expects to utilize the modified retrospective transition method.
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.	January 1, 2019	Although the Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures, the Company currently expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.
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. This removes the exception to postpone recognition until the asset has been sold to an outside party. The updated standard is effective in annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted during the first interim period of a fiscal year.	January 1, 2018	The Company is evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

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Notes to 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 the adoption of this standard will have a material impact on its consolidated financial statements and related disclosures.
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 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. The updated standard is effective in annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted.	January 1, 2018	The Company is evaluating the impact that the adoption of this standard will have on its 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. Condensed consolidated financial statement details
The following sections and tables provide details of selected balance sheet items.
Cash, cash equivalents and marketable securities

(in thousands)	June 30, 2017	December 31, 2016
Cash	$57.518	$174,090
Cash equivalents	92.237	18,024
Total cash and cash equivalents	$149,755	$192,114
Marketable securities	$—	$25,839

Cash and cash equivalents including money market funds that have original maturity dates of three months or less which are highly liquid. The carrying value of cash and cash equivalents approximates fair value due to the short-term nature of these investments and are classified as level 1. Refer to the audited financial statements contained in the Company's Annual Report for information regarding marketable securities as of December 31, 2016.
Inventory

(in thousands)	June 30, 2017	December 31, 2016
Components	$18,828	$25,236
Finished goods	107,880	141,956
Total inventory	$126,708	$167,192

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

Property and equipment, net

(in thousands)	June 30, 2017	December 31, 2016
Leasehold improvements	$49,520	$48,103
Production, engineering and other equipment	47,280	46,328
Tooling	25,506	23,742
Computers and software	19,834	18,750
Furniture and office equipment	12,909	12,530
Tradeshow equipment and other	7,578	7,578
Construction in progress	11,859	1,870
Gross property and equipment	174,486	158,901
Less: Accumulated depreciation and amortization	(102,653)	(82,392)
Property and equipment, net	$71,833	$76,509

Intangible assets

	June 30, 2017		
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value
Purchased technology	$47,001	$ (21,515)	$25,486
In-process research and development (IPR&D)	3,515	—	3,515
Total intangible assets	$50,516	$ (21,515)	$29,001

	December 31, 2016		
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value
Purchased technology	$47,001	$ (17,086)	$29,915
IPR&D	3,615	—	3,615
Total intangible assets	$50,616	$ (17,086)	$33,530

As of June 30, 2017, 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 $4.5 million and $3.9 million in the six months ended June 30, 2017 and 2016, respectively. At June 30, 2017, expected amortization expense of intangible assets with definite lives for future periods is as follows:

(in thousands)	Total
Year ending December 31,	
2017 (remaining 6 months)	$4,260
2018	8,297
2019	7,786
2020	4,273
2021	870
	$25,486

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

Accrued liabilities

(in thousands)	June 30, 2017	December 31, 2016
Accrued payables	$49,483	$91,655
Employee related liabilities [1]	20,546	42,577
Accrued sales incentives	26,033	40,070
Warranty liability	9,613	11,456
Customer deposits	5,433	4,381
Income taxes payable	19,375	2,756
Purchase order commitments	4,456	4,730
Other	16,378	13,698
Accrued liabilities	$151,317	$211,323

[1] See Note 10 for amounts associated with restructuring liabilities.

3. Financing Arrangements

Credit Facility

In March 2016, the Company entered into a Credit Agreement (Credit Agreement) with JPMorgan Chase Bank, N.A., as administrative agent, Wells Fargo, as co-agent, and the lender parties thereto. The Credit Agreement provides for a secured revolving credit facility (Credit Facility) under which the Company may borrow up to an aggregate of $250 million and the Company and lenders may increase the total commitments under the Credit Facility to up to $300 million, subject to certain conditions. The Credit Facility will terminate and all 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 a borrowing base formula with respect to the Company's inventory and accounts receivable balances. For additional information regarding the credit facility, please refer to the audited financial statements contained in our Annual Report.

At June 30, 2017 and December 31, 2016, the Company may borrow up to approximately $89 million and $150 million, respectively, under the Credit Facility and was in compliance with all financial covenants contained in the Credit Agreement. No borrowings have been made from the Credit Facility to date.

Convertible Notes

On April 12, 2017, the Company issued $175.0 million aggregate principal amount of 3.50% Convertible Senior Notes due 2022 (Notes) in a private offering to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended (Securities Act). The Notes were issued pursuant to an Indenture, dated as of April 12, 2017, between the Company and Wells Fargo Bank, National Association, as trustee (Wells Fargo). The Notes are senior, unsecured, obligations of GoPro. The Notes mature on April 15, 2022, unless earlier repurchased or converted into shares of Class A common stock under certain circumstances described below. 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. Upon conversion, the Company currently intends to deliver cash up to the principal amount of the Notes then outstanding. The Company will pay interest on the Notes semi-annually in arrears on April 15 and October 15 of each year with interest payments beginning on October 15, 2017.

The $175.0 million of proceeds received from the issuance of the Notes were allocated between long-term debt (the liability component) of $128.3 million and additional paid-in-capital (the 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

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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 nonconvertible borrowing rate on the Notes, including accretion of the notes to par and debt issuance cost amortization, was 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, in proportion to the allocation of the proceeds of the Notes. The $4.2 million of issuance costs recorded as long-term debt on the condensed consolidated balance sheet is being amortized ratably over the five-year contractual term of the Notes.

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 may convert the Notes, at their option, 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.

Regardless of whether any of the foregoing circumstances occurs, a holder may convert its Notes, in multiples of $1,000 principal amount, 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 22, 2022. 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 (as defined in the Indenture), holders will, subject to certain conditions, have the right, at their option, to require the Company to repurchase for cash all or part of their notes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date.

As of June 30, 2017, the outstanding principal on the Notes was $175.0 million, the unamortized debt discount was $45.2 million, the unamortized debt issuance cost was $4.0 million and the net carrying amount of the liability component was $125.8 million, which was recorded as long-term debt within the condensed consolidated balance sheet. For the first half of 2017, the Company recorded interest expense of $1.2 million for contractual coupon interest, $0.2 million for amortization of debt issuance costs and $1.5 million 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 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 transactions expose the Company to credit risk to the extent that its counterparties may be unable to meet the terms of the transactions. The Company mitigates this risk by limiting its counterparties to major financial institutions.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

4. 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 10 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. 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, please refer to the audited financial statements contained in its 2016 Annual Report.

Stock options

A summary of the Company’s stock option activity in the six months ended June 30, 2017 is as follows:

	Options outstanding		
	Shares (in thousands)	Weighted-average exercise price	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2016:	12,379	$ 12.17	$ 32,772
Granted	1,747	9.30	
Exercised	(1,113)	1.45	
Forfeited/Cancelled	(2,318)	17.44	
Outstanding at June 30, 2017:	10,695	11.68	22,769
Exercisable at June 30, 2017	8,162	$ 11.46	$ 22,769

The aggregate intrinsic value of the stock options outstanding as of June 30, 2017 represents the value of the Company's closing stock price on June 30, 2017 in excess of the exercise price multiplied by the number of options outstanding.

Restricted stock units

A summary of RSU activity in the six months ended June 30, 2017 is as follows:

	Shares (in thousands)	Weighted-average grant date fair value
Non-vested shares at December 31, 2016:	7,970	$ 18.08
Granted	4,036	9.27
Vested	(2,537)	13.99
Forfeited	(2,388)	17.79
Non-vested shares at June 30, 2017:	7,081	14.62

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 $0.6 million and $4.2 million for the six months ended June 30, 2017 and 2016, respectively.

Employee stock purchase plan. In the six months ended June 30, 2017 and 2016, the Company issued 625,811 and 431,673 shares under its ESPP at weighted average prices of $8.02 and $8.76, respectively.

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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 issuances is estimated using the Black-Scholes option pricing model. The fair value of RSUs is determined using the Company's closing stock price on the date of grant. There have been no significant changes in the Company’s valuation assumptions from those disclosed in its 2016 Annual Report.
The following table summarizes stock-based compensation included in the condensed consolidated statements of operations:

	Three months ended		Six months ended	
(in thousands)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Cost of revenue	$415	$412	$910	$769
Research and development	5,390	7,086	11,072	13,096
Sales and marketing	1,995	3,679	4,686	6,883
General and administrative	3,435	6,227	7,692	12,387
Total stock-based compensation expense	$11,235	$17,404	$24,360	$33,135

The income tax benefit related to stock-based compensation expense was zero and $10.2 million for the six months ended June 30, 2017 and 2016, respectively. There was no income tax benefit in the six months ended June 30, 2017 due to a full valuation allowance on the Company's U.S. net deferred tax assets (see Note 6 below).
At June 30, 2017, total unearned stock-based compensation of $91.2 million related to stock options, RSUs and ESPP shares is expected to be recognized over a weighted average period of 2.2 years.

5. Net loss per share
Basic net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding, including all potentially dilutive common shares. Additionally, the calculation of weighted average shares outstanding as of June 30, 2017 excludes approximately 9.2 million shares that will be repurchased as a result of the Prepaid Forward transactions.
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.

GoPro, Inc.
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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, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Numerator:				
Net loss	$(30,536)	$(91,767)	$(141,686)	$(199,226)
Denominator:				
Weighted-average common shares—basic for Class A and Class B common stock	136,288	138,942	139,575	138,243
Effect of dilutive stock-based awards	—	—	—	—
Weighted-average common shares—diluted for Class A and Class B common stock	136,288	138,942	139,575	138,243
Net loss per share:				
Basic	$(0.22)	$(0.66)	$(1.02)	$(1.44)
Diluted	$(0.22)	$(0.66)	$(1.02)	$(1.44)

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, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Effect of anti-dilutive stock-based awards	19,474	21,391	20,235	19,848

6. 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 a deferred tax asset is 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. The Company updates its estimate of the annual effective tax rate each quarter, and if the estimated annual tax rate changes, a cumulative adjustment is made in that quarter.

(dollars in thousands)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Income tax expense (benefit)	$1,991	$(16,950)	$24,273	$(31,233)
Effective tax rate	(7.0)%	15.6 %	(20.7)%	13.6 %

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The Company recorded an income tax provision of $2.0 million for the three months ended June 30, 2017 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 provisions in the three and six months ended June 30, 2017 were principally composed of tax expenses incurred on pre-tax income in profitable foreign jurisdictions. 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. The effective tax rate of 15.6% and 13.6% for the three months ended and six months ended June 30, 2016 resulted from the Company providing a net tax benefit on pre-tax losses in the United States, which was offset by income taxes at lower rates in profitable foreign jurisdictions (primarily related to the Company's wholly owned subsidiaries in Europe). Future changes in the 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.
The Company is currently under examination by the Internal Revenue Service for the 2012 through 2015 tax years and is not able to estimate the potential impact that the examination may have on income tax expense. If the examination is resolved unfavorably, there is a possibility it may have a material negative impact on the Company's results of operations. At June 30, 2017 and December 31, 2016, the Company's gross unrecognized tax benefits were $73.5 million and $56.9 million, respectively. If recognized, $16.7 million of these unrecognized tax benefits (net of U.S. federal benefit) at June 30, 2017 would be recorded as a reduction of future income tax provision. These unrecognized tax benefits relate primarily to unresolved matters with taxing authorities regarding the Company's transfer pricing positions and 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. The Company's existing tax positions will continue to generate an increase in unrecognized tax benefits in subsequent periods. Management believes events that could occur in the next 12 months and cause a material change in unrecognized tax benefits include, but are not limited to, the completion of examinations by the U.S. or foreign taxing authorities and the expiration of statute of limitations on the Company's tax returns. Although the completion, settlement and closure of any audits is uncertain, it is reasonably possible that the total amount of unrecognized tax benefits will 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.

7. 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 expense of zero and $0.6 million in the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and December 31, 2016, the Company had no accounts payable associated with these aircraft fees.
The Company obtained services from a vendor whose CEO is also one of the members of the Company's board of directors. The Company recorded expense of zero and $0.1 million in the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and December 31, 2016, the Company had accounts payable associated with this vendor of zero and $0.3 million, respectively.
See Note 4 above for information regarding CEO RSUs.

8. 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 December 31, 2016, the Company's total future minimum lease payments under non-cancelable operating leases were $139.5 million. There have been no material changes to the Company's lease commitments during the first and second quarters of 2017. Rent expense was $10.0 million and $9.8 million for the six months ended June 30, 2017 and 2016, respectively.

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

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Notes to Condensed Consolidated Financial Statements

to its financial and IT systems and various other contractual commitments. As of June 30, 2017, the Company's total undiscounted future expected obligations under multi-year agreements described above with terms longer than one year was $14.1 million, composed of payments to be made of $5.2 million during the remaining six months of 2017, and $5.4 million and $3.5 million in 2018 and 2019, respectively. The decrease of $39.6 million from future expected obligations of $53.7 million at December 31, 2016 was primarily due to the termination of a 3.5-year agreement the Company entered into with Red Bull GmbH in May 2016 and the termination of a contract with a software technology development vendor that resulted in a reduction to the Company's future expected obligations. There were no other material changes during the first half of 2017.

Product warranty

The following table summarizes the warranty liability activity:

(in thousands)	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Beginning balances	$11,442	$8,011	$11,944	$10,855
Charged to cost of revenue	829	5,871	2,258	8,541
Settlements of warranty claims	(2,297)	(4,943)	(4,228)	(10,457)
Ending balances	$9,974	$8,939	$9,974	$8,939

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, 2017, 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.

9. 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's management 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, 2017	December 31, 2016
Customer A	17%	15%
Customer B	32%	27%

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Notes to Condensed Consolidated Financial Statements

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

(in thousands)	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Accounts receivable sold	$41,574	$43,794	$78,962	$64,304
Factoring fees	368	317	680	459

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

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Customer A	17%	21%	16%	18%
Customer B	12%	14%	*	14%

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

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's management 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:

(in thousands)	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Americas	$157,027	$124,570	$252,734	$209,875
Europe, Middle East and Africa ("EMEA")	80,214	60,714	148,077	120,992
Asia and Pacific ("APAC")	59,285	35,471	114,329	73,424
Total revenue	$296,526	$220,755	$515,140	$404,291

Revenue in the United States, which is included in the Americas geographic region, was $227.4 million and $188.2 million for the six months ended June 30, 2017 and 2016, 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, 2017 and December 31, 2016 long-lived assets, which represent gross property and equipment, located outside the United States, primarily in Hong Kong and China, were $80.4 million and $76.6 million, respectively.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

10. Restructuring charges

Restructuring charges for each period were as follows:

(in thousands)	Six months ended June 30, 2017	June 30, 2016
Cost of revenue	$418	$ 364
Research and development	7,381	2,655
Sales and marketing	5,603	2,678
General and administrative	1,409	811
Total restructuring charges	$14,811	$ 6,508

First quarter 2017 restructuring

On March 15, 2017, the Company approved a restructuring to further reduce future operating expenses and better align resources around its long-term business strategy. The restructuring provided for a reduction of employee headcount and open positions, eliminating a total of approximately 270 positions, as well as the consolidation of certain leased office facilities. In the first half of 2017, the Company recorded restructuring charges of $10.7 million, including $8.9 million related to severance and $1.7 million related to accelerated depreciation. The actions associated with the first quarter 2017 restructuring are expected to be substantially completed in the third quarter of 2017.

The following table provides a summary of the Company's restructuring activities for the first six months of 2017 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, 2016	$ —	$ —	$—
Restructuring charges	8,884	92	8,976
Cash paid	(7,763)	(5)	(7,768)
Non-cash settlements	—	—	—
Restructuring liability as of June 30, 2017	$ 1,121	$ 87	$1,208

Fourth quarter 2016 restructuring

On November 29, 2016, the Company approved a restructuring to reduce future operating expenses and achieve its goal of returning to profitability. 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, the Company has recorded cumulative charges of $40.7 million, including $4.1 million related to severance and facilities in the six months ended June 30, 2017. The fourth quarter 2016 restructuring was largely completed by March 31, 2017, with only small incremental charges recorded in the second quarter of 2017.

The following table provides a summary of the Company's restructuring activities for the first six months of 2017 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, 2016	$ 9,660	$879	$10,539
Restructuring charges	2,009	1,025	3,034
Cash paid	(11,177)	(1,818)	(12,995)
Non-cash settlements	17	20	37
Restructuring liability as of June 30, 2017	$ 509	$106	$615

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First quarter 2016 restructuring
On January 12, 2016, the Company approved a restructuring that provided for a reduction in the Company's global workforce of approximately 7%. The Company incurred aggregate restructuring expenses of $6.5 million in the first quarter of 2016, which primarily included cash-based severance costs. The plan was completed as of March 31, 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 consolidated condensed 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 2017 to 2016.
- 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. Material changes, outside our ordinary course of business, to our contractual obligations, off-balance sheet arrangements and indemnifications from December 31, 2016.
- Non-GAAP Financial Measures. A presentation of 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, 2016 and the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q of GoPro, Inc. (“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 use such words as “expect," “anticipate," “believe," "may," "will," "estimate," "continue," "intend," "target," "goal," "plan," or variations of such words and similar 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 the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2016 and in “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2017. Forward-looking statements include new product offering plans and key hardware and software features, research and development plans, marketing plans, plans for international expansion, plans to reduce operating expense and drive profitability, 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,” including the discussion appearing thereunder in "Looking Ahead" 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, Inc. is transforming the way people capture and share their lives. What began as an idea to help athletes self-document themselves engaged in sport, GoPro has become a mobile storytelling solution that helps the world share itself through immersive content.

Helping consumers capture and share experiences is at the core of our business. We are committed to developing solutions that create an easy, seamless experience for consumers to capture, create and enjoy engaging personal content. We sell our products globally through retailers, wholesale distributors and on our website.

In Fall 2016, we launched our cloud connected HERO5 cameras, which began shipping in September 2016, and a new ecosystem of mountable, wearable and voice activated accessories. We offer many professional-grade features within our good-better-best product camera offering of HERO Session, HERO5 Session and HERO5 Black. Our HERO5 cameras feature voice control and can automatically upload photos and videos to GoPro Plus, a premium cloud-based

solution that enables subscribers to easily access, edit and share content. In July 2017, we released GoPro QuikStories, a new mobile experience for HERO5 cameras that seamlessly copies your GoPro photos and

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

video clips to your smartphone and transforms them into a ready-to-share video. QuikStories makes it simple to automatically create a polished, shareable edit complete with music, effects and transitions.
Our Karma drone was available for sale in US markets in February 2017 and distribution in international markets began at the end of March 2017.
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 2017	Q1 2017	Q2 2016	% Change Q2 2017 vs. Q1 2017	Q2 2017 vs. Q2 2016
Revenue	$296,526	$218,614	$220,755	36 %	34 %
Camera units shipped [1]	1,061	738	759	44 %	40 %
Gross margin [2]	35.6 %	31.4 %	42.1 %	(420) bps	(650) bps
Operating expenses	$130,615	$156,781	$202,379	(17)%	(35)%
Net loss	$(30,536)	$(111,150)	$(91,767)	(73)%	(67)%
Diluted net loss per share	$(0.22)	$(0.78)	$(0.66)	(72)%	(67)%
Cash used in operations	$(11,428)	$(137,938)	$(45,460)	(92)%	(75)%
Other financial information:					
Adjusted EBITDA [3]	$5,120	$(45,669)	$(76,757)	(111)%	(107)%
Non-GAAP net loss [4]	$(12,914)	$(62,783)	$(72,595)	(79)%	(82)%
Non-GAAP loss per share	$(0.09)	$(0.44)	$(0.52)	(80)%	(83)%

[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, mounts or accessories.
[2] One basis point (bps) is equal to 1/100th of 1%.
[3] We define adjusted EBITDA as net income (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 income (loss) as net income (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 (if applicable) of acquired intangible assets as well as third-party transaction costs for legal and other professional services.
Reconciliations of non-GAAP adjusted measures to the most directly comparable measures are presented under "Non-GAAP Financial Measures" below.
Second quarter 2017 and recent highlights
Second quarter 2017 revenue of $296.5 million increased 36% from the preceding quarter due to increased camera and Karma units shipped, partially offset by a sequential decline in accessory revenue. We shipped 1.1 million camera units in the second quarter, up 44% and 40% from the first quarter 2017 and second quarter 2016, respectively. We estimate that camera unit sell-thru in the second quarter increased globally by more than 18% sequentially, driven by Hero Session and HERO5 Black. On a year-over-year basis, estimated global camera sell-thru declined approximately 9%, while camera unit sell-thru at or above the $300 retail price point increased approximately 13%.
Gross margin of 35.6% in the second quarter of 2017 decreased from 42.1% in the second quarter of 2016. The year-over-year decline in margin was due to the transition from the HERO4 to HERO5 line of cameras, a price reduction on our HERO Session camera in the second quarter of 2017, and the introduction of our Karma drone, which was partially offset by cost savings in our supply chain. Total second quarter 2017 operating expenses of $130.6 million decreased year over year by $71.8 million, reflecting the impact of our restructuring actions and other

cost-savings initiatives that we began implementing in the fourth quarter of 2016. Second quarter 2017 adjusted EBITDA of $5.1 million benefited from improved return on operations as a result of these cost-savings initiatives as well as higher camera unit sales.

As of June 30, 2017, our cash and cash equivalents of $149.8 million was up 100.0% compared to $74.9 million at March 31, 2017. The increase was primarily due to proceeds of $91.3 million from the net issuance of our convertible

notes, partially offset by $11.4 million in cash used in operations and $4.9 million in net purchases of property and equipment.

As of June 30, 2017, we had 1,247 employees, down 6% from 1,327 at March 31, 2017 and down 20% from 1,552 at the end of 2016.

Looking ahead

Our business outlook for the third quarter of 2017 and full year 2017 includes, where applicable, our current expectations for revenue, gross margin, operating expenses, income tax expense, adjusted EBITDA and weighted-average shares. We publish our business outlook in our quarterly earnings release. Our business outlook and any updates thereto are publicly available on our investor relations website, http://investor.gopro.com. Our business outlook and investor relations website are not incorporated by reference in this Quarterly Report on Form 10-Q.

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 and in the first quarter of 2017. In the second quarter of 2017 we lowered operating expenses and achieved positive adjusted EBITDA. Our future success will depend in part upon our ability to continue to manage our operating expenses effectively. Our recent restructuring actions have significantly reduced our operating expenses in the first half of 2017 compared to the first half of 2016, while also providing a flatter, more efficient global organization that will allow for improved communication and alignment among our functional teams. If we are unable to generate adequate revenue growth and to manage our expenses, we may continue to incur significant losses in the future and may not be able to achieve or maintain profitability.

Investing in research and development and making the smartphone central to the GoPro 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, drones, mobile applications and other new products and services. We plan to build upon our integrated storytelling solution in future periods, with the smartphone playing an even more central role in the GoPro experience. Our investments, 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 fail to innovate and enhance our integrated storytelling solution, our brand, 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 will not recover the value of these investments.

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 as well as grow it, and also to continue expanding 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 a significant 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.

Growing our total addressable international market. We continue to believe that international markets represent a significant growth opportunity for GoPro. Revenue from outside the United States comprised 53% of total revenue in the second quarter of 2017 and full year 2016. 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 powerful brand helps insulate our business from

many of the negative trends facing this category. However, we expect the markets in which we conduct our business will remain highly competitive. We plan to increase our presence globally through the active promotion of our brand,

the creation and cultivation of regional strategic and marketing partnerships, the introduction of localized products in international markets with region specific marketing, and an investment focus on the biggest opportunities in Europe and the Asia-Pacific region.

Expanding the GoPro experience to advanced users. Our growth also depends on expanding our total addressable market with new capture perspectives, including aerial and spherical, which are resource-intensive initiatives in highly competitive markets. Prior to the launch of our Karma drone, we had no prior experience in the consumer drone market and expect to face significant competition from incumbent companies promoting their own drones and related products. We currently plan for a limited commercial release of our new spherical camera, Fusion, by the end of 2017. 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.

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. Timely and effective product introductions and forecasting, whether just prior to the holiday season or otherwise, are critical to our operations and financial performance.

See Item 1A. Risk Factors, for further discussion on risks that could materially and adversely affect our business, financial condition and results of operations

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 of the periods presented as a percentage of revenue:

	Three Months Ended June 30,				Six Months Ended June 30,			
(dollars in thousands)	2017		2016		2017		2016	
Revenue	$296,526	100 %	$220,755	100 %	$515,140	100 %	$404,291	100 %
Cost of revenue	190,894	64	127,753	58	340,942	66	251,575	62
Gross profit	105,632	36	93,002	42	174,198	34	152,716	38
Operating expenses:								
Research and development	55,497	19	93,049	42	121,663	24	170,028	42
Sales and marketing	56,678	19	84,888	38	124,534	24	164,337	41
General and administrative	18,440	6	24,442	12	41,199	8	49,163	12
Total operating expenses	130,615	44	202,379	92	287,396	56	383,528	95
Operating loss	(24,983)	(8)	(109,377)	(50)	(113,198)	(22)	(230,812)	(57)
Other income (expense):								
Interest expense	(3,784)	(1)	(516)	—	(4,598)	(1)	(659)	—
Other income, net	222	—	1,176	1	383	—	1,012	—
Total other income (expense), net	(3,562)	(1)	660	1	(4,215)	(1)	353	—
Loss before income taxes	(28,545)	(9)	(108,717)	(49)	(117,413)	(23)	(230,459)	(57)
Income tax expense (benefit)	1,991	1	(16,950)	(8)	24,273	5	(31,233)	(8)
Net loss	$(30,536)	(10)%	$(91,767)	(41)%	$(141,686)	(28)%	$(199,226)	(49)%

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Revenue

	Three Months Ended June 30,			Six Months Ended June 30,		
(in thousands)	2017	2016	% Change	2017	2016	% Change
Camera units shipped	1,061	759	40 %	1,799	1,460	23 %
Direct channel	$169,672	$127,942	33 %	$284,437	$211,831	34 %
Percentage of revenue	57 %	58 %		55 %	52 %	
Distribution channel	$126,854	$92,813	37 %	$230,703	$192,460	20 %
Percentage of revenue	43 %	42 %		45 %	48 %	
Total revenue	$296,526	$220,755	34 %	$515,140	$404,291	27 %
Americas	$157,027	$124,570	26 %	$252,734	$209,875	20 %
Percentage of revenue	53 %	56 %		49 %	52 %	
EMEA	$80,214	$60,714	32 %	$148,077	$120,992	22 %
Percentage of revenue	27 %	28 %		29 %	30 %	
APAC	$59,285	$35,471	67 %	$114,329	$73,424	56 %
Percentage of revenue	20 %	16 %		22 %	18 %	
Total revenue	$296,526	$220,755	34 %	$515,140	$404,291	27 %

The year-over-year increase in revenue for the second quarter and first half of 2017, compared to 2016, was primarily driven by shipments of our new HERO5 cameras, which were released in September 2016, shipments of our Karma drone, which was newly-released in February 2017, and strong accessory revenue including our Karma Grip, which was released in December 2016. Revenue increased during the second quarter and first half of 2017, compared to 2016, across all reported geographies and channels.

Estimated global unit sell-thru decreased approximately 9% for the second quarter of 2017, from the same prior year period, driven by our second quarter 2016 discounting of legacy products that drove higher than normal sales volumes partially offset by a 13% increase in unit sell-thru for cameras with price points above $300 during the second quarter of 2017.

We define the average selling price of units shipped as total revenue divided by unit shipments. The average selling price of units shipped decreased 4% year-over-year for the second quarter of 2017 due to lower priced camera offerings and lower revenue from accessories, partially offset by Karma. The average selling price of units shipped increased approximately 3% year-over-year for the first half of 2017 due to shipments of our Karma drone and accessories, which were offset by slightly lower average selling price of cameras.

Cost of revenue and gross margin

	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in thousands)	2017	2016	% Change	2017	2016	% Change
Cost of revenue	$189,259	$127,119	49 %	$337,184	$249,998	35 %
Stock-based compensation	415	412	1 %	910	769	18 %
Acquisition-related costs	1,195	222	438 %	2,430	444	447 %
Restructuring costs	25	—	N/A	418	364	15 %
Total cost of revenue	$190,894	$127,753	49 %	$340,942	$251,575	36 %
Gross margin	35.6 %	42.1 %		33.8 %	37.8 %	

Gross margin of 35.6% in the second quarter of 2017 decreased from 42.1% in the second quarter of 2016, or (650) bps, primarily attributable to camera mix as we transitioned from the HERO4 to HERO5 line of cameras, (570) bps,

and lower gross margin contribution from Karma drone sales as compared to camera sales, (250) bps, partially offset by the allocation of fixed overhead costs across higher unit shipments, 200 bps.

Gross margin of 33.8% in the first half of 2017 decreased from 37.8% in the first half of 2016, or (400) bps, primarily attributable to camera mix as we transitioned from the HERO4 to HERO5 line of cameras, (490) bps, and lower gross margin contribution from Karma drone sales as compared to camera sales, (230) bps, partially offset by the allocation of fixed overhead costs across higher unit shipments, 170 bps, and the sale of previously discontinued and written off cameras in the first half of 2017, 150 bps.

Research and development

	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in thousands)	2017	2016	% Change	2017	2016	% Change
Research and development	$47,459	$83,745	(43)%	$101,128	$150,774	(33)%
Stock-based compensation	5,390	7,086	(24)%	11,072	13,096	(15)%
Acquisition-related costs	946	2,218	(57)%	2,082	3,503	(41)%
Restructuring costs	1,702	—	N/A	7,381	2,655	178 %
Total research and development	$55,497	$93,049	(40)%	$121,663	$170,028	(28)%
Percentage of revenue	18.7 %	42.2 %		23.6 %	42.1 %	

The year-over-year decrease of $37.6 million and $48.4 million, or 40% and 28%, in research and development expenses in the second quarter and first half of 2017, respectively, compared to 2016 reflected decreases in consulting and outside professional service costs of $13.8 million and $24.0 million, respectively, and decreases in material and equipment costs of $5.6 million and $10.4 million, respectively. Cash-based personnel-related costs decreased by $14.3 million and $13.7 million (excluding restructuring costs) in the second quarter and first half of 2017, respectively, driven by a 22% reduction in global research and development headcount as a result of our restructuring actions. See "Restructuring costs" below for information regarding restructuring charges recorded in 2017 and 2016. Operationally, the decrease in research and development expenses reflected the significant investments we made during 2016 to develop and build an aerial capture system along with recent cost reduction initiatives implemented by our restructuring plans.

Sales and marketing

	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in thousands)	2017	2016	% Change	2017	2016	% Change
Sales and marketing	$54,322	$81,209	(33)%	$114,245	$154,754	(26)%
Stock-based compensation	1,995	3,679	(46)%	4,686	6,883	(32)%
Acquisition-related costs	—	—	N/A	—	22	(100)%
Restructuring costs	361	—	N/A	5,603	2,678	109 %
Total sales and marketing	$56,678	$84,888	(33)%	$124,534	$164,337	(24)%
Percentage of revenue	19.1 %	38.5 %		24.2 %	40.6 %	

The year-over-year decrease of $28.2 million and $39.8 million, or 33% and 24%, in total sales and marketing expenses in the second quarter and first half of 2017, respectively, compared to 2016 was primarily attributable to decreases in advertising and promotional activity of $12.7 million and $19.9 million, respectively. Cash-based personnel-related costs decreased by $6.9 million and $10.7 million (excluding restructuring costs) in the second quarter and first half of 2017, respectively, driven by a 34% reduction in global sales and marketing headcount as a result of our restructuring actions, which included the closure of our entertainment group in the fourth quarter of 2016. See "Restructuring costs" below for information regarding restructuring charges recorded in 2017 and 2016.

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General and administrative

(dollars in thousands)	Three Months Ended June 30, 2017	2016	% Change	Six Months Ended June 30, 2017	2016	% Change
General and administrative	$14,736	$17,980	(18)%	$32,120	$34,861	(8)%
Stock-based compensation	3,435	6,227	(45)%	7,692	12,387	(38)%
Acquisition-related costs	1	235	(100)%	(22)	1,104	(102)%
Restructuring costs	268	—	N/A	1,409	811	74 %
Total general and administrative expenses	$18,440	$24,442	(25)%	$41,199	$49,163	(16)%
Percentage of revenue	6.2 %	11.1 %		8.0 %	12.2 %	

The year-over-year decrease of $6.0 million and $8.0 million, or 25% and 16%, in total general and administrative expenses in the second quarter and first half of 2017, respectively, compared to 2016 was primarily attributable to decreases in stock-based compensation of $2.8 million and $4.7 million, respectively, due to the timing of expense recognition attributable to the CEO RSUs (see Note 4 to the Notes to Condensed Consolidated Financial Statements above). Cash-based personnel-related costs (excluding restructuring costs) decreased by $1.2 million and $1.6 million year-over-year in the second quarter and first half of 2017 compared to 2016, respectively.

Restructuring costs

First quarter 2017 restructuring plan. On March 15, 2017, we approved a restructuring plan to further reduce future operating expenses and further align resources around our long-term business strategy. The restructuring provided for a reduction of our global workforce as well as the consolidation of certain leased office facilities. In the first half of 2017, we recorded restructuring charges of $10.7 million related to our first quarter 2017 restructuring plan, which consisted of $9.0 million for severance and related costs and $1.7 million for accelerated depreciation. The plan is substantially completed and we anticipate that any additional charges related to this restructuring will be immaterial.

Fourth quarter 2016 restructuring plan. On November 29, 2016, we approved a plan to restructure our business to reduce operating expenses and work toward achieving our goal of returning to non-GAAP profitability for 2017. The fourth quarter 2016 restructuring plan included a reduction in our global workforce of approximately 15%, the elimination of our entertainment group and the consolidation of certain leased office facilities. Associated with this plan, we recorded cumulative restructuring charges of $40.7 million, of which $4.1 million was recognized in the first half of 2017. The plan is substantially completed and we anticipate that any additional charges related to this restructuring will be immaterial.

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%. We incurred aggregate 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.

See Note 10 to the Notes to Condensed Consolidated Financial Statements for accrued payable balance associated with our restructuring plans as of June 30, 2017.

Other income (expense)

(dollars in thousands)	Three Months Ended June 30, 2017	2016	% Change	Six Months Ended June 30, 2017	2016	% Change
Interest expense	$(3,784)	$(516)	633 %	$(4,598)	$(659)	598 %
Other income, net	222	1,176	(81)%	383	1,012	(62)%
Total other income (expense), net	$(3,562)	$660	(640)%	$(4,215)	$353	(1,294)%

Total other income (expense), net increased by $4.2 million and $4.6 million year-over-year in the second quarter and first half of 2017, respectively, compared to 2016. These increases were primarily attributed to interest expense on our outstanding debt and lower gains from hedging activities and currency related fluctuations.

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Our interest expense will increase in 2017 and future periods due to the accretion of debt to face value and cash based interest due on the note. See Note 3 to the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Income taxes

	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in thousands)	2017	2016	% Change	2017	2016	% Change
Income tax expense (benefit)	$1,991	$(16,950)	(112)%	$24,273	$(31,233)	(178)%
Effective tax rate	(7.0)%	15.6 %		(20.7)%	13.6 %	

We recorded an income tax provision of $2.0 million for the second quarter of 2017 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, which resulted in a negative effective tax rate of 20.7%. Our income tax provision in the first half of 2017 was principally composed of tax expenses incurred on pre-tax income in profitable foreign jurisdictions. 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 6 to the Notes to Condensed Consolidated Financial Statements above). The effective tax rate of 15.6% and 13.6% for the second quarter and first half of 2016 resulted from providing a net tax benefit on pre-tax losses in the United States, which was offset by income taxes at lower rates in profitable foreign jurisdictions (primarily related to our wholly owned subsidiaries in Europe).

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.

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Liquidity and Capital Resources

The following table presents selected financial information as of June 30, 2017 and December 31, 2016:

(dollars in thousands)	June 30, 2017	December 31, 2016
Cash and cash equivalents	$149,755	$192,114
Marketable securities	—	25,839
Total cash and investments	$149,755	$217,953
Percentage of total assets	21 %	24 %

Our primary source of cash is receipts from revenue. Other sources of cash are proceeds from issuance of debt, participation in the employee stock purchase plan and the exercise of employee options. The primary uses of cash are inventory procurement, payroll-related expenses, general operating expenses, including marketing and office rent, and other costs of revenue. Other uses of cash include purchases of property and equipment and business acquisitions.

As of June 30, 2017, our cash of $149.8 million was down $68.2 million or 31.3%, compared to $218.0 million at December 31, 2016. The decrease was primarily due to a net operating loss during the period, payments on accounts payable and other liabilities primarily for inventory and severance obligations, partially offset by collections of accounts receivable and the issuance of convertible notes. We used cash in operations of $149.4 million and received proceeds of $91.8 million from issuance of convertible notes, net of the prepaid forward transaction and issuance costs. As of June 30, 2017, $52.4 million of cash was held by our foreign subsidiaries.

As of June 30, 2017, we could borrow up to approximately $89 million under the credit facility, based upon a borrowing base formula with respect to our inventory and accounts receivable balances.

Convertible Notes

On April 12, 2017, we issued $175 million aggregate principal amount of 3.50% Convertible Senior Notes due 2022 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 will pay interest on the Notes semi-annually in arrears on April 15 and October 15 of each year with interest payments beginning on October 15, 2017. Proceeds received from the issuance of the Notes was allocated between a liability component (long-term debt) and an equity component (additional paid-in capital), within the consolidated balance sheet for the second quarter of 2017. The fair value of the liability component was measured using rates determined for similar debt instruments without a conversion feature.

In connection with the offering, we entered into a prepaid forward stock repurchase transaction with a financial institution. Pursuant to the Prepaid Forward, we used approximately $78 million of the proceeds from the offering of the Notes to pay the prepayment amount. The aggregate number of our Class A common stock underlying the Prepaid Forward is approximately 9.2 million shares (based on the NASDAQ closing sale price of our Class A common stock on April 6, 2017). 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 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. We intend to use the remaining net proceeds from the offering of approximately $92 million for general corporate purposes.

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Liquidity

We believe, based on our most current projections, that our cash and cash equivalents balance, including available borrowings 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 believe the restructuring actions and other cost saving initiatives we have taken will enable us to significantly reduce our operating expenses in 2017 compared to 2016.
- We expect to spend significantly less on capital expenditures in 2017 than in 2016. Our 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.
- In March 2016, we entered into a credit agreement with a syndicate of banks that provides for a secured revolving credit facility under which we could borrow up to an aggregate of $250 million. As of June 30, 2017, we could borrow up to approximately $89 million under the credit facility, based upon a borrowing base formula with respect to our inventory and accounts receivable balances. Our credit facility terminates in March 2021. (See Note 3 to the Notes to Condensed Consolidated Financial Statements above 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.
- We used a portion of the net proceeds from the Notes offering to pay for the Prepaid Forward and intend to use the remaining proceeds from the offering for general corporate purposes.

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:

(in thousands)	Six months ended June 30, 2017	June 30, 2016	% Change
Net cash provided by (used in):			
Operating activities	$(149,366)	$(78,725)	90 %
Investing activities	$15,671	$(38,452)	(141)%
Financing activities	$90,094	$1,151	7,727 %

Cash flows from operating activities. Cash used in operating activities of $149.4 million in first half of 2017 was attributable to an adjusted net loss of $88.0 million (net loss adjusted for non-cash expenses of $53.7 million) as well as net cash outflow of $61.4 million from changes in operating assets and liabilities. Cash outflow related to operating assets and liabilities consisted of decreases in accounts payable and other liabilities of $178.5 million due to the payment of 2016 year-end liabilities, partially offset by collections in accounts receivable of $69.3 million (reflecting seasonally lower sales) and a decrease of $40.5 million attributable to decreased inventory procurement activity in the first half of 2017. The increase in cash used in operating activities of $70.6 million in the first half of 2017 compared to 2016 was due to a $144.2 million decrease in net assets and liabilities primarily offset by $57.5 million decrease in losses in the first half of 2017 compared to 2016.

Cash flows from investing activities. Our primary investing activities consist of maturities and sales of marketable securities, business acquisitions and purchases of property and equipment. Cash provided by investing activities

was $15.7 million in the first half of 2017 resulting from net maturities and sales of marketable securities of $25.8 million to be used in operations offset by $10.1 million for net purchases of property and equipment. Cash used in investing activities was $38.5 million in the first half of 2016 resulting from net maturities and sales of marketable securities of $78.1 million, offset by $104.4 million in net cash used for acquisitions and $12.2 million for net purchases of property and equipment.

Cash flows from financing activities. Our primary financing activities consisted of issuances of convertible notes and the issuance of equity securities under our common stock plans. Cash provided by financing activities was $90.1 million in the first half of 2017 resulting from $175.0 million from the issuance of Notes and $6.6 million cash received from stock purchases made through our ESPP and employee stock option exercises partially offset by $78.0 million for the Prepaid Forward and $8.2 million from net RSUs settlements. Cash provided by financing activities was $1.2 million in the first half of 2016 resulting primarily from $4.4 million in net proceeds received from stock purchases made through our ESPP and employee stock option exercises, as well as $0.9 million of excess tax benefits related to stock-based compensation, partially offset by payments of $3.2 million for costs incurred to secure our credit facility.

Contractual Commitments

Contractual obligations. See Note 3 for discussion regarding our Convertible Senior Notes and Note 8 for discussion regarding facility leases and other contractual commitments in the Notes to the Condensed Consolidated Financial Statements.

In addition, as of June 30, 2017, we recorded accrued liabilities for certain purchase commitments with contract manufacturers for quantities in excess of our future demand forecasts. (See Accrued Liabilities in Note 2 to the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.)

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 executive officers which require us to indemnify our directors and executive officers 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

There have been no material changes to our critical accounting policies and estimates during the second quarter of 2017 from those disclosed in our 2016 Annual Report.

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Non-GAAP Financial Measures

In addition to the measures presented in our condensed consolidated financial statements, we use the non-GAAP financial measures of adjusted EBITDA, non-GAAP net income (loss) and non-GAAP earnings (loss) per share to evaluate our business, measure our performance, develop financial forecasts and make strategic decisions.

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

(in thousands)	Three months ended June 30, 2017	March 31, 2017	June 30, 2016
Net loss	$(30,536)	$(111,150)	$(91,767)
Income tax expense (benefit)	1,991	22,282	(16,950)
Interest income (expense), net	3,652	761	117
Depreciation and amortization	11,467	11,693	9,482
POP display amortization	4,955	5,165	4,957
Stock-based compensation	11,235	13,125	17,404
Restructuring costs	2,356	12,455	—
Adjusted EBITDA	$5,120	$(45,669)	$(76,757)

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

(in thousands)	Three months ended June 30, 2017	March 31, 2017	June 30, 2016
Net loss	$(30,536)	$(111,150)	$(91,767)
Stock-based compensation	11,235	13,125	17,404
Acquisition-related costs	2,142	2,348	2,675
Restructuring costs	2,356	12,455	—
Non-cash interest expense	1,530	—	—
Income tax adjustments [1]	359	20,439	(907)
Non-GAAP net loss	$(12,914)	$(62,783)	$(72,595)
Non-GAAP diluted loss per share	$(0.09)	$(0.44)	$(0.52)

[1] Beginning in the first quarter of 2017, we implemented a cash-based non-GAAP 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 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.

We use these non-GAAP financial measures of adjusted EBITDA, non-GAAP net income (loss), and non-GAAP earnings (loss) per share 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. We believe that these measures provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. These non-GAAP financial measures should not be considered in isolation from, or as an alternative to, measures prepared in accordance with GAAP, and are not based on any comprehensive set of accounting rules or principles. 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:

- these non-GAAP financial measures may exclude certain recurring, non-cash charges such as stock-based compensation, non-cash interest expense and amortization of acquired intangible assets;
- 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 similar to depreciation of property and equipment and amortization of acquired intangible assets;
- adjusted EBITDA and non-GAAP net income (loss) excludes 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) excludes restructuring costs because these expenses 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;
- non-GAAP net income (loss) also excludes non-cash interest expense because it is a non-cash charge, provides greater visibility to the underlying performance of the business operations, facilitates comparison of our results with other periods and may also facilitate comparison with the results of other companies in our industry; and
- other companies may calculate these non-GAAP financial measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, you should consider our non-GAAP financial measures including, adjusted EBITDA, non-GAAP net income (loss) and non-GAAP diluted earnings (loss) per share, alongside other financial performance measures, including our financial results presented in accordance with GAAP.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to the Company's market risk during the first six months of 2017. Refer to our market risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of our 2016 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, 2017. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that, as of June 30, 2017, 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 were no changes in our internal control over financial reporting during the three months ended June 30, 2017, which were identified in connection with management's evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Shareholder class action lawsuits

Beginning on January 13, 2016, the first of four purported shareholder class action lawsuits was filed in the U.S District Court for the Northern District of California against the Company and certain of its officers (the "GoPro Defendants"). Similar complaints were filed on January 21, 2016, February 4, 2016, and February 19, 2016. Each of the complaints purports to bring suit on behalf of shareholders who purchased the Company's publicly traded securities between July 21, 2015 and January 13, 2016 for the first three complaints and between November 26, 2014 and January 13, 2016 for the last filed complaint. Each 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 each seeks unspecified compensatory damages, fees and costs. On April 21, 2016, the court consolidated the complaints and appointed lead plaintiff and lead counsel for the first three actions (the "Camia Investments Class Action"); the court allowed the fourth action to proceed separately as to the period November 26, 2014 through July 20, 2015 (the "Majesty Palms Class Action") and appointed lead plaintiff and lead counsel for that action. The lead plaintiff in the Majesty Palms Class Action did not file an amended complaint and voluntarily dismissed the Majesty Palms Class Action on July 28, 2016. On September 26, 2016, the GoPro Defendants filed a motion to dismiss the Camia Investment Class Action. On May 1, 2017, the court granted that motion, dismissing the complaint with leave to amend the complaint. On June 16, 2017, the lead plaintiff in the Camia Investment Class Action did not file an amended complaint and stipulated to enter final judgment in favor of the GoPro Defendants. On June 18, 2017, the court entered final judgment in favor of the GoPro Defendants.

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 purports 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 alleges claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933. The suit seeks 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.

On November 16, 2016, a purported shareholder class action lawsuit was filed in the U.S. District Court for the Northern District of California against the Company and Mr. Woodman, our Chairman and CEO ("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.

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 impact 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, 2016, 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 2016 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.

We have historically experienced significant revenue growth. As our revenue has increased, our annual growth rate has slowed or declined, and our historical results should not be considered as indicative of our future performance. For example, our annual revenue grew rapidly from $986 million in 2013 to $1.62 billion in 2015 and then declined to $1.19 billion in 2016. In future periods, we could again experience a decline 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 $113.2 million and $230.8 million through the first half of 2017 and 2016, respectively. We also incurred a substantial operating loss of $373 million for full year 2016 as compared to operating income of $54.7 million for full year 2015. Lower levels of revenue or higher levels of operating expense investment in future periods may result in additional losses or limited profitability. In the fourth quarter of 2016, we implemented a company-wide restructuring of our business resulting in a reduction in our global workforce and the elimination of certain open positions, the elimination of several high-cost initiatives, including the closure of our entertainment group in order to focus our resources on our hardware and software integrated storytelling solution, and the consolidation of certain leased office facilities. In the first quarter of 2017, we announced a restructuring that provided for a further reduction in our global workforce and the elimination of certain open positions. 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, 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, 2016, 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 as central to the GoPro experience. 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 Fall 2016, we launched our integrated storytelling solution comprising our new cloud-connected HERO5 cameras, a new ecosystem of mounts and accessories, our new GoPro Plus cloud-based storage service, our updated Capture application and updated versions of our Quik editing applications. 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 impacted 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 aerial and spherical, which are resource-intensive initiatives in highly competitive markets. For example, we plan a limited commercial release of our new spherical camera, Fusion, by the end of 2017. While we are investing resources, including in sales and marketing, to reach these expanded and new consumer markets, we cannot be assured that we will be

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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.

To remain competitive and stimulate consumer demand, we must effectively manage product introductions, product transitions 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 may 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. Such supply shortages may impact our ability to manage appropriate supply levels of our products and pricing pressures may negatively impact our gross margins.

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. Failure to 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, in Fall 2016, we experienced production issues that resulted in delayed unit shipments of our new HERO5 Black cameras in the third and fourth quarters of 2016. In addition, in November 2016, we announced the withdrawal 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 impacted. The Karma drone was re-launched and available for sale domestically in February 2017 and distribution in international markets began at the end of March 2017. In addition, in January 2016, we announced the end-of-life for our entry-level HERO line of cameras in order to simplify our product offering. As a result, we recorded product charges of approximately $57 million and $8 million to cost of revenue in the fourth quarter of 2015 and first quarter of 2016, respectively.

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, 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 top-selling HERO5 Black camera, or our inability to increase sales of this product, could materially harm our business and operating results.

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 HERO5 camera launch we announced our integrated storytelling solution to make editing and sharing content from a GoPro 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, although we re-launched Karma in the first quarter of 2017, drone sales may not result in long term success or significant revenue for us. We cannot be assured that our investments in the development of software-

related products and services, or drones, 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.

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. Further, 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.

We rely on third-party suppliers, some of which are sole-source suppliers, to provide components for our products. 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, and some of these components are provided by a single supplier or by a supplier that could potentially become a competitor.

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. 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 and lens 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 camera and drone products. For example, we incorporate video compression and image processing semiconductors from Ambarella, Inc. in our HERO5 cameras. We do not currently have alternative suppliers for several key components. 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 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. 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, drones, editing applications and other new products and services. Our research and development expense was $358.9 million, $241.7 million and $151.9 million for 2016, 2015 and 2014, respectively. We expect that our research and development expenses will continue to be substantial in 2017 but less than expense levels incurred in 2016. Our more limited research and development investment in 2017 may require us to forego investment in certain products or features which might have been successful and we may not choose the right features, products, or services to update or enhance. Unanticipated problems in developing products could

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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 some 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 effected. 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.

Our recent entrance into the consumer drone market is subject to numerous risks and uncertainties.

We began resuming shipments of Karma in the United States in February 2017 and distribution in international markets began at the end of March 2017. We have no prior experience in the consumer drone market and expect to face significant competition from incumbent companies promoting their own drone and related products. These include established and start up drone manufacturers, such as DJI Technology Co., Parrot SA and Yuneec International Co., who currently have or are attempting to gain a substantial share of the emerging global drone market. A nascent industry of software developers developing for the drone market is growing and if we do not support this third party developer movement, we may forego the benefits of this developer ecosystem. Failure to effectively compete in this new market could damage our reputation, limit our growth and negatively affect our operating results. Furthermore, we are committed long-term to the drone market and we expect to continue to invest significant resources for the foreseeable future.

Regulations and legislation relating to the distribution, sale and use of consumer drones in the United States and other countries where we plan to sell our drones are evolving and may be subject to future changes that could negatively impact our sales of such products. It is possible that further U.S. federal or state regulations or regulations in other countries could restrict the use of recreational drones and/or require specific registration, certification, qualifications or design modifications, which could have an unfavorable impact on our future business, financial position and operating results.

In addition, our drones and related product offerings present new and difficult technical challenges, and we may be subject to claims if users experience failures or other quality issues or injuries. For example, in November 2016, we withdrew Karma drones from the market after we discovered that some Karma units lost power during operation. No related injuries or property damage have been reported and we have offered a full refund to Karma purchasers. If our drones malfunction or contain errors or defects in the future, collisions or crashes could occur resulting in property damage, personal injury or death. If any of these events occurs, we could be subject to significant liability for personal injury and property damage.

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 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 Quik mobile and desktop editing applications, Capture 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. Also, it is possible that, in the future, the manufacturers of smartphones and tablets, such as Apple, Google, and Samsung, may design them for use in a range of conditions, including challenging physical environments, or develop products with features similar to ours.

As described above, we recently entered the consumer drone market and face significant competition from other companies promoting their own drone and related products. These include established and start up drone manufacturers, such as DJI Technology Co., Parrot SA and Yuneec International Co., who currently have or are attempting to gain a substantial share of the emerging global drone market. Failure to effectively re-launch our drone and compete in this new market could negatively affect our operating results and financial position.

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 November 2016, we have implemented two global reductions-in-force and other restructuring actions to reduce our future operating expenses. Furthermore, in December 2016, we announced the resignation of our President, and in January 2017, we appointed our Senior Vice President of Software and Services to be our Chief Operating Officer. 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 impact 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. Furthermore, if our founder and CEO, Nick Woodman, left the Company, his departure could affect our ability to continue to attract other top executives and potentially negatively impact the view of our brand.

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 the twelve months ended June 30, 2017, our stock price ranged from a high of $17.68 in the fourth quarter of 2016 to a low of $7.14 in the first quarter of 2017. 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 revenues in the fourth quarter of each year due to demand related to the holiday season, and in some years, including

2016, the launch of new products heading into the holiday season. Fourth quarter revenue comprised 46%, 27% and 45% of our 2016, 2015 and 2014 revenue, respectively. Given the 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, supply chain disruptions, or for any other reason, could cause our annual results of operations to suffer significantly. For example, as a result of production issues impacting launch volumes of our HERO5 Black cameras and the recall of our Karma drones, we were limited in our ability to meet initial estimated customer demand for the 2016 holiday season. In addition, we typically experience lower revenue in the first half of the year. 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 34.1%, sequentially from $781.2 million in the last half of 2016. First half revenue comprised 34%, 48% and 34% of our annual 2016, 2015 and 2014 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 2016 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 fourth quarter of 2015 and first quarter of 2016, we recorded product charges of $57 million and $8 million, respectively, for excess purchase order commitments, excess inventory, and obsolete tooling, relating to the end-of-life of our entry-level HERO products and slower than anticipated overall demand.

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 customer, 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 2016 and the first half of 2017 and, as of June 30, 2017, we had an accumulated deficit of $400.9 million. In the first and fourth quarters of 2016 and in the first quarter of 2017, 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 termination 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. Any such actions may result in the recording of special charges including inventory-related write-offs, workforce reductions, 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.

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

Factors affecting the level of consumer spending include general market conditions, macroeconomic conditions, fluctuations in foreign exchange rates and interest rates, and other factors such as consumer confidence, the availability and cost of consumer credit, levels of unemployment and tax rates. 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. 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. For example, the referendum vote in the U.K. to exit the European Union, commonly known as “Brexit”, caused significant short term volatility in global stock markets as well as currency exchange rate fluctuations, resulting in further strengthening of the U.S. dollar. Further, as a result of the increase in the value of the U.S. dollar against the Euro and British Pound in recent periods, we have increased the prices of certain products to customers in euro zone countries to maintain our profit margins in these markets. These changes have increased the real cost to customers and consumers of our products in these markets, which may reduce purchases of our products and have a negative impact on our future international revenue. Further 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.

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 53%, 52% and 43% of our revenue in 2016, 2015 and 2014, respectively, and we expect this portion to continue to be significant in the future. Further, we currently have foreign operations in China, France, Germany, Hong Kong, the Netherlands, the Philippines 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;
- the impact 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 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 impact our business, financial condition, operating results and cash flows. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact 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 impacted by performance earnouts or contingent payments. For example, for our 2016 acquisitions, aggregate deferred cash and stock compensation of up to approximately $35 million is 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 impact our future results of operations.

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.

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,” "KARMA," "SESSION" 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 impact our brand, business and operating results. For example, if consumers do not develop confidence in the performance of our re-launched drone, the KARMA brand may be impaired and our ability to grow our drone business will be harmed. 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 impact our operating results.

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. 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 impact 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 impact 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 impact our business, operating results and financial condition.

Security breaches and other disruptions including cyber-attacks, and our actual or perceived failure to adequately protect business and consumer data and content could harm our brand and our reputation in the marketplace.

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. The loss, misuse or compromise of such information or content may result in 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.

Changing laws governing e-commerce and data collection could impede growth and increase the cost of doing business.

Changing regulations and laws governing the Internet, data privacy, data protection and e-commerce transactions (including taxation, pricing and electronic communications) could impede the growth of our e-commerce business, increase our cost of doing business and limit our ability to collect and use information collected from our users. Further, new regulations limiting our ability to collect, use and disclose consumer data, or imposing additional requirements with respect to the retention and security of consumer data, could limit our marketing activities and could adversely affect our business and financial condition.

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 impact 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, resulting in further strengthening of the U.S. dollar.

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 50%, 52% and 50% of our revenue for 2016, 2015 and 2014, respectively. One retailer accounted for 17%, 14% and 20% of our revenue for 2016, 2015 and 2014, respectively. A second retailer 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 these customers, could have a significant adverse impact 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 impact 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. However, we only recently resumed shipments of our Karma drone in the first quarter of 2017, and therefore have insufficient data and historical experience to be able to predict future warranty claims related to this product.

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 within each 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 impact 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 the Company vigorously against any such existing and future legal proceedings, we may not prevail against all such allegations. For example, patent holding companies and practicing entities, including our competitors, have alleged infringement of patent or other intellectual property infringement. We may not prevail against 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. The occurrence of any of these events may adversely affect our business, financial condition and operating results. Among other things, 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.

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.

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, the Czech Republic, Hong Kong, the 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 impacting 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.

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 ("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 despite such precautions. 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 impacted 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.

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 impact 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 increase our legal, accounting and financial compliance costs, making some activities more time consuming and costly, placing significant demands on our financial and operational resources, as well as our IT systems.

While we have determined that our internal control over financial reporting was effective as of December 31, 2016, 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. Because of 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 are 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 and/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.

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 impacted.

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 2016 Annual Report on Form 10-K for the year ended December 31, 2016 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.

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 impact on our results of operations or cash flows and, although we cannot predict the future impact 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.

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

Our headquarters is 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.

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 stock price has ranged from $7.14 to $98.47 per share through June 30, 2017. 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 by us or our competitors; 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 impact 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 point in time. Volatility in our stock price also impacts 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 two shareholder class action 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 impact 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.

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 78% of the voting power of our outstanding capital stock as of December 31, 2016 with Mr. Woodman, our Chairman and CEO, holding approximately 77% 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.

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 competitive pressures will be heightened;
- 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 impact 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. Share repurchase activity for our Class A and Class B common stock during the three months ended June 30, 2017 was as follows (in thousands, except per share amounts):

Period	Total Number of Shares Repurchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans [1]	
April 1 - 30, 2017	9,166	$ 8.51	9,166	$	—
May 1 - 31, 2017	—	—		—	
June 1 - 30, 2017	—	—	—	—	
Total	9,166	$ 8.51	9,166	$	—

[1] Although the 9.2 million shares of Class A common stock that will be repurchased through the Forward Transaction remain outstanding for corporate law purposes, including for purposes of any future stockholder votes, these shares are reflected in the above table as they are accounted for as a repurchase.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The information required by this item is set forth on the exhibit index which follows the signature page of this report.

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 3, 2017 By: /s/ Nicholas Woodman
Nicholas Woodman
Chief Executive Officer
(Principal Executive Officer)

Dated: August 3, 2017 By: /s/ Brian McGee
Brian McGee
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit		Incorporated by Reference				Filed
Number	Exhibit Title	Form	File No.	Exhibit	Filing Date	Herewith
4.01	Indenture, dated as of April 12, 2017, between the Company and Wells Fargo Bank, National Association (including the form of 3.50% Convertible Senior Notes due 2022)	8-K	001-36514	4.1	April 12, 2017	
10.01	Forward Stock Purchase Transaction, dated April 6, 2017, between the Company and JPMorgan Chase Bank, National Association	8-K	001-36514	10.1	April 7, 2017	
10.02	First Amendment, dated August 12, 2016, to Office Lease Agreement dated November 1, 2011, between the Company and RAR2-Clearview Business Park Owner, LLC					X
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.