GoPro, Inc.
Form 10-K
February 15, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________
Commission file number: 001-36514
GOPRO, INC.
(Exact name of registrant as specified in its charter)

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

(650) 332-7600
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock, par value $0.0001	The Nasdaq Stock Market LLC
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of Act. Yes ¨ No þ
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 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 such files). Yes þ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
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.
Large accelerated filer þ Accelerated filer Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $724,660,000 based upon the closing price reported for such date on The Nasdaq Global Select Market.

As of January 31, 2019, 114,352,049 and 35,897,231 shares of Class A and Class B common stock were outstanding, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for its 2019 Annual Meeting of Stockholders (the “Proxy Statement”), to be filed within 120 days of the registrant’s fiscal year ended December 31, 2018, are incorporated by reference in Part II and Part III of this Annual Report on Form 10-K. Except with respect to information specifically incorporated by reference in this Annual Report on Form 10-K, the Proxy Statement is not deemed to be filed as part of this Annual Report on Form 10-K.

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PART I

Special note regarding forward-looking statements

This Annual Report on Form 10-K of GoPro, Inc. (GoPro or we or the Company) includes 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 Annual Report on Form 10-K are forward-looking. To identify forward-looking statements, we use words such as “expect,” “anticipate,” “believe,” “may,” “will,” “estimate,” “continue,” “in “target,” “goal,” “plan,” “likely,” “potentially,” or variations of such words and similar expressions. Readers are cautioned not 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 under Item 1A Risk Factors. Forward-looking statements include plans to expand and improve product offerings in Item 1 Business and other sections of this Annual Report on Form 10-K, projections of results of operations, and any discussion of the trends and other factors that drive our business and future results in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, and other sections of this Annual Report on Form 10-K including but not limited to Item 1A Risk Factors. Readers are strongly encouraged to consider the foregoing when evaluating any forward-looking statements concerning the Company. The Company does not undertake any obligation to update any forward-looking statements in this Annual Report on Form 10-K to reflect future events or developments.

Item 1. Business

Overview

GoPro helps its consumers capture and share their experiences in immersive and exciting ways. Our cameras, and mountable and wearable accessories have generated substantially all of our revenue and are sold globally through retailers, wholesale distributors and on our website.

Our product offerings include the following:

- HERO7 is our cloud-connected line of durable, waterproof cameras launched in the Fall of 2018, featuring image stabilization, telemetry, cloud connectivity and voice control. Our HERO7 Black camera features HyperSmooth image stabilization, which makes it easy to capture professional-looking gimbal-like stabilized videos without a gimbal, TimeWarp Video, which applies a high-speed, ‘magic-carpet-ride’ effect to videos, live streaming, which enables users to share content in real time to Facebook, Twitch, YouTube, Vimeo and other platforms internationally, and improved audio. Our HERO7 Black camera is powered by GoPro’s custom-designed GP1 processor and is the most powerful and performance featured GoPro camera to date. We also began shipping our HERO7 Silver and HERO7 White cameras in 2018, which feature advanced stabilization, cloud connectivity, voice control and a touch display. We offer many professional-grade features with our current good-better-best camera offering with HERO7 White, HERO7 Silver and HERO7 Black cameras. Our cameras are compatible with our ecosystem of mountable and wearable accessories, and feature automatic uploading capabilities for photos and videos to GoPro Plus, our premium cloud-based storage solution.
- Fusion is our 360-degree waterproof spherical camera which can shoot in 5.2K at 30 frames per second and features time lapse modes. Additionally, our latest firmware update enabled Fusion to also shoot in 5.8K at 24 frames per second for film and television production professionals. Using our GoPro App, a mobile user can preview live shots, stitch, trim and share content directly from their mobile device. The GoPro App’s OverCapture feature allows the user to re-frame and save traditional fixed-perspective videos “punched out” or extracted from a 360-degree video source file.
- GoPro Plus is our premium cloud-based storage solution that enables subscribers to easily access, edit and share content. GoPro Plus includes unlimited cloud storage supporting source video and photo quality. The subscription service also includes discounts on accessories and in the United States, camera replacement and damage protection. All of our HERO5 and newer cameras can automatically upload new photos and videos to a subscriber’s GoPro Plus account at the highest possible quality.

- Quik is our primary mobile editing app that makes it simple to create stunning edits on a smartphone. Our Quik desktop app provides expanded editing options for power users.
- GoPro App is a mobile app that allows users to preview and play back photos and videos, control their GoPro cameras and share content on the fly using their smartphones. Included in the GoPro App is GoPro QuikStories, a mobile experience that seamlessly copies a user's GoPro photos and video clips to his or her smartphone and transforms them into a ready-to-share video. GoPro QuikStories makes it simple to automatically create shareable video edits complete with music, effects and transitions.
- Karma Grip is a handheld or body-mountable camera stabilizer that makes it easy to capture zero-shake, smooth video.

We also offer a full ecosystem of mountable and wearable accessories. See Products for additional information.
We believe our investments in hardware, cloud and mobile solutions have yielded a solid foundational experience for consumers that we will continue to build upon in 2019.

Our strategy

Helping our consumers capture and share their experiences in immersive and exciting ways 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 share engaging personal content. When consumers use our products and services, they often generate and share content that organically increases awareness for GoPro, driving a virtuous cycle and a self-reinforcing demand for our products. We believe revenue growth will be driven by the introduction of new cameras, accessories, software applications, subscription offerings and value-driven pricing. We believe new camera features drive a replacement cycle among existing users and attract new users, expanding our total addressable market. Key components of our 2019 strategy and beyond include the following:

Increase profitability through improved efficiency, lower costs and better execution. We plan to continue to operate at a similar expense level in 2019 from 2018, while investing in awareness, demand generation and our future roadmap. We incurred material operating losses in 2018, 2017 and 2016 and our future success will depend, in part, upon our ability to manage our operating expenses effectively. In 2018, 2017 and 2016, we implemented company-wide restructurings of our business resulting in reductions-in-force, the elimination of several high-cost initiatives (including the closure of our entertainment group and our exit from the aerial market) and the consolidation of certain leased office facilities around the globe, in order to improve efficiencies and focus our resources on our hardware and software integrated storytelling solutions. (See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for information regarding restructuring charges in 2018, 2017 and 2016.) The actions taken reduced our 2018 operating expenses by $92.6 million from 2017 and reduced our 2017 operating expenses by $286.9 million from 2016.

Attract, engage and retain top talent. In every area of our company, we want to retain employees committed to growing GoPro through great ideas and innovation. We plan to do this by leveraging our strong brand recognition, unique culture, competitive compensation and benefits as well as our strong commitment to our Diversity, Inclusion and Belonging initiative. GoPro's culture has been central to our ability to attract top talent. We hope to maintain this with events and programs that engage our people such as our Live It initiative that encourages employees to dedicate time each week to use GoPro products to gain an authentic understanding of the GoPro user experience. The hallmark of the GoPro employment brand is a closely-knit community, referred to as the GoPro Family, who work collaboratively in a lively workplace and are supported by competitive compensation and benefits, growth opportunities and engaging programs to boost professional development.

Focus on our ecosystem to eliminate friction from the customer experience. We believe eliminating the pain points involved in managing content and producing and sharing immersive experiences delivers on the promise of the GoPro experience for our target customers. Our cloud-connected HERO7, HERO6 and HERO5 cameras, GoPro Plus service, and apps work together to enable an ecosystem that allows users to capture, edit and share those experiences on a mobile device and easily back-up the content in the cloud. We believe the auto-upload and voice control features of these cameras provide game-changing experiences for consumers that we intend to continue to build upon with our next-generation cameras. Our Quik editing app and GoPro App enable users to quickly produce high-quality videos that are fun to create and easy to share across multiple platforms. We are focused on enhancing our software and services offerings, including simplified solutions that

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automate editing on-the-go, provide flexibility and creativity, and improve and simplify content transfer from GoPro cameras to mobile devices. We remain focused on making the smartphone a key component in the GoPro user experience.

Expand the value and awareness of our Plus subscription offerings. Since its launch in 2016, our subscription service, GoPro Plus, has steadily grown to more than 200,000 paying subscribers. GoPro Plus includes unlimited storage of original quality videos and photos, discounts on mounts and accessories, and in the United States, includes camera replacement and damage protection. We plan to continue growing our Plus business in 2019 by providing additional value and differentiated offerings, while refining and increasing our marketing efforts to drive awareness and more deeply engage our large consumer base.

Launch products that better serve our target customer segments. We believe that once consumers enter GoPro's product ecosystem, many become repeat purchasers, upgrading to our newest products with enhanced features or purchasing other products at compelling price points. In an effort to continue inspiring upgraders and attract new consumers into our ecosystem, we plan to design and market innovative, easy-to-use products and services that will appeal directly to our target audience of active people who are passionate about capturing their experiences.

Refine marketing to grow our brand and target-customer relevance globally. In 2018, we increased GoPro's marketing investment to drive a consistent, annual cadence of awareness and better capitalize on the launch of new products and services. With a deeper understanding of our target segments, we plan to continue to broaden the awareness of our solutions and drive an understanding of product innovations to increase new user adoption and inspire upgrades. We believe that international markets continue to represent a significant growth opportunity for GoPro. We will continue to increase our global presence through the active promotion of our brand, the creation and cultivation of regional strategic and marketing partnerships, the expansion of localized products in international markets with region specific marketing, and an investment focus on the biggest opportunities.

Optimize analytics and customer understanding to enable better business planning. Our increased commitment to and investment in customer research and analytics was fundamental to our strategy in 2018, allowing us to better manage and improve the predictability of our business, and design better products and services that provide the best value and solutions for our customers. We plan to further leverage analytics and integrate a deeper understanding of our target customers across the business to optimize the next generation of our products and go-to-market strategies.

In addition to the key components of our 2019 strategy and beyond, we will seek to leverage our brand strength and product expertise to drive a hardware upgrade cycle for our users, opportunistically enter complementary new device categories and continue to develop spherical-capture/virtual reality products. With our robust ecosystem of mounts and accessories, GoPro products allow our users to live the moment they wish to capture without having to step outside of that moment to capture it.

Products

Cameras. We offer a good-better-best camera line-up that includes our cloud connected HERO7 White, HERO7 Silver and HERO7 Black cameras. We also offer Fusion, our 360-degree spherical camera. HERO7 White, HERO7 Silver, HERO7 Black and Fusion cameras are durable, waterproof (without a housing), come with select mounting accessories, and have built-in Wi-Fi and Bluetooth providing connectivity with a mobile device to enable remote control, content viewing, editing and sharing functionality. Our HERO7 Black and HERO7 Silver cameras can shoot video in 4K at 60 and 30 frames per second, respectively, and Fusion shoots video in 5.2K at 30 frames per second in 360-degrees. Our latest firmware update also enabled Fusion to shoot in 5.8K at 24 frames per second for film and television production professionals. All of our current cameras feature multi-language voice and contextual control, electronic image stabilization, simplified user experience, and the ability to auto-upload photos and videos to GoPro Plus via Wi-Fi for easy access and editing with our apps. HERO7 Black, HERO7 Silver and Fusion also feature GPS and additional sensors that capture location, elevation, speed and G-force loads.

Mounts and accessories. We offer a wide range of mounts and accessories, either bundled with a camera or sold separately, that enhance the functionality and versatility of our products, and enable our consumers to capture their experiences during a variety of activities or moments from different viewpoints. Our equipment-based mounts include helmet, handlebar, roll bar and tripod mounts. Our 3-way mount is a 3-in-1 mount that can be used as a camera grip, extension arm or tripod, and our floating mounts such as the Handler, and Bite Mount + Floaty, allow our cameras to float in water. We also enable consumers to wear mounts on their bodies with the use of our wrist housing, chest harness and head strap. Additionally, we offer colored camera sleeves, spare batteries, dive filters and charging accessories and cables to connect our GoPro cameras to computers, laptops and television monitors. Our accessories expand the features, versatility and convenience of our cameras.

Applications. We offer mobile and desktop applications to all consumers at no charge that help our users manage, edit, view and share their content. Our GoPro App allows users to control their GoPro in addition to downloading, playback, and sharing their content on the fly using their smartphones. Additionally, by using our Fusion camera together with our GoPro App's OverCapture feature, users can re-frame and save traditional fixed-perspective videos "punched out" or extracted from a 360-degree video source file. From the Quik mobile app, users can automatically create and share QuikStories from their smartphone or GoPro content. With QuikStories, content transforms into a seamless video automatically, utilizing machine learning and computer vision to pick and frame the footage. Quik for desktop automatically imports content from a GoPro camera and makes it simple for users to create awe-inspiring videos synced to music with just a few clicks of the mouse.

Services. GoPro Plus is a cloud-based subscription service that offers a range of premium benefits to our consumers, including damage protection and camera replacement in the United States, easy auto-upload from a GoPro camera to the cloud for on-the-go access, storage of unlimited photos and videos, editing and sharing using a smartphone and the Quik app, an expanded library of soundtracks, premium support, and exclusive discounts on mounts and accessories. We had more than 185,000 paying subscribers as of December 31, 2018, which has subsequently increased to more than 200,000 paying subscribers as of February 12, 2019. GoPro Care is a fee-based service that offers a range of support options to our customers, including extended warranty and accidental damage coverage. Revenue earned to date from GoPro Plus and GoPro Care was not material to our results.

Image stabilization. The Karma Grip, which we offer as a standalone accessory, is a handheld, body-mountable 3-axis camera stabilizer that makes it easy to capture zero-shake, smooth video.

Seasonality

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

Segment information and geographic data

We operate as one reportable segment. Financial information about geographic areas is presented in Note 12 Concentrations of risk and geographic information, to the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

Backlog

We do not believe that backlog information is material or meaningful as of any particular date or indicative of future sales, as our customers can change or cancel orders with limited or no penalty and limited advance notice prior to shipment.

Research and development

We are passionate about developing new and innovative products that inspire our consumers and enhance our brand. We are constantly innovating to deliver better performance, expanded functionality and increased convenience to enhance the appeal of our products. We strive to remain a market leader by consistently introducing innovative products, software and services that offer optimal performance at affordable price points.

We have a user experience-driven approach to product development and our CEO leads product design. By engaging with customers, consumers and opinion leaders in our core markets around the world, our development team strives to introduce meaningful and empowering new features that expand the versatility and performance of our products. We also benefit from input received from our in-house production team, our sponsored athletes and our brand advocates that regularly travel the world capturing content using our products. We believe leveraging this input will help refine our existing products and influence future products that give us a competitive advantage.

Our engineering team supports the development of cameras, related mounts and accessories, firmware and software. Our hardware engineering team is responsible for developing technologies to support the concepts developed by our product team. These core technologies include GoPro’s custom designed GP1 processor, which allows cameras to perform advanced image computation and provides unparalleled image quality and next-level image stabilization, new image silicon processors, image sensors and lenses, as well as the core algorithms that enable the systems to operate and provide optimal performance and features. Our hardware engineering team also integrates these innovations and firmware into our product designs and develops our cameras, mounts and accessories.

Our software engineering team develops applications that enhance the functionality of our products and facilitate the management, editing, sharing and viewing of content. These applications are being developed for mobile, desktop and web-based platforms. Our core technologies include rendering engines to enable smooth video playback and editing, algorithms for moment identification, automatic story creation as well as cloud-based media storage, analysis and playback.

Manufacturing, logistics and fulfillment

Our products are designed and developed in the United States, France, China and Romania, and a significant majority of our manufacturing is outsourced to contract manufacturers located in China, Japan, Malaysia, and Vietnam. In 2019, we plan to move most of our United States bound camera production from China to Mexico, including final pack-out of some of our finished products, a change catalyzed by tariff-related concerns. We expect the relocation will be cost neutral as we own our production equipment and relocating may provide potential efficiencies in our supply chain. We believe that using outsourced manufacturing enables greater scale and flexibility than establishing our own manufacturing facilities. Several key strategic parts are purchased from suppliers by us and then consigned to our manufacturers, while the vast majority of parts are procured directly by our contract manufacturers. Our strategic commodities team manages the pricing and supply of the key components of our cameras, including digital signal processors, sensors and lenses, and we leverage their expertise to achieve competitive pricing on the largest value-add components and leverage our contract manufacturers’ volume purchases for best pricing on common parts.

We have third-party facilities in Southern China for final pack-out of our finished products. Finished products are consolidated in Hong Kong and then shipped to fulfillment centers in California, Kentucky, Netherlands, Hong Kong and Singapore that deliver our products to our customers. Cameras are typically air freighted while accessories are shipped via ocean freighter from our consolidation facility in Hong Kong to our fulfillment centers. Our fulfillment strategy allows us to reduce shipping costs, reduce custom levies and improve inventory flexibility.

Sales channels and customers

We offer our products in over 30,000 retail outlets and in over 100 countries through our direct sales channel and indirectly through our distribution channel. In 2018 and 2017, our direct sales accounted for 48% and 54% of our revenue, respectively, and our distributors accounted for 52% and 46% of our revenue, respectively.

Direct sales

We sell directly to most of our retailers in the United States, some of our retailers in Europe and to consumers worldwide through our e-commerce channels.

Independent specialty retailers. We use a network of location-based independent manufacturer representatives to sell our products to independent specialty retailers in the United States focused on sports and consumer activity capture markets. Our representatives provide highly personalized service to these retailers, including in-store merchandising, taking orders and providing clinics to educate retail sales personnel about GoPro products and services. We also have an internal, regionally focused sales team that provides a secondary level of service to both the independent specialty retailers and manufacturer representatives. Independent specialty retailers generally carry our higher end products, targeting their core customers who we believe tend to be early adopters of new technologies. Independent specialty retailers outside of the United States represent a similarly important sales channel for us, and we reach these customers indirectly through our network of international distributors.

Big box retailers. We sell to large retailers with a national presence, including Amazon.com, Inc., Best Buy, Inc., Target Corporation, Wal-Mart, Inc., Dixons Carphone and Fnac. We support these retailers with a dedicated and experienced sales management team that we believe enables us to reduce channel conflict.

Mid-market retailers. We also sell to retailers with a large regional or national presence, often focused on specific verticals such as consumer electronics, sporting goods, military, hunting and fishing, and motorsports. In the United States, we sell directly to these mid-market retailers through our experienced sales teams assigned to particular accounts and regions.

E-commerce channel. We sell our full line of products to consumers worldwide through our online store at gopro.com, which we market through online and offline advertising. Sales through gopro.com were less than 10% of our total revenue for 2018, 2017 and 2016.

Distribution

We sell to over 55 distributors who resell our products to retailers in international and domestic markets. We have dedicated sales personnel focused on providing a high level of service to these distributors, including assisting with product mix planning, channel marketing and in-store merchandising, development of marketing materials, order assistance and educating the distributors’ sales personnel about GoPro products.

In-store merchandising

Our in-store merchandising strategy focuses on our iconic GoPro-branded, video-enabled point of purchase (POP) merchandising displays that are located in nearly all retail outlets where our products are sold. These displays showcase GoPro videos and present our product ecosystem in a customer-friendly manner. Our larger retailers help us represent a broader range of GoPro products due to their in-store deployment of our larger and custom POP displays. We have been successful working with our retailers to further expand the footprint of our POP displays within existing stores. As of December 31, 2018 and 2017, we had approximately 29,000 POP displays in retail outlets worldwide.

Marketing and advertising

Our marketing and advertising programs are focused on engaging consumers by exposing them to compelling GoPro content and educating them about new hardware features as well as the power of our solutions for software editing (mobile and desktop applications) and content management (GoPro Plus). We believe this approach enhances our brand while demonstrating the performance, durability and versatility of our products. Our marketing and advertising efforts span a wide range of consumer interests and leverage both traditional consumer marketing and lifestyle marketing strategies.

Consumer marketing. Social media plays an important role in our consumer marketing strategy. Our consumers capture and share personal GoPro content on social media and content sharing platforms like Facebook, Instagram, Pinterest, Twitter, Vimeo and YouTube. In 2018, we gained 3.3 million new followers to our social accounts for a lifetime total of 38.4 million followers. Of the 3.3 million new followers on our social accounts, 1.9 million were on Instagram, resulting in a lifetime total of 16.7 million on Instagram. To date, we have reached 2.3 billion views on YouTube. Additionally, our latest GoPro HERO7 launch video ranked in the top 10 Google ad leaderboard in September 2018. We also integrate user-generated content and GoPro originally produced content into advertising campaigns across various platforms including print, online, billboards and other out of home advertising, and at consumer and trade facing events. This content also supports our in-store channel marketing efforts, appearing on our POP displays and other in-store marketing materials. We continue to believe GoPro content remains a significant asset that builds awareness for our brand and products.

Lifestyle marketing. Our lifestyle marketing programs focus on expanding GoPro brand awareness by engaging consumers through relationships with key influencers, event promotions and other outreach efforts. We cultivate strong relationships with influential athletes, celebrities, entertainers and brands, all of whom use our products to create and share engaging content with their own fans and consumers.

Competition

The market for cameras is highly competitive and characterized by frequent product introductions and rapid technological advances. We believe the principal competitive factors impacting the market for our products include quality, reliability and user experience, price and performance, design innovation, brand recognition, marketing and distribution capability, service and support, and brand reputation.

We compete against established, well-known camera manufacturers such as Canon Inc. and Nikon Corporation, as well as large, diversified electronics companies such as, Samsung Electronics Co. and Sony Corporation and specialty companies such as Garmin Ltd., the Ricoh Company, Ltd. and Shenzhen Arashi Vision Co., Ltd. We believe we compete favorably with these companies' products. Our durable and versatile product design facilitates increased functionality and wearability and we offer a variety of mounts and other accessories that enable a wide range of consumer use cases that are difficult for other competing products to address. Further, we offer many professional-grade features within our camera and spherical product offerings at attractive consumer price points, including our SuperView mode, which allows a user to capture an immersive wide-angle perspective, super high-resolution video capability, voice control features, image stabilization, and for our 360 experience, OverCapture, which allows a Fusion user to capture content from every angle. We also provide users with a suite of free mobile and desktop applications that enhance the overall GoPro experience. Moreover, we believe we have achieved significant brand recognition in our target vertical markets. We believe our years of experience working with active and influential consumers contributes to our ability to develop attractive products and establishes the authenticity of our brand, thereby differentiating us from current and potential competitors.

Smartphones and tablets with photo and video functionality have significantly displaced the market for traditional camera sales, 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, our GoPro App 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 iOS and Android. Also, it is possible that, in the future, the manufacturers of such devices, such as Apple, Google and Samsung, may continue to design their products for use in a range of conditions, including challenging physical environments and waterproof capabilities, or develop products with features similar to ours. In addition, new companies may emerge and offer competitive products directly in our category.

Intellectual property

Intellectual property is an important aspect of our business, and our practice is to seek protection for our intellectual property as appropriate. Our trademarks, including “GOPRO,” “HERO,” “SESSION” and the GoPro logos, among others, are a critical component of the value of our business. In addition, we hold many issued and pending utility and design patents for innovations that help our consumers capture, create and share their content using our cameras, drones, mounts, accessories and software. Our patents cover areas that include physical structures, image processing, operational firmware and software, post-processing software, distribution software, mount and accessory structures, as well as the ornamental aspects of our hardware and software products. As of December 31, 2018, we had approximately 510 issued patents and 436 patent applications pending in the United States, and 283 corresponding issued patents and 108 patent applications pending in foreign countries. Our issued United States patents will expire approximately between 2024 and 2036 and our issued foreign patents will expire approximately between 2022 and 2042. We cannot be certain that our patent applications will be issued or that any issued patents will provide us with any competitive advantage or will not be challenged by third parties. We continually review our development efforts to assess our innovations, including their patentability. We take active measures to protect our intellectual property against unauthorized third-party use, including misuse of our patents, copyrights, trademarks and other proprietary rights.

In addition to the foregoing protections, we generally control access to and use of our proprietary and other confidential information through the use of internal and external controls, including contractual protections in agreements with employees, contract manufacturers, distributors and others. Despite these protections, we may be unable to prevent third parties from using our intellectual property without our authorization, breaching any nondisclosure agreements with us, or independently developing products that are similar to ours, particularly in those countries where the laws do not protect our proprietary and intellectual property rights as fully as in the United States.

Employees

As of December 31, 2018, we had 891 employees. None of our employees are currently covered by a collective bargaining agreement, and we have experienced no work stoppages.

Corporate and available information

We were incorporated as Woodman Labs, Inc. in California and began doing business as GoPro in February 2004. We reincorporated in Delaware in December 2011 and in February 2014 we changed our name to GoPro, Inc. Our principal executive offices are located at 3000 Clearview Way, San Mateo, California 94402, and our telephone number is (855) 636-3578. We completed our initial public offering in July 2014 and our Class A common stock is listed on The Nasdaq Global Select Market under the symbol “GPRO.” Our Class B common stock is not listed nor traded on any stock exchange.

We have registered and applied to register a number of trademarks with the United States Patent and Trademark Office and the trademark offices of other countries including “GOPRO,” “HERO,” “SESSION” and the GoPro logos. This Annual Report on Form 10-K also includes references to trademarks and service marks of other entities, and those trademarks and service marks are the property of their respective owners.

Our website address is www.gopro.com. Through a link on the Investor Relations section of our website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC): our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. All such filings are available free of charge. The information posted on our website is not incorporated into this report. The SEC maintains a website that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

Item 1A. Risk Factors

You should carefully consider the risks described below and all other information contained in this Annual Report on Form 10-K before making an investment decision. The risk factors below 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.

Our historical results should not be considered as indicative of our future performance. For example, our annual revenue grew rapidly from $985.7 million in 2013 to $1.62 billion in 2015 and then declined to $1.148 billion, $1.180 billion and $1.185 billion in 2018, 2017 and 2016, respectively. In future periods, we could continue to experience declines in revenue, or revenue could grow more slowly than we expect, which could have a material negative effect on our future operating results.

In addition, we incurred substantial operating losses of $94.0 million, $163.5 million and $373.0 million for 2018, 2017 and 2016, respectively, as compared to operating income of $54.7 million for 2015. Lower levels of revenue or higher levels of operating expense in future periods may result in additional losses or limited profitability. In the first quarter of 2018, we implemented a company-wide restructuring of our business resulting in a reduction in our global workforce and the elimination of certain open positions, consolidation of certain leased office facilities, as well as the elimination of several high-cost initiatives, including the closure of our aerial products business, in order to focus our resources on our core camera, cloud and software, and services businesses. We previously implemented company-wide restructurings in the first and fourth quarters of 2016, and the first quarter of 2017, in order to focus our resources on our hardware and integrated storytelling solutions, and the consolidation of certain leased office facilities. We may not continue to 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 Annual Report on Form 10-K for the year ended December 31, 2018, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors.

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

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

We plan to further build upon our integrated storytelling solutions, such as our Quik mobile application, HERO7 line of cameras and GoPro Plus subscription 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 to reach more of our core customers with our integrated solutions, our future revenue growth will be negatively affected, and we may not recognize benefits from our investments in the various components of our storytelling solutions, and the marketing, sales and advertising costs to promote our solution.

Our growth also depends on expanding our market with capture perspectives, including spherical, which is a resource-intensive initiative in a highly competitive market. While we are investing resources, including in software development, sales and marketing, to reach these expanded and new consumer markets, we cannot be assured that we will be successful in doing so. If we are not successful in penetrating additional markets, we might not be able to grow our revenue and we may not recognize benefits from our investment in new areas. For example, we made significant investments in the aerial market, but decided in the first quarter of 2018 to close our aerial business in light of difficult market and regulatory conditions, and margin challenges.

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

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

The success of new product introductions depends on a number of factors including, but not limited to, timely and successful research and development, pricing, market and consumer acceptance, effective forecasting and management of product demand, purchase commitments and inventory levels, availability of products in appropriate quantities to meet anticipated demand, ability to obtain timely and adequate delivery of components for our new products from third-party suppliers, management of any changes in major component suppliers, management of manufacturing and supply costs, 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 heightened demand for specialty memory, components and batteries that are not supported by our manufacturing partners. Such supply shortages may affect our ability to manage appropriate supply levels of our products and pricing pressures may negatively affect 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. For example, in 2017, the introduction of the HERO6 Black camera at $499, while keeping the price point of the HERO5 Black camera at $399, negatively affected consumer demand for HERO5 Black, and we ultimately reduced the price of HERO5 Black to increase channel sell through rates. The HERO5 Black price adjustment had a cascading effect that resulted in price reductions for HERO5 Session and ultimately HERO6 Black cameras. Reduced product margins resulting from lower price point products may decrease the number of retailers willing to offer and promote our product lineup. Failure to manage and complete product transitions effectively or in a timely manner could harm our brand and lead to, among other things, lower revenue, excess prior generation product inventory, or a deficit of new product inventory and reduced profitability. For example, as a result of reducing the price of our HERO5 Black cameras in December 2017 and HERO6 Black cameras in January 2018, we incurred price protection and marketing development funds charges which resulted in a reduction in our revenue, gross margins and operating profits.

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 or plan the right promotions for the right products at the right time, the lack of success or increased costs of promotional programs could have an adverse effect on our business, financial condition and results of operations.

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

We expect to derive the substantial majority of our revenue from sales of cameras, mounts and accessories for the foreseeable future. A decline in the price or unit demand for these products, whether due to macroeconomic conditions including variable tariff rates, competition or otherwise, or our inability to increase sales of these products, would harm our business and operating results more seriously than it would if we derived significant revenue from a variety of product lines and services. In particular, a decline in the price or unit demand of our HERO camera line or Fusion camera, or our inability to increase sales of these products, could materially harm our business and operating results. Further, any delays or issues with our new product launches could have a material adverse effect on our business, financial condition and results of operations.

While we have developed and released products and services to add to our offerings, we may not be successful in achieving future revenue growth driven by newly released products and services. For example, we promoted GoPro Plus, our subscription service in connection with our HERO7 camera lineup, to allow consumers to auto upload content to the cloud and make edits with our Quik storytelling solution. If all the components of the storytelling solutions do not work together seamlessly or our users do not adopt them, they may not drive camera sales and our operating results could be adversely affected. In addition, we continue to expend resources to

develop a solution for editing and sharing software to deliver and experience spherical content. If the software does not function as expected or users do not adopt our solution, sales of our spherical camera may be negatively affected. We cannot be assured that our investments in the development of software-related products and services will result in either increased revenue or profit. Changes in product mix may harm our financial results. If there is a shift in consumer demand from our higher-priced to lower-priced cameras without a corresponding increase in units sold, our revenues and gross profit could decrease and losses could increase.

As a result, our future growth and financial performance may continue to depend heavily on our ability to develop and sell enhanced versions of our cameras, mounts and accessories. If we fail to deliver product enhancements, new releases or new products and services that appeal to consumers, our future financial condition, operating results and cash flows will be materially affected. Product introductions may not always be successful and could be costly to develop and exit if ultimately unsuccessful. For example, we invested significant resources in development, marketing and support for the launch of our Karma drone, which we subsequently determined faced margin challenges and other obstacles, and we exited the aerial business in 2018.

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

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

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

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

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

In particular, for our camera designs, we incorporate image processors, sensors, lens, batteries and memory solutions that critically impact the performance of our products. These components have unique performance profiles, and, as a result, it is not commercially practical to support multiple sources for these components for our products. For example, we incorporate the GP1 image signal processor from Socionext, Inc. in our HERO7 Black and HERO6 Black cameras. We do not currently have alternative suppliers for several key components. In addition, our products also require passive components such as resistors and multi-layer ceramic capacitors which are experiencing supply shortages and lengthening lead-times within the consumer electronics industry and

may impact our supply chain. In the event that any of our key suppliers are unable to supply the components that we need to produce our products to meet anticipated customer demand, our business would be materially and adversely affected.

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

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

Our research and development efforts are complex and require us to incur substantial expenses to support the development of our next generation cameras, editing applications and other new products and services. Our research and development expense was $167.3 million, $229.3 million and $358.9 million for 2018, 2017 and 2016, respectively. We expect that our research and development expenses will continue to be substantial in 2019, and increase compared to 2018 as we develop innovative technologies. Our more limited research and development investment priorities in 2019 may require us to forego investment in certain products or features which might have been successful had we invested in them, and we may not choose the right features, products, or services to update or enhance. Unanticipated problems in developing products could also divert substantial resources, which may impair our ability to develop new products and enhancements of existing products, and could further increase our costs. We may not be able to achieve an acceptable return, if any, on our research and development efforts, and our business may be adversely affected. As we continually seek to enhance our products, we will incur additional costs to incorporate new or revised features. We might not be able to, or determine that it is not in our interests to, raise prices to compensate for any additional costs.

We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can. New entrants also enter our category from time-to-time. These market factors 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 new market entrants and existing competitors have introduced new products and more competitive offerings 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. and Nikon Corporation, as well as large, diversified electronics companies such as Samsung Electronics Co. and Sony Corporation, and specialty companies such as Garmin Ltd., the Ricoh Company, Ltd. and Shenzhen Arashi Vision Co., Ltd. Many of our 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. Additionally, 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 or vertically integrated business units; 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 directly in our category. We are aware that certain companies have developed cameras designed and packaged to appear similar to our products, which may confuse consumers or distract consumers from purchasing GoPro products.

Moreover, smartphones and tablets with photo and video functionality have significantly displaced the market for traditional cameras, and the makers of those devices also have mobile and other content editing applications and storage for content captured with those devices. Our GoPro and Quik mobile and desktop editing applications and our GoPro Plus service may not be as compelling of a solution as those offered by other companies, such as Apple and Google, although the Quik mobile application supports content from other platforms including content from iOS and Android. Manufacturers of smartphones and tablets, such as Apple, Google and Samsung may continue to design their products for use in a range of conditions, including challenging physical environments and waterproof capabilities, or develop products with features similar to ours.

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

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

Since March 2016, we have implemented four global reductions-in-force and other restructuring actions to reduce our operating expenses. These changes, and any future changes, in our operations and management team could be disruptive to our operations. Our restructuring actions and any future restructuring actions could have an adverse effect on our business as a result of decreases in employee morale and the failure to meet operational targets due to the loss of employees. If key employees leave, we may not be able to fully integrate new personnel or replicate the prior working relationships, and our operations could suffer.

Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. While we utilize competitive salary, bonus and long-term incentive packages to recruit new employees, many of the companies with which we compete for experienced personnel also have greater resources than we do. Competition for qualified personnel is particularly intense in the San Francisco Bay Area, where our headquarters are located. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. Fluctuations in the price of our Class A common stock may make it more difficult or costly to use equity compensation to motivate, incentivize and retain our employees. For example, during 2018, our closing stock price ranged from a high of $7.57 in the first quarter to a low of $4.04 in the fourth quarter. If we are unable to attract and retain highly skilled personnel, we may not be able to achieve our strategic objectives, and our business, financial condition and operating results could be adversely affected.

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

Seasonal consumer shopping patterns significantly affect our business. We have traditionally experienced greater revenue in the fourth quarter of each year due to demand related to the holiday season, and in some years, including 2018, demand associated with the launch of new products heading into the holiday season. Fourth quarter revenue comprised 33%, 28% and 46% of our 2018, 2017 and 2016 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, product mix, charges incurred against new products to support promotional activities, pricing pressures, supply chain disruptions, or for any other reason, could cause our annual results of operations to suffer significantly. In addition, we typically experience lower revenue in the first half of the year. For example, revenue of $485.0 million for the first half of 2018 decreased $179.6 million, or 27%, sequentially from $664.6 million in the last half of 2017. First half revenue comprised 42%, 44% and 34% of our annual 2018, 2017 and 2016 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.

Changes to trade policies, tariffs and import/export regulations may have an adverse effect on our business and results of operations.

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

We do not have internal manufacturing capabilities and rely on several contract manufacturers, located primarily in China to manufacture our products. Our contract manufacturer locations expose us to risks associated with doing business globally, including risks related to changes in tariffs. Additionally, the current United States administration continues to signal that it may continue to alter trade agreements and terms between China and the United States, including limiting trade with China, imposing additional tariffs on imports from China and potentially imposing other restrictions on exports from China to the United States. The Office of the United States Trade Representative (USTR) recently identified certain Chinese imported goods for additional tariffs to address China's trade policies and practices. GoPro cameras have not been impacted by any of the recently announced Section 301 tariffs by the USTR. Any announcement by the USTR to impose tariffs on GoPro cameras could have a material adverse effect on our United States bound production, business and results of our United States operations. If these duties are imposed on our cameras, we may be required to raise our prices, which may result in the loss of customers and harm our business and results of operations. Currently we are shifting most of our United States bound camera production outside of China in the first half of 2019 to Mexico, which may result in potentially significant material costs and potential disruption to our operations as it may cause us to pursue the time-consuming processes of recreating a new supply chain, identifying substitute components and establishing new manufacturing locations. Shifting United States bound camera production to Mexico may not be successful due to timing of implementing these changes, and we may not be successful in reducing our costs, or off-setting the impact of tariffs due to other potential tariffs. Additionally, we may not succeed at lowering potential tariff rates on United States bound production manufactured in Mexico due to the ongoing negotiations and congressional confirmation of the United States Mexico Canada Agreement. Sales of our products in China are material to our business and a significant market for our revenue, and are at risk in the event China imposes retaliatory tariffs impacting in-bound sales of our cameras.

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 2018, we exited the aerial products business, but still had inventory of our Karma drone, which we sold throughout 2018. Also, in the fourth quarter of 2015, the first quarter of 2016, and the fourth quarter of 2017, we recorded product charges of $57 million, $8 million, and $5 million, respectively, for excess purchase order commitments, excess inventory, and obsolete tooling, relating to the end-of-life of our former entry-level HERO product that was introduced in 2014, slower than anticipated overall demand, and for excess inventory relating to the end-of-life of our REMO accessory.

No assurance can be given that we will not incur additional charges in future periods related to our inventory management or that we will not underestimate or overestimate forecast sales in a future period. Our ability to accurately forecast demand for our products is affected by many factors, including product introductions by us and our competitors, channel inventory levels, unanticipated changes in general market demand, macroeconomic conditions or consumer confidence. If we do not accurately forecast customer demand for our products, we may in future periods be unable to meet consumer, retailer or distributor demand for our products, or may be required to incur higher costs to secure the necessary production capacity and components, and our business and operating results could be adversely affected.

If we fail to manage our operating expenses effectively, our financial performance may continue to suffer.

Our success will depend in part upon our ability to manage our operating expenses, including but not limited to our cash management, effectively. We incurred significant operating losses in 2018 and 2017 and, as of December 31, 2018, we had an accumulated deficit of $569.0 million. Beginning in March 2016 through the first quarter of 2018, we implemented global reductions-in-force and other restructuring actions to reduce our operating expenses. Although we plan to seek to operate efficiently and to manage our costs effectively, we may not realize the cost savings expected from these actions. Aggregate charges for employee terminations and the timing to recognize these charges and other costs associated with the restructuring, including the estimates of related cash expenditures made in connection with the restructuring, may exceed estimated and disclosed amounts and may not lead to improvements in results of operations at expected levels.

We will need to continue to improve our operational, financial and management controls, reporting processes and procedures, and financial and business information systems. We are also investing in areas we believe will grow revenue and our operating expenses might increase as a result of these investments. If we are unable to operate efficiently and manage our costs, we may continue to incur significant losses in the future and may not be able to maintain or achieve profitability.

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

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

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

Data protection breaches and cyberattacks could disrupt our products, services, internal operations, or information technology systems, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation, and cause our stock price to decline significantly.

Our products and services may contain unknown security vulnerabilities. For example, the firmware and software that are installed on our products may be susceptible to hacking or misuse. In addition, we offer a comprehensive online cloud management service, GoPro Plus, which can be paired with our cameras. If malicious actors compromise the GoPro Plus service, or if customer confidential information stored in the Plus service is accessed without authorization, our business will be harmed.

In operating GoPro Plus, we rely on third-party providers for a number of critical aspects for GoPro Plus services, including web hosting services, billing and payment processing and consequently, we do not maintain direct control over the security or stability of the associated systems. If we or our third-party providers are unable to successfully prevent breaches of security relating to our products, services, or user private information, including user videos and user personal identification information, or if these third-party systems fail for other reasons, we may need to spend increasing amounts of time and effort in this area. As a result, we could incur substantial expenses, our brand and reputation could suffer and our business, results of operations and financial condition could be materially adversely affected.

Interruptions with the cloud-based systems that we use in our operations, provided by an affiliate of Amazon.com, Inc. (Amazon), may materially adversely affect our business, results of operations and financial condition.

We host GoPro Plus using Amazon Web Services (AWS) data centers, a provider of cloud infrastructure services, and may in the future use other third-party cloud-based systems in our operations. Accordingly, our operations depend on protecting the virtual cloud infrastructure hosted in AWS by maintaining its configuration, architecture, features, and interconnection specifications, as well as the information stored in these virtual data centers and which third-party internet service providers transmit. Any incident affecting their infrastructure that may be caused by human error, fire, flood, severe storm, earthquake, or other natural disasters, cyberattacks, terrorist or other attacks, and other similar events beyond our control could negatively affect the GoPro Plus service. A prolonged AWS service disruption affecting our GoPro Plus service for any of the foregoing reasons would negatively impact our ability to serve our consumers and could damage our reputation with current and potential consumers, expose us to liability, cause us to lose consumers, or otherwise harm our business. We may also incur significant costs for using alternative equipment or taking other actions in preparation for, or in reaction to, events that damage the AWS services we use. Further, if we were to make updates to GoPro Plus that were not compatible with the configuration, architecture, features, and interconnection specifications of the third-party platform, our service could be disrupted.

In the event that our AWS service agreements are terminated, or there is a lapse of service, elimination of AWS services or features that we use, interruption of internet service provider connectivity, or damage to such facilities, we could experience interruptions in access to GoPro Plus as well as significant delays and additional expense in arranging or creating new facilities and services and/or re-architecting our solutions for deployment on a different cloud infrastructure service provider, which could materially adversely affect our business, results of operations and financial condition.

The reputation of our services may be damaged, and we may fact significant direct or indirect costs, decreased revenue and operating margins if our services contain significant defects or fail to perform as intended.

GoPro Plus and GoPro applications platform are complex and may not always perform as intended due to outages of our systems or defects affecting our services. System outages could be disruptive to our business and damage the reputation of our services and result in potential loss of revenue. Significant defects affecting our services may be found following the introduction of new software or enhancements to existing software or in software implementations in varied information technology environments. Internal quality assurance testing and end-user testing may reveal service performance issues or desirable feature enhancements that could lead us to reallocate service development resources or postpone the release of new versions of our software. The reallocation of resources or any postponement could cause delays in the development and release of future enhancements to our currently available software, damage the reputation of our services in the marketplace and result in potential loss of revenue. Although we attempt to resolve all errors that we believe would be considered serious by our partners and customers, the software powering our services is not error-free. Undetected errors or performance problems may be discovered in the future, and known errors that we consider minor may be considered serious by our channel partners and consumers. System disruptions and defects in our services could result in lost revenue, delays in customer deployment, or legal claims and could be detrimental to our reputation.

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

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 63%, 55% and 53% of our revenue in 2018, 2017 and 2016, respectively, and we expect international revenue to continue to be significant in the future. Further, we currently have foreign operations in Australia, China, France, Germany, Hong Kong, Netherlands, Philippines, Romania, United Kingdom 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;
- adverse tax effects and foreign exchange controls making it difficult to repatriate earnings and cash;
- changes to the taxation of undistributed foreign earnings;
- the effect of foreign currency exchange rates and interest rates;
- political and economic instability;
- terrorist activities and natural disasters;
- trade restrictions;
- differing employment practices and laws and labor disruptions;
- the imposition of government controls;
- lesser degrees of intellectual property protection;
- tariffs and customs duties and the classifications of our goods by applicable governmental bodies;
- a legal system subject to undue influence or corruption; and
- a business culture in which illegal sales practices may be prevalent.

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

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

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

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

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

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

System disruptions, failures and slowdowns, whether caused by cyberattacks, 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.

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The information systems used by our third-party service providers are vulnerable to these risks as well. In particular, we are heavily reliant on SaaS enterprise resource planning systems to conduct our order and inventory management, e-commerce and financial transactions and reporting. In addition, we utilize third-party cloud computing services in connection with our business operations. Problems faced by us or our third-party hosting/cloud computing providers, or content delivery network providers, including technological or business-related disruptions, as well as cybersecurity threats, could adversely affect our business and operating results, our ability to accurately report our financial results, as well as the experience of our consumers, which in turn could adversely affect our business and operating results. As we expand our operations, we expect to utilize additional systems and service providers that may also be essential to managing our business. Our ability to manage our business would suffer if one or more of our providers suffer an interruption in their business, or experience delays, disruptions or quality control problems in their operations, or we have to change or add systems and services. While we conduct reasonable diligence on our service providers, we may not always be able to control the quality of the systems and services we receive from these providers, which could impair our ability to maintain appropriate internal control over financial reporting and complete timely and accurate financial reporting, and may affect our business, operating results and financial condition.

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

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

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

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact of such future laws, regulations and standards may have on our business. For example, in June 2018, California passed the California Consumer Privacy Act (CCPA) which provides new data privacy rights for consumers and new operational requirements for companies effective in 2020. Additionally, we expect that existing laws, regulations and standards may be interpreted differently in the future. There remains significant uncertainty surrounding the regulatory framework for the future of personal data transfers from the European Union to the United States with regulations such as the recently adopted General Data Protection Regulation (GDPR) which imposes more stringent EU data protection requirements, provides an enforcement authority, and imposes large penalties for noncompliance. Future laws, regulations, standards and other obligations, including the adoption of the GDPR, as well as changes in the interpretation of existing laws, regulations, standards and other obligations could impair our ability to collect, use or disclose information relating to individuals, which could decrease demand for our products, require us to restrict our business operations, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue.

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

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

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

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

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

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

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

consequences, additional stock-based compensation expense and the recording and subsequent amortization or impairments of amounts related to certain purchased intangible assets, any of which could negatively affect our future results of operations.

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

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

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

We depend upon effective sales channels to reach the consumers who are the ultimate purchasers of our products. In the United States, we primarily sell our products directly through a mix of retail channels, including big box, mid-market and specialty retailers, and we reach certain United States 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 and acquiesce to our policies. 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. If our retailers do not acquiesce to our policies, we may refuse to ship our products and our sales could decrease, and our business could be harmed. Similarly, our business could be adversely affected if any of our large retail customers were to experience financial difficulties or change the focus of their businesses in a way that deemphasized the sale of our products. We also continue to invest in providing new retailers with POP displays and expanding the footprint of our POP displays in existing stores, and there can be no assurance that this investment will lead to increased revenue.

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

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

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

Our ten largest customers, measured by the revenue we derive from them, accounted for 48% of our revenue for 2018 and 2017, and 50% of our revenue for 2016. One retailer accounted for 13%, 15% and 17% of our revenue for 2018, 2017 and 2016, respectively. A second retailer accounted for less than 10% of our revenue in 2018 and 2017 but accounted for 11% of our revenue in 2016. The loss of a small number of our large customers, or the reduction in business with one or more of our large customers, could have a significant adverse effect on our operating results. In addition, we may choose to temporarily or permanently stop shipping product to customers who do not follow the policies and guidelines in our sales agreements, which could have a material negative effect on our revenues and operating results. Our sales agreements with these large customers do not require them to purchase any meaningful amount of our products annually and we grant limited rights to return product to some of these large customers.

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

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

We may be subject to warranty claims that could result in significant direct or indirect costs, or we could experience greater returns from retailers than expected, which could harm our business and operating results.

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

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

Consumers may be injured while engaging in activities with our products, and we may be exposed to claims, or regulations could be imposed, which could adversely affect our brand, operating results and financial condition.
Consumers use our cameras, drones and their associated mounts and accessories to self-capture their participation in a wide variety of physical activities, including extreme sports, which in many cases carry the risk of significant injury or death. Consumers may also use our drones for a wide range of flight activity, including aerial data collection, videography and photography. We may be subject to claims that users have been injured or harmed by or while using our products, including false claims or erroneous reports relating to safety, security or privacy issues, or that personal property has been damaged as a result of use of our drone. Although we maintain insurance to help protect us from the risk of such claims, such insurance may not be sufficient or may not apply to all situations. Similarly, proprietors of establishments at which consumers engage in challenging physical activities could seek to ban the use of our products in their facilities to limit their own liability. In addition, if lawmakers or governmental agencies were to determine that the use of our products increased the risk of injury or harm to all or a subset of our users or should otherwise be restricted to protect consumers, they may pass laws or adopt regulations that limit the use of our products or increase our liability associated with the use of our products. Any of these events could adversely affect our brand, operating results and financial condition.
Our intellectual property and proprietary rights may not adequately protect our products and services, and our business may suffer if it is alleged or determined that our technology, products, or another aspect of our business infringes third-party intellectual property or if third parties infringe our rights.
We own patents, trademarks, copyrights, trade secrets, and other intellectual property (collectively "intellectual property") related to aspects of our products, software, services and designs. Our commercial success may depend in part on our ability to obtain, maintain and protect these rights in the United States and abroad.
We regularly file patent applications to protect innovations arising from our research, development and design as we deem appropriate. We may fail to apply for patents on important products, services, technologies or designs in a timely fashion, or at all. We may not have sufficient intellectual property rights in all countries where unauthorized third-party copying or use of our proprietary technology occurs and the scope of our intellectual property might be more limited in certain countries. Our existing and future patents may not be sufficient to protect our products, services, technologies or designs and/or may not prevent others from developing competing products, services, technologies or designs. We cannot predict the validity and enforceability of our patents and other intellectual property with certainty.
We have registered, and applied to register, certain of our trademarks in several jurisdictions worldwide. In some of those jurisdictions, third-party filings exist for the same, similar or otherwise related products or services, which could block the registration of our marks. Even if we are able to register our marks, competitors may adopt or file similar marks to ours, seek to cancel our trademark registrations, register domain names that mimic or incorporate our marks, or otherwise infringe upon or harm our trademark rights. Although we police our trademark rights carefully, there can be no assurance that we are aware of all third-party uses or that we will prevail in enforcing our rights in all such instances. Any of these negative outcomes could affect the strength, value and effectiveness of our brand, as well as our ability to market our products. We have also registered domain names for websites, or URLs, that we use in our business, such as gopro.com, as well as social media handles. If we are unable to protect our domain names or social media handles, our brand, business, and operating results could be adversely affected. Domain names or social media handles 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 or social media handles 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, social media handles or other related rights in certain jurisdictions.
Litigation may be necessary to enforce our intellectual property rights. Initiating infringement proceedings against third parties can be expensive, take significant time, and divert management's attention from other business concerns. We may not prevail in litigation to enforce our intellectual property against unauthorized use.
Third parties, including competitors and non-practicing entities, have brought intellectual property infringement claims against us. We expect to continue to receive such intellectual property claims in the future. While we will

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

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

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

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

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

We do not control our contract manufacturers or suppliers, including their labor, environmental or other practices. Environmental regulations or changes in the supply, demand or available sources of natural resources may affect the availability and cost of goods and services necessary to run our business. We require our contract manufacturers and suppliers to comply with our formal supplier code of conduct and relevant standards and have ongoing audit programs in place to assess our suppliers' compliance with our requirements. We periodically

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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 United States Foreign Corrupt Practices Act, the United Kingdom 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 United States Foreign Corrupt Practices Act, or FCPA, the United Kingdom Bribery Act 2010, or the U.K. Bribery Act, and similar anti-bribery and anti-corruption laws in other jurisdictions generally prohibit United States based companies and their intermediaries from making improper payments to non-United States officials for the purpose of obtaining or retaining business, directing business to another, or securing an advantage. In addition, United States 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, United States 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 United States 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 United States export controls, and exports of our products must be made in compliance with various economic and trade sanctions laws. Furthermore, United States export control laws and economic sanctions prohibit the provision of products and services to countries, governments, and persons targeted by United States sanctions. Even though we take precautions to prevent our products from being provided to targets of United States sanctions, our products, including our firmware updates, could be provided to those targets or provided by our customers. Any such provision could have negative consequences, including government investigations, penalties and reputational harm. Our failure to obtain required import or export approval for our products could harm our international and domestic sales and adversely affect our revenue.

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

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

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

Additionally, in December 2017, the current United States administration signed an act referred to as the Tax Cuts and Jobs Act (TCJA), generally effective for taxable years beginning after December 31, 2017. The TCJA is complex and includes significant amendments to the Internal Revenue Code of 1986, as amended, including amendments that significantly change the taxation of offshore earnings and the deductibility of interest. The TCJA had a material impact on the gross value of our deferred tax assets before valuation allowance and long-term income tax payable balances and could increase our future United States tax expense. Furthermore, changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. We have assessed the effect of the TCJA on our business and consolidated financial statements overall as immaterial. See Note 9 Income taxes to the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for further discussion of the TCJA. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. Our future effective tax rates could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in, or our interpretation, of tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of earnings in countries with low statutory tax rates, or by changes in the valuation of our deferred tax assets and liabilities. The United States, the European Commission, countries in the European Union, Australia and other countries where we do business have been considering changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals. These potential changes could adversely affect our effective tax rates or result in other costs to us.

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

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

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

While we have determined that our internal control over financial reporting was effective as of December 31, 2018, we must continue to monitor and assess our internal control over financial reporting. Our control environment may not be sufficient to remediate or prevent future material weaknesses or significant deficiencies from occurring. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and all instances of fraud will be detected.

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

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

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

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

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and may even affect the reporting of transactions completed before the announcement or effectiveness of a change. Other companies in our industry may apply these accounting principles differently than we do, which may affect the comparability of our consolidated financial statements. For example, in February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02 (Topic 842), Leases, which requires recognition of lease assets and lease liabilities on the balance sheet by lessees for leases classified as operating leases with a term of more than 12 months. Topic 842 will be applied on a modified retrospective basis and is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We are in the process of finalizing the impact of Topic 842 and expect the adoption of the standard will result in the recognition of additional lease liabilities of approximately \$89 million to \$93 million. See Note 1 Summary of business and significant accounting

policies, to the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for a discussion on recent accounting standards.

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

The preparation of consolidated 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 this Annual Report on Form 10-K for the year ended December 31, 2018 in the section titled Management's Discussion and Analysis of Financial Condition and Results of Operations. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, inventory valuation, stock-based compensation expense, warranty reserves, goodwill and acquired intangible assets, and accounting for income taxes including deferred tax assets and liabilities.

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

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

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

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

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

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

Changes in interpretation of any federal, state, local or international regulation may cause us to incur costs or have additional regulatory requirements to meet in the future in order to comply, or with any similar laws adopted

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

Risks related to Ownership of our Class A Common Stock

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

Since shares of our Class A common stock were sold in our IPO in July 2014 at a price of $24.00 per share, our closing stock price has ranged from $4.04 to $93.85 per share through December 31, 2018. Our stock price may fluctuate in response to a number of events and factors, such as quarterly operating results; changes in our financial projections provided to the public or our failure to meet those projections; the public’s reaction to our press releases, other public announcements and filings with the SEC; significant transactions, or new features, products or services offered by us or our competitors; changes in our business lines and product lineup; changes in financial estimates and recommendations by securities analysts; media coverage of our business and financial performance; the operating and stock price performance of, or other developments involving, other companies that investors may deem comparable to us; trends in our industry; any significant change in our management; sales and purchases of any Class A common stock issued upon conversion of our convertible senior notes or in connection with the prepaid forward contract entered into in connection with such convertible senior notes, and general economic conditions. These factors, as well as the volatility of our Class A common stock, could also affect the price of our convertible senior notes.

In addition, the stock market in general, and the market prices for companies in our industry, have experienced volatility that often has been unrelated to operating performance. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Price volatility over a given period may cause the average price at which we repurchase our own stock to exceed the stock’s price at a given point in time. Volatility in our stock price also affects the value of our equity compensation, which affects our ability to recruit and retain employees. In addition, some companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We are a defendant in several shareholder class action lawsuits as well as derivative lawsuits and may continue to be a target for such litigation in the future. Securities litigation against us could result in substantial costs and liability and divert our management’s attention from other business concerns, which could harm our business. See Legal Proceedings.

If we fail to meet expectations related to future growth, profitability, or other market expectations, our stock price may decline significantly, which could have a material adverse effect on investor confidence and employee retention. A sustained decline in our stock price and market capitalization could lead to impairment charges.

The dual class structure of our common stock has the effect of concentrating voting control with our CEO and we cannot predict the effect our dual class structure may have on our stock price or our business.

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. Stockholders who hold shares of Class B common stock hold approximately 75.8% of the voting power of our outstanding capital stock as of December 31, 2018 with Mr. Woodman, our Chairman and CEO, holding approximately 75.7% of the outstanding voting power. Mr. Woodman is able to control all matters submitted to our stockholders, including the election of directors, amendments of our organizational documents and any merger, consolidation, sale of all or substantially all of our assets or other major corporate transaction. This concentrated control could delay, defer, or prevent a change of control, merger, consolidation, or sale of all or substantially all of our assets that our other stockholders support, or conversely this concentrated control could result in the consummation of such a transaction that our other stockholders do not support. This concentrated control could also discourage a potential investor from acquiring our Class A common stock due to the limited voting power of such stock relative to the Class B common stock and might harm the trading price of our Class A common stock.

In addition, we cannot predict whether our dual class structure, combined with the concentrated control by Mr. Woodman, will result in a lower or more volatile market price of our Class A common stock or in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple-class share structures in certain of their indexes. In July 2017, FTSE Russell announced that it plans to require new constituents of its indexes to have greater than 5% of the company's voting rights in the hands of public stockholders, and S&P Dow Jones announced that it will no longer admit companies with multiple-class share structures to certain of its indexes. Because of our dual class structure, we may be excluded from these indexes and we cannot assure you that other stock indexes will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indexes, exclusion from stock indexes would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors. As a result, the market price of our Class A common stock could be adversely affected.

If securities analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

Delaware law and provisions in our restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our Class A common stock.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors, or otherwise adversely affect the rights of the holders of our Class A and Class B common stock, including the following:

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

- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

Risks related to our convertible senior notes

We have indebtedness in the form of convertible senior notes.

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

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

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

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

Our credit facility contains restrictive covenants relating to our capital raising activities and other financial and operational matters which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, our credit facility contains, and the agreements governing the Notes will contain, a cross-default provision whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. For example, the occurrence of a default with respect to any indebtedness or any failure to repay debt when due in an amount in excess of $25 million would cause a cross default under the indenture governing the Notes, as well as under our credit facility. The occurrence of a default under any of these borrowing arrangements would permit the holders of the Notes or the lenders under our credit facility to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable. If the note holders or the trustee under the indenture governing the Notes or the

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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 income (loss) per share if the effect would be antidilutive. Under the if-converted method, for diluted income (loss) per share purposes, convertible debt is antidilutive whenever its interest, net of tax and nondiscretionary adjustments, per common share obtainable on conversion exceeds basic income (loss) 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 income (loss) 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 income (loss) per share would be adversely affected.

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

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

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

The prepaid forward initially facilitated privately negotiated derivative transactions relating to our Class A common stock, including derivative transactions by which investors in the Notes established short positions relating to our Class A common stock to hedge their investments in the Notes concurrently with, or shortly after, the placement of the Notes. Neither we nor the forward counterparty control how such investors may use such derivative transactions. In addition, such investors may enter into other transactions in connection with such derivative transactions, including the purchase or sale of our Class A common stock, at any time. As a result, the existence of the prepaid forward, such derivative transactions, and any related market activity could cause more sales of our Class A common stock over the term of the prepaid forward than there would have otherwise been had we not entered into the prepaid forward. Such sales could potentially affect the market price of our Class A common stock and/or the Notes.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2018, we leased office facilities around the world totaling approximately 549,000 square feet, including approximately 311,000 square feet for our corporate headquarters in San Mateo, California. All of our properties are currently leased. We believe our existing facilities are adequate to meet our current requirements. If we were to require additional space, we believe we will be able to obtain such space on acceptable, commercially reasonable terms. See Note 11 Commitments, contingencies and guarantees, to the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for more information about our lease commitments.

Item 3. Legal Proceedings

Shareholder class action lawsuits

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

On November 16, 2016, a purported shareholder class action lawsuit (the "2016 Shareholder Class Action") was filed in the United States District Court for the Northern District of California against the Company and Mr. Woodman, our Chairman and CEO, Brian McGee, our CFO, and Anthony Bates, our former President ("Defendants"). The complaint purports to bring suit on behalf of shareholders who purchased the Company's publicly traded securities between September 19, 2016 and November 4, 2016. The complaint purports to allege that Defendants made false and misleading statements about the Company's business, operations and prospects in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and seeks unspecified compensatory damages, fees and costs. On February 6, 2017, the court appointed lead plaintiff and lead counsel. On March 14, 2017, the lead plaintiff filed an amended complaint against the Company and certain of its officers ("GoPro Defendants") on behalf of shareholders who purchased the Company's publicly traded securities between September 19, 2016 and November 8, 2016. On April 13, 2017, the GoPro Defendants filed a motion to dismiss the amended complaint. On July 26, 2017, the court denied that motion and directed plaintiff to amend its complaint to add all defendants the plaintiff intended to sue. On August 4, 2017, plaintiff filed a second amended complaint, which Defendants answered on September 8, 2017. On September 11, 2018, the parties participated in a mediation session and following the mediation reached an agreement in principle to settle the action. The settlement, which is subject to approval of the Court, among other conditions, will be funded entirely by the Company's insurance carriers.

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

Beginning on January 9, 2018, the first of four purported shareholder class action lawsuits (the "2018 Shareholder Class Action") was filed in the United States District Court for the Northern District of California against the Company, Mr. Woodman and Mr. McGee. Similar complaints were filed on January 11, 2018 and January 24, 2018. On April 20, 2018, the court consolidated the four cases and appointed lead plaintiff and lead counsel. On June 18, 2018, plaintiffs filed their Consolidated Amended Complaint (the "Complaint"). The Complaint purports to bring suit on behalf of shareholders who purchased the Company's publicly traded securities between November 2, 2017 and January 5, 2018. The Complaint adds Mr. Prober, GoPro's former COO, as a defendant (together with GoPro, Mr. Woodman and Mr. McGee ("Defendants")), and purports to allege that Defendants made false and misleading statements about the Company's business, operations and prospects in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "1934 Act"), asserts claims under Section 20A of the 1934 Act against Mr. Woodman and Mr. McGee, and seeks unspecified compensatory damages, fees and costs. Defendants filed a motion to dismiss the Complaint on August 17, 2018 and the hearing on the motion to dismiss took place on November 5, 2018. The Court has not yet issued an order on the motion to dismiss.

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

On July 27, 2018, the Company received a letter (the "Mays Trust Demand") purportedly sent on behalf of shareholder David Mays and Janice Alley Living Trust UA 05/09/2014 (the "Mays Trust"), alleging that between 2016 and 2018, the Company's directors and officers made false and misleading statements about the Company's business, operations and prospects. On December 26, 2018, the Mays Trust filed an action in the Delaware Court of Chancery (the "Mays Trust Action"). The Mays Trust Action is a purported derivative action against certain of GoPro's current and former directors and executive officers and naming the Company as a nominal defendant. The complaint alleges that GoPro's board wrongfully refused the Mays Trust Demand and asserts causes of action against the individual defendants for breach of fiduciary duty and insider selling based on allegations similar to those in both the 2016 Shareholder Class Action and the 2018 Shareholder Class Action. Plaintiff seeks, among other things, an order directing defendants to account to GoPro for all damages allegedly sustained by GoPro and fees and costs. The time for defendants to answer the complaint has not yet passed.

On July 30, 2018, the Company received a letter (the "De Nicola Demand") purportedly sent on behalf of six shareholders, Giuseppe De Nicola, Junhee Lee, Alessandro Lobascio, Enechi Abolle, Joubin Hanaie, and Reid

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Nelson, alleging that between 2016 and 2018, the Company's directors and officers made false and misleading statements about the Company's business, operations and prospects. On September 4, 2018, and while the Company was still evaluating the De Nicola Demand, three of the shareholders filed an action in California Superior Court, County of San Mateo (the "De Nicola Action"). The De Nicola Action is a purported derivative action against certain of GoPro's current and former directors and executive officers and naming the Company as a nominal defendant. The complaint alleges that GoPro's board wrongfully refused the De Nicola Demand and asserts causes of action against the individual defendants for breach of fiduciary duty, unjust enrichment, waste and insider selling based on allegations similar to those in both the 2016 Shareholder Class Action and the 2018 Shareholder Class Action. Plaintiffs seek corporate reforms, disgorgement of profits from stock sales, and fees and costs. On January 31, 2019, plaintiffs filed a motion requesting voluntary dismissal of the De Nicola Action without prejudice.

On October 30, 2018 and November 7, 2018, two purported shareholder derivative lawsuits (the "Delaware Derivative Actions") were filed in the Delaware Court of Chancery against certain of GoPro's current and former directors and executive officers and naming the Company as a nominal defendant. The Delaware Derivative Actions are based on allegations similar to those in both the 2016 Shareholder Class Action and the 2018 Shareholder Class Actions and assert causes of action against the individual defendants for breach of fiduciary duty and insider selling. Plaintiffs seek, among other things, corporate reforms, disgorgement of profits from stock sales, and fees and costs. On December 3, 2018, the court consolidated the Delaware Derivative Actions. The time for defendants to answer the complaint has not yet passed.

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Company’s Common Shares, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information. Our Class A common stock is listed on The Nasdaq Global Select Market under the symbol “GPRO.” Our Class B common stock is not listed nor traded on any stock exchange.

Holders. As of January 31, 2019, there were 135 holders of record of our Class A common stock and 33 holders of record of our Class B common stock.

Dividends. We have not declared or paid any cash dividends on our capital stock and do not currently intend to pay any cash dividends on our Class A or Class B common stock in the foreseeable future.

Securities authorized for issuance under equity compensation plans. The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our Proxy Statement to be filed with the SEC for our 2019 Annual Meeting of Stockholders within 120 days after the end of our fiscal year ended December 31, 2018.

Performance graph. The graph below compares the cumulative total return on our Class A common stock with that of the S&P 500 Index and the S&P 500 Consumer Durables Index. The graph assumes $100 was invested (with reinvestment of all dividends, as applicable) at the close of market on June 26, 2014 in the Class A common stock of GoPro, Inc., the S&P 500 Index and the S&P 500 Consumer Durables Index, and its relative performance is tracked through December 31, 2018. Note that historic stock price performance is not intended to be indicative of future stock price performance.

Sales of unregistered securities. During the period covered by this Annual Report on Form 10-K, we have not sold any equity securities that were not registered under the Securities Act of 1933, as amended.
Issuer purchases of equity securities. No shares of our Class A or Class B common stock were purchased during the fourth quarter of 2018.

Item 6. Selected Consolidated Financial Data

The information set forth below for the five years ended December 31, 2018 is not necessarily indicative of results of future operations, and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, related notes and other financial information included elsewhere in this Annual Report on Form 10-K.

	Year ended December 31,				
(dollars in thousands, except per share amounts)	2018	2017	2016	2015	2014
Consolidated statements of operations data:					
Revenue	$1,148,337	$1,179,741	$1,185,481	$1,619,971	$1,394,205
Gross profit	$361,434	$384,530	$461,920	$673,214	$627,235
Gross margin	31.5 %	32.6 %	39.0 %	41.6 %	45.0 %
Operating income (loss)	$(93,962)	$(163,460)	$(372,969)	$54,748	$187,035
Net income (loss)	$(109,034)	$(182,873)	$(419,003)	$36,131	$128,088
Net income (loss) per share:					
Basic	$(0.78)	$(1.32)	$(3.01)	$0.27	$1.07
Diluted	$(0.78)	$(1.32)	$(3.01)	$0.25	$0.92
Other financial information:					
Adjusted EBITDA [1]	$21,778	$(31,368)	$(192,807)	$179,309	$293,380
Non-GAAP net income (loss) [2]	$(31,909)	$(95,867)	$(201,247)	$111,564	$188,913
Non-GAAP diluted income (loss) per share [2]	$(0.23)	$(0.69)	$(1.44)	$0.76	$1.32

(1) 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, point of purchase (POP) display amortization, stock-based compensation, impairment charges and restructuring costs.

(2) We define non-GAAP net income as net income (loss) adjusted to exclude stock-based compensation, acquisition-related costs, restructuring costs, non-cash interest expense, gain on sale and license of intellectual property and income tax adjustments. Acquisition-related costs include the amortization of acquired intangible assets and impairment write-downs (if applicable), as well as third-party transaction costs for legal and other professional services. Non-GAAP income (loss) per share considers the conversion of the redeemable convertible preferred stock into shares of common stock as though the conversion had occurred at the beginning of the period, and the initial public offering shares issued in July 2014 to be outstanding since the beginning of 2014.

See Non-GAAP Financial Measures in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information and a reconciliation of net income (loss) to Adjusted EBITDA, net income (loss) to non-GAAP net income (loss), and shares used in the calculation of non-GAAP diluted income (loss) per share.

	As of December 31,				
(in thousands)	2018	2017	2016	2015	2014
Consolidated balance sheet data:					
Cash, cash equivalents and marketable securities	$197,512	$247,390	$217,953	$474,058	$422,256
Inventory	116,458	150,551	167,192	188,232	153,026
Working capital	174,574	203,156	157,074	538,066	564,274
Total assets	698,359	850,246	922,640	1,102,976	917,691
Total indebtedness	138,992	130,048	—	—	—
Total stockholders’ equity	212,112	298,705	446,945	772,033	641,204

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements, related notes and other financial information appearing elsewhere in this Annual Report on Form 10-K. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements as a result of a variety of factors, including but not limited to, those discussed in Risk Factors and elsewhere in this Annual Report on Form 10-K. 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.
- Components of Our Results of Operations. Description of the items contained in each operating revenue and expense caption in the consolidated statements of operations.
- Results of Operations. Analysis of our financial results comparing 2018 to 2017 and 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. Overview of our contractual obligations, including expected payment schedule and indemnifications as of December 31, 2018.
- Critical Accounting Policies and Estimates. Accounting estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.
- Non-GAAP Financial Measures. A reconciliation and discussion of our GAAP to non-GAAP financial measures.

Overview

GoPro helps its consumers capture and share their experiences in immersive and exciting ways. We are committed to developing solutions that create an easy, seamless experience for consumers to capture, create, and share engaging personal content. When consumers use our products and services, they often generate and share content that organically increases awareness for GoPro, driving a virtuous cycle and a self-reinforcing demand for our products. We believe revenue growth may be driven by the introduction of new cameras, accessories, software applications, subscription offerings and value-driven pricing. We believe new camera features drive a replacement cycle among existing users and attract new users, expanding our total addressable market. Our investments in image stabilization, mobile editing and sharing solutions, auto-upload capabilities, local language user-interfaces and voice recognition in multiple languages drive the expansion of our total addressable market.

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

In 2018, we began shipping our new HERO7 line of cameras, including our newest flagship camera, HERO7 Black. Our HERO7 Black camera features HyperSmooth image stabilization, TimeWarp Video, live streaming, cloud connectivity, voice control, improved audio and a touch display. HyperSmooth makes it easy to capture professional-looking, gimbal-like stabilized videos without a gimbal, while TimeWarp Video applies a high-speed, 'magic-carpet-ride' effect to videos. Live streaming enables users to share content in real time to Facebook, Twitch, YouTube, Vimeo and other platforms internationally. Our flagship HERO7 Black camera, powered by GoPro's custom designed GP1 processor, is the most powerful and performance featured GoPro camera to date. We also began shipping our HERO7 Silver and HERO7 White cameras in 2018, which feature advanced stabilization, cloud connectivity, voice control and a touch display. We offer many professional-grade features with our current good-better-best camera offering with HERO7 White, HERO7 Silver and HERO7 Black cameras. We also offer a waterproof 360-degree spherical camera, Fusion. Our cameras are compatible with our ecosystem of mountable and wearable accessories, and feature automatic uploading capabilities for photos and videos to GoPro Plus, our premium cloud-based solution that provides a camera protection plan and enables subscribers to easily access, edit, store and share their content. All of our HERO5 and newer cameras are compatible with the GoPro App, our mobile experience that seamlessly uploads a user's GoPro photos and video clips to a smartphone and transforms them into a ready-to-share video through GoPro QuikStories. Using GoPro QuikStories makes it simple for users to automatically create shareable video edits complete with music, effects and transitions.

The following is a summary of measures presented in our 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)	Q4 2018	Q4 2017	% Change	FY 2018	FY 2017	% Change
Revenue	$377,378	$334,796	13 %	$1,148,337	$1,179,741	(3)%
Camera units shipped [1]	1,413	1,361	4 %	4,337	4,303	1 %
Gross margin [2]	37.7 %	23.8 %	1390 bps	31.5 %	32.6 %	(110) bps
Operating expenses	$109,150	$138,097	(21)%	$455,396	$547,990	(17)%
Net income (loss)	$31,671	$(55,848)	(157)%	$(109,034)	$(182,873)	(40)%
Diluted net income (loss) per share	$0.22	$(0.41)	(154)%	$(0.78)	$(1.32)	(41)%
Cash provided by (used) in operations	$48,413	$56,990	(15)%	$(42,434)	$(36,853)	15 %
Other financial information:						
Adjusted EBITDA [3]	$58,807	$(26,544)	(322)%	$21,778	$(31,368)	(169)%
Non-GAAP net income (loss) [4]	$42,356	$(41,319)	(203)%	$(31,909)	$(95,867)	(67)%
Non-GAAP income (loss) per share	$0.30	$(0.30)	(200)%	$(0.23)	$(0.69)	(67)%

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

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

(3) We define adjusted EBITDA as net income (loss) adjusted to exclude the impact of: provision for income taxes, interest income, interest expense, depreciation and amortization, point of purchase (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, gain on sale and license of intellectual property and income tax adjustments. Acquisition-related costs include the amortization of acquired intangible assets and impairment write-downs (if applicable), as well as third-party transaction costs for legal and other professional services.

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

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

Full year and fourth quarter 2018 financial performance
Full year 2018 revenue was slightly down year-over-year at $1.15 billion compared to $1.18 billion in 2017. The year-over-year revenue decline was primarily driven by a decrease in Karma drone and drone accessory revenue of $62.0 million due to our exit of the drone business in 2018, partially offset by a decrease in sales incentives provided to customers, which included $80.5 million in price protection charges in the fourth quarter of 2017. Camera units shipped of 4.34 million units in 2018 was flat compared to 4.30 million units shipped in 2017. Our 2018 average selling price (defined as total revenue divided by camera units shipped) decreased by 3.4% year-over-year, primarily due to the impact of Karma drone and drone accessories. Excluding the impact of our Karma drone, our 2018 average selling price would have increased 1% year-over-year. In 2018, we estimated camera sell-through to our end consumer was 4.8 million units, which grew 9% compared to 2017.
Revenue for the fourth quarter of 2018 was $377.4 million, a 13% increase year-over-year from $334.8 million in the fourth quarter of 2017. Gross margin in the fourth quarter of 2018 was 37.7%, up from 23.8% in the fourth quarter of 2017. Revenue and gross margin in the fourth quarter of 2018 were positively impacted by a 3.9% increase in our camera units shipped of 1.41 million units in the fourth quarter of 2018 compared to 1.36 million units in the fourth quarter of 2017, strong sales of our higher margin HERO7 cameras and $80.5 million in price protection charges in the fourth quarter of 2017. Additionally, we estimated camera sell-through to our end consumer grew 20% in the fourth quarter of 2018 compared to the fourth quarter of 2017.
Our full year 2018 and fourth quarter of 2018 operating expenses decreased 16.9% and 21.0%, respectively, primarily attributable to our continued focus on cost management, expansion into lower cost jurisdictions and the financial benefits recognized from our restructuring actions. As a result, our 2018 GAAP and non-GAAP net loss improved by 40% and 67%, respectively. The decrease in operating expenses for full year 2018 was achieved despite increasing our advertising expenses by $18.2 million compared to 2017.
Net income was $31.7 million, or $0.22 per share for the fourth quarter of 2018, while non-GAAP net income was $42.4 million, or $0.30 per share for the same period. Net loss was $109.0 million, or $0.78 per share for the full year of 2018, while non-GAAP net loss was $31.9 million, or $0.23 per share for the same period. 2018 adjusted EBITDA increased to $21.8 million from a negative $31.4 million in 2017.
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 2018, 2017 and 2016. Our restructuring actions have significantly reduced our operating expenses in 2018 and 2017 resulting in a flatter, more efficient global organization that has allowed for improved communication, alignment among our functional teams and a return to profitability for the second half of 2018. If we are unable to generate adequate revenue growth, and continue to manage our expenses, we may incur significant losses in the future and may not be able to maintain profitability.
Investing in research and development and enhancing our customer experience. Our performance is significantly dependent on the investments we make in research and development, including our ability to attract and retain highly skilled and experienced research and development personnel. We expect the timing of new product releases to continue to have a significant impact on our revenue and we must continually develop and introduce innovative new cameras, mobile applications and other new offerings. We plan to further build upon our integrated mobile and cloud-based storytelling solutions and subscription offerings. Our investments, including marketing and advertising expenses, may not successfully drive increased revenue and our customers may not adopt our new offerings. If we fail to innovate and enhance our brand, our products, our integrated storytelling solutions, the value proposition of our subscriptions, our market position and revenue will be adversely affected. Further, we have incurred substantial research and development expenses and if our efforts are not successful, we may not recover the value of these investments.

Growing our total addressable market globally. We continue to believe that international markets represent a significant growth opportunity for GoPro. While the total market for digital cameras has continued to decline as smartphone and tablet camera quality has improved, we continue to believe that our consumers' differentiated use of GoPro cameras, our integrated storytelling solutions, our continued innovation of product features desired by our users, and our brand, all help insulate our business from many of the negative trends facing this category. However, we expect that the markets in which we conduct our business will remain highly competitive. We will continue to increase our global presence through the active promotion of our brand, the creation and cultivation of regional strategic and marketing partnerships, the expansion of localized products in international markets with regions specific marketing, and an investment focus on the biggest opportunities.

Our growth also depends on expanding our total addressable market with our subscription service, GoPro Plus, and capture solutions, including spherical, which all face intense competition. If we are not successful in penetrating additional markets, we might not be able to grow revenue and we may not recognize benefits from our investment in new areas.

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

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

Components of our Results of Operations

Revenue. Our revenue is primarily comprised of product revenue, net of returns and sales incentives (including price protection). Revenue is derived from the sale of our cameras and accessories directly to retailers, as well as through our network of domestic and international distributors, and through gopro.com. See Critical Accounting Policies and Estimates and Note 1 Summary of business and significant accounting policies, to the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for information regarding revenue recognition.

Cost of revenue. Our cost of revenue primarily consists of product costs, including costs of contract manufacturing for production, third-party logistics and procurement costs, warranty repair costs, tooling and equipment depreciation, excess and obsolete inventory write-downs, amortization of acquired developed technology, license fees, and certain allocated costs related to our manufacturing team, facilities and personnel-related expenses.

Operating expenses. We classify our operating expenses into three categories: research and development, sales and marketing, and general and administrative.

Research and development. Our research and development expense consists primarily of personnel-related costs, including salaries, stock-based compensation and employee benefits. Research and development expense also includes consulting and outside professional services costs, materials, and allocated facilities, restructuring, depreciation and other supporting overhead expenses associated with the development of our product and service offerings.

Sales and marketing. Our sales and marketing expense consists primarily of advertising and marketing promotions of our products and services and personnel-related costs, including salaries, stock-based compensation and employee benefits. Sales and marketing expense also includes point of purchase (POP)

display expenses and related amortization, sales commissions, trade show and event costs, sponsorship costs, consulting and contractor expenses, and allocated facilities, restructuring, depreciation and other supporting overhead expenses.

General and administrative. Our general and administrative expense consists primarily of personnel-related costs, including salaries, stock-based compensation and employee benefits for our finance, legal, human resources, information technology and administrative personnel. The expense also includes professional service costs related to accounting, tax, legal services, and allocated facilities, restructuring, depreciation and other supporting overhead expenses.

Results of Operations

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

	Year ended December 31,					
(dollars in thousands)	2018		2017		2016	
Revenue	$1,148,337	100 %	$1,179,741	100 %	$1,185,481	100 %
Cost of revenue	786,903	69	795,211	67	723,561	61
Gross profit	361,434	31	384,530	33	461,920	39
Operating expenses:						
Research and development	167,296	15	229,265	19	358,902	30
Sales and marketing	222,096	19	236,581	20	368,620	31
General and administrative	66,004	6	82,144	7	107,367	9
Total operating expenses	455,396	40	547,990	46	834,889	70
Operating loss	(93,962)	(9)	(163,460)	(13)	(372,969)	(31)
Other income (expense):						
Interest expense	(18,683)	(1)	(13,660)	(1)	(2,992)	—
Other income, net	4,970	—	733	—	787	—
Total other expense, net	(13,713)	(1)	(12,927)	(1)	(2,205)	—
Loss before income taxes	(107,675)	(10)	(176,387)	(14)	(375,174)	(31)
Income tax expense	1,359	—	6,486	1	43,829	4
Net loss	$(109,034)	(10)%	$(182,873)	(15)%	$(419,003)	(35)%

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

Revenue

	Year ended December 31,			2018 vs 2017	2017 vs 2016
(camera units and dollars in thousands)	2018	2017	2016	% Change	% Change
Camera units shipped	4,337	4,303	4,762	1 %	(10)%
Direct channel	$551,095	$634,888	$650,111	(13)	(2)
Percentage of revenue	48.0 %	53.8 %	54.8 %		
Distribution channel	$597,242	$544,853	$535,370	10	2
Percentage of revenue	52.0 %	46.2 %	45.2 %		
Total revenue	$1,148,337	$1,179,741	$1,185,481	(3)%	— %
Americas	$498,633	$591,879	$619,784	(16)%	(5)%
Percentage of revenue	43.4 %	50.2 %	52.3 %		
Europe, Middle East and Africa (EMEA)	$366,037	$334,872	$366,352	9	(9)
Percentage of revenue	31.8 %	28.4 %	30.9 %		
Asia and Pacific (APAC)	$283,667	$252,990	$199,345	12	27
Percentage of revenue	24.7 %	21.4 %	16.8 %		
Total revenue	$1,148,337	$1,179,741	$1,185,481	(3)%	— %

2018 Compared to 2017. Revenue was slightly down in 2018 at $1.15 billion compared to $1.18 billion in 2017. The year-over-year revenue decline was primarily driven by a decrease in Karma drone and drone accessory revenue of $62.0 million due to the exit of the drone business in 2018, partially offset by a decrease in sales incentives provided to customers, which included $80.5 million in price protection charges in the fourth quarter of 2017. Camera units shipped of 4.34 million units in 2018 was flat compared to 4.30 million units in 2017. The year-over-year average selling price (defined as total revenue divided by camera units shipped) decreased by 3.4%, primarily due to the impact of Karma drone and drone accessories. Excluding the impact of Karma, our average selling price would have increased 1%. In 2018, we estimated camera sell-through to our end consumer was 4.8 million units, which grew 9% compared to 2017.

2017 Compared to 2016. Revenue was slightly down in 2017 at $1.18 billion compared to $1.19 billion in 2016. Total revenue was negatively impacted by price protection charges of $80.5 million, partially offset by an increase in revenue related to our Karma drone which was launched in February 2017. Additionally, camera units shipped in 2017 decreased 10%, reflecting a higher mix of lower price point cameras sold in 2016 compared to 2017.

Cost of revenue and gross margin

	Year ended December 31,			2018 vs 2017	2017 vs 2016
(dollars in thousands)	2018	2017	2016	% Change	% Change
Cost of revenue	$772,136	$786,657	$719,689	(2)%	9 %
Stock-based compensation	1,954	1,935	1,616	1	20
Acquisition-related costs	11,434	5,985	1,759	91	240
Restructuring costs	1,379	634	497	118	28
Total cost of revenue	$786,903	$795,211	$723,561	(1)%	10 %
Gross margin	31.5 %	32.6 %	39.0 %	(110) bps	(640) bps

2018 Compared to 2017. Gross margin of 31.5% in 2018 decreased from 32.6% in 2017, or (110) bps, reflecting a decrease in average selling price, (397) bps, sales of previously written off cameras in 2017, (69 bps), and temporarily higher prices associated with component supply shortages, (29) bps, partially offset by lower sales incentives, 313 bps, and operational expense improvements.

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2017 Compared to 2016. Gross margin of 32.6% in 2017 decreased from 39.0% in 2016, or (640) bps. Gross margin in 2017 reflected the impact of camera and drone related price protection, (400) bps, lower gross margins from Karma drone sales as compared to camera sales, (143) bps, and inventory and purchase order charges related to Karma and its accessories, (180) bps, partially offset by operational expense improvements.

Research and development

(dollars in thousands)	Year ended December 31, 2018	2017	2016	2018 vs 2017 % Change	2017 vs 2016 % Change
Research and development	$134,866	$191,182	$295,901	(29)%	(35)%
Stock-based compensation	19,636	24,963	31,365	(21)	(20)
Acquisition-related costs	—	3,028	14,439	(100)	(79)
Restructuring costs	12,794	10,092	17,197	27	(41)
Total research and development	$167,296	$229,265	$358,902	(27)%	(36)%
Percentage of revenue	14.6 %	19.4 %	30.3 %		

2018 Compared to 2017. The year-over-year decrease of $62.0 million, or 27%, in total research and development expenses in 2018 compared to 2017 reflected our exit of the aerial business in the first quarter of 2018 and our other restructuring actions, which contributed to a $36.7 million decrease in cash-based personnel-related costs due to a reduction in research and development headcount, a $12.1 million decrease in depreciation and other supporting overhead expenses, a $6.6 million decrease in professional services costs and a $5.3 million decrease in stock-based compensation. Additionally, amortization of intangibles decreased by $2.5 million due to a reclassification to cost of revenue.

2017 Compared to 2016. The year-over-year decrease of $129.6 million, or 36%, in total research and development expenses in 2017 compared to 2016 reflected a $59.7 million decrease in consulting and professional services costs, a $36.7 million decrease in cash-based personnel-related costs due to a reduction in research and development headcount, and a $6.7 million decrease in depreciation and other supporting overhead expenses. In addition, in 2017, acquisition-related costs decreased $11.4 million primarily due to an intangible impairment charge of $6.0 million related to projects that were discontinued in the third quarter of 2016 and stock-based compensation decreased $6.4 million due to lower employee headcount.

Research and development headcount for 2018 and 2017 has decreased by 36% and 23%, year-over-year, from December 31, 2017 and December 31, 2016, respectively, principally as a result of our restructuring actions. See Restructuring costs for additional information regarding research and development restructuring charges recorded in 2018, 2017 and 2016.

Sales and marketing

(dollars in thousands)	Year ended December 31, 2018	2017	2016	2018 vs 2017 % Change	2017 vs 2016 % Change
Sales and marketing	$207,346	$219,036	$342,651	(5)%	(36)%
Stock-based compensation	9,459	10,498	13,883	(10)	(24)
Acquisition-related costs	—	—	22	—	(100)
Restructuring costs	5,291	7,047	12,064	(25)	(42)
Total sales and marketing	$222,096	$236,581	$368,620	(6)%	(36)%
Percentage of revenue	19.3 %	20.1 %	31.1 %		

2018 Compared to 2017. The year-over-year decrease of $14.5 million, or 6%, in total sales and marketing expenses in 2018 compared to 2017 reflected a $10.9 million decrease in cash-based personnel-related costs due to a reduction in sales and marketing headcount, a $6.5 million decrease in sponsorship expenses, a $6.3 million decrease in POP expense, a $2.4 million reduction in travel related expenses, a $2.2 million decrease in consulting and outside professional service costs and a $1.8 million decrease in allocated facilities, depreciation

and other supporting overhead expenses, partially offset by an $18.2 million increase in advertising activities.
2017 Compared to 2016. The year-over-year decrease of $132.0 million, or 36%, in total sales and marketing expenses in 2017 compared to 2016 reflected a $73.7 million decrease in advertising and promotional activity, of which $59.0 million was related to advertising, marketing events and sponsorships. Additionally, there was a $23.3 million decrease in cash-based personnel-related costs due to a reduction in sales and marketing headcount, an $8.8 million decrease in consulting and outside professional service costs, an $8.4 million decrease in travel related expenses, and a $7.2 million decrease in allocated facilities, depreciation and other supporting overhead expenses. The favorable reductions in sales and marketing expenses in 2017 were primarily due to more focused and strategic marketing efforts in 2017.
Sales and marketing headcount for 2018 and 2017 has decreased by 26% and 16%, year-over-year, from December 31, 2017 and December 31, 2016, respectively, principally as a result of our restructuring activities. See Restructuring costs for additional information regarding sales and marketing restructuring charges recorded in 2018, 2017 and 2016.
General and administrative

	Year ended December 31,			2018 vs 2017	2017 vs 2016
(dollars in thousands)	2018	2017	2016	% Change	% Change
General and administrative	$52,865	$65,788	$70,247	(20)%	(6)%
Stock-based compensation	9,838	13,859	22,663	(29)	(39)
Acquisition-related costs	22	(22)	1,126	(200)	(102)
Restructuring costs	3,279	2,519	13,331	30	(81)
Total general and administrative	$66,004	$82,144	$107,367	(20)%	(23)%
Percentage of revenue	5.7 %	7.0 %	9.1 %		

2018 Compared to 2017. The year-over-year decrease of $16.1 million, or 20%, in total general and administrative expenses in 2018 compared to 2017 reflected a $6.8 million decrease in cash-based personnel-related costs due to a reduction in general and administrative headcount, a $4.0 million decrease in stock-based compensation, a $2.3 million decrease in settlement charges and a $2.0 million decrease in consulting and outside professional service costs.
2017 Compared to 2016. The year-over-year decrease of $25.2 million, or 23%, in total general and administrative expenses in 2017 compared to 2016 reflected a $10.8 million decrease in restructuring costs, of which $8.8 million was due to restructuring charges for executive stock-based compensation, an $8.8 million decrease in stock-based compensation, of which $5.8 million was due to the timing of expense recognition attributable to the CEO RSUs (see Note 7 Employee benefit plans, to the Notes to Consolidated Financial Statements), a $3.2 million decrease in cash-based personnel-related costs due to a reduction in general and administrative headcount, and a $1.1 million decrease in acquisition-related costs due to higher legal costs incurred in conjunction with our 2016 acquisitions.
General and administrative headcount for 2018 and 2017 has decreased by 24% and 10%, year-over-year, from December 31, 2017 and December 31, 2016, respectively, principally as a result of our restructuring actions. See Restructuring costs for additional information regarding general and administrative restructuring charges recorded in 2018, 2017 and 2016.
Restructuring costs
First quarter 2018 restructuring plan. On January 2, 2018, we approved a restructuring plan to further reduce future operating expenses and better align resources around our long-term business strategy. The restructuring provided for a reduction of our workforce of approximately 18%, the closure of our aerial group and the consolidation of certain leased office facilities. Under the first quarter 2018 restructuring plan, we recorded restructuring charges of $17.8 million, including $14.1 million related to severance and $3.7 million related to accelerated depreciation and other charges, which primarily pertain to exiting office spaces and the closure of our aerial products business.

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First quarter 2017 restructuring plan. On March 15, 2017, we approved a restructuring plan that provided for a reduction of our workforce by approximately 17% and the consolidation of certain leased office facilities. Under the first quarter 2017 restructuring plan, we recorded restructuring charges of $21.7 million, including $10.3 million related to severance and $11.4 million related to accelerated depreciation and other charges. The actions associated with the first quarter 2017 restructuring plan were substantially completed by the fourth quarter of 2017. Additional charges were recorded in 2018 due to updated estimates related to the consolidation and exit of certain leased office facilities.

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

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

See Note 13 Restructuring charges, to the Notes to Consolidated Financial Statements of this Annual Report on 10-K.

Other income (expense)

	Year ended December 31,			2018 vs 2017	2017 vs 2016
(dollars in thousands)	2018	2017	2016	% Change	% Change
Interest expense	$(18,683)	$(13,660)	$(2,992)	37 %	357 %
Other income, net	4,970	733	787	578	(7)
Total other expense, net	$(13,713)	$(12,927)	$(2,205)	6 %	486 %

2018 Compared to 2017. Total other expense, net, increased $0.8 million in 2018 compared to 2017, primarily attributable to a $4.7 million increase to interest expense related to our Convertible Notes and a $1.4 million increase in unrealized losses due to changes in foreign exchange rates, partially offset by a $5.0 million gain on the sale and license of intellectual property and a $0.5 million increase in investment interest income.

2017 Compared to 2016. Total other expense, net, increased by $10.7 million in 2017 compared to 2016, primarily attributable to interest expense and the accretion of debt premium to the face value on our Convertible Notes, which were issued in April 2017.

Income taxes

	Year ended December 31,			2018 vs 2017	2017 vs 2016
(dollars in thousands)	2018	2017	2016	% Change	% Change
Income tax expense	$1,359	$6,486	$43,829	(79)%	(85)%
Effective tax rate	(1.3)%	(3.7)%	(11.7)%		

2018 Compared to 2017. We recorded an income tax provision of $1.4 million for the year ended December 31, 2018 which resulted in a negative effective tax rate of 1.3%. Our income tax provision in 2018 was principally composed of tax expenses incurred on pre-tax income in profitable foreign jurisdictions, partially offset by United States tax benefits related to the release of unrecognized tax benefits upon the completion of an IRS audit. While we incurred pre-tax losses in the United States and certain foreign jurisdictions, we do not expect to recognize any significant tax benefits on pre-tax losses in the United States due to a valuation allowance recorded against our United States deferred tax assets. Our 2017 negative effective tax rate of 3.7% resulted principally from tax

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expenses incurred on pre-tax income in profitable foreign jurisdictions.
2017 Compared to 2016. We recorded an income tax provision of $6.5 million for the year ended December 31, 2017, which resulted in a negative effective tax rate of 3.7%. Our income tax provision in 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 significant tax benefits on pre-tax losses in the United States due to the valuation allowance recorded against our United States deferred tax assets. Our 2016 negative effective tax rate of 11.7% resulted from the tax benefit of $131.3 million on pre-tax book losses of $375.2 million, offset by the establishment of a valuation allowance of $101.9 million on United States federal and state net deferred tax assets, as well as the tax expenses incurred on pre-tax income in profitable foreign jurisdictions. See Note 9 Income taxes, to the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for a reconciliation between the United States statutory tax rate and our effective tax rates.
Quarterly results of operations
The following table sets forth our unaudited quarterly consolidated results of operations for each of the eight quarterly periods ended December 31, 2018.

	Three months ended							
(dollars in thousands, except per share amounts)	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
Revenue [1]	$377,378	$285,936	$282,677	$202,346	$334,796	$329,805	$296,526	$218,614
Gross profit	142,117	91,032	83,369	44,916	79,786	130,546	105,632	68,566
Operating expenses [2]	109,150	112,386	114,205	119,655	138,097	122,497	130,615	156,781
Net income (loss)	$31,671	$(27,089)	$(37,269)	$(76,347)	$(55,848)	$14,661	$(30,536)	$(111,150)
Net income (loss) per share:								
Basic	$0.22	$(0.19)	$(0.27)	$(0.55)	$(0.41)	$0.11	$(0.22)	$(0.78)
Diluted	$0.22	$(0.19)	$(0.27)	$(0.55)	$(0.41)	$0.10	$(0.22)	$(0.78)

(1) Included in revenue for the quarter ended December 31, 2017 was a reduction of $80.5 million for price protection and marketing development funds incurred in connection with the reduction of our camera and drone selling prices.
(2) Included in operating expenses were the restructuring charges of $3.9 million for the quarter ended September 30, 2018, $15.5 million for the quarter ended March 31, 2018 and $12.1 million for the quarter ended March 31, 2017.

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

(dollars in thousands)	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 152,095	$ 202,504
Marketable securities	45,417	44,886
Total cash, cash equivalents and marketable securities	$ 197,512	$ 247,390
Percentage of total assets	28 %	29 %

Our primary source of cash is receipts from sales of our products and services. Other sources of cash are from tax refunds, proceeds from employee participation in the employee stock purchase plan and the exercise of employee stock options, sale and license of intellectual property and sublease income. The primary uses of cash are for inventory procurement, payroll-related expenses, general operating expenses, including advertising, marketing and office rent, purchases of property and equipment, and other costs of revenue.
As of December 31, 2018, our cash, cash equivalents and marketable securities of $197.5 million reflected a decrease of $49.9 million, or 20.2%, compared to December 31, 2017. The decrease was primarily due to payments on

accounts payable, personnel-related costs, inventory purchases and price protection claims. As of December 31, 2018, $80.1 million of cash was held by our foreign subsidiaries.

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Convertible Notes

In April 2017, we issued $175.0 million aggregate principal amount of 3.50% Convertible Senior Notes in a private placement to purchasers for resale to qualified institutional buyers. The Notes mature on April 15, 2022, unless earlier repurchased or converted into shares of Class A common stock subject to certain conditions. The Notes are convertible into cash, shares of the Class A common stock, or a combination thereof, at our election, at an initial conversion rate of 94.0071 shares of common stock per $1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately $10.64 per share of common stock, subject to adjustment. We pay interest on the Notes semi-annually in arrears on April 15 and October 15 of each year. Proceeds received from the issuance of the Notes were allocated between a liability component (long-term debt) and an equity component (additional paid-in capital). The fair value of the liability component was measured using rates determined for similar debt instruments without a conversion feature.

In connection with the Notes offering, we entered into a prepaid forward stock repurchase transaction agreement (Prepaid Forward) with a financial institution. Pursuant to the Prepaid Forward, we used approximately $78.0 million of the proceeds from the offering of the Notes to pay the prepayment amount. The aggregate number of shares of our Class A common stock underlying the Prepaid Forward is approximately 9.2 million shares. The expiration date for the Prepaid Forward is April 15, 2022, although it may be settled earlier in whole or in part. Upon settlement of the Prepaid Forward, at expiration or upon any early settlement, the forward counterparty will deliver to us the number of shares of Class A common stock underlying the Prepaid Forward or the portion thereof being settled early. The shares purchased under the Prepaid Forward were treated as treasury stock on the consolidated balance sheet (and not outstanding for purposes of the calculation of basic and diluted income (loss) per share), but remain outstanding for corporate law purposes, including for purposes of any future stockholders' votes, until the forward counterparty delivers the shares underlying the Prepaid Forward to us. The net proceeds from the Convertible Senior Notes offering of approximately $91 million were used for general corporate purposes.

Liquidity

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

- We expect that operating expenses and inventory purchases will constitute a material use of our cash balances. We intend to continue to manage our operating activities in line with our existing cash and available financial resources.
- In March 2016, we entered into a credit agreement with a syndicate of banks that provided for a secured revolving credit facility under which we could borrow up to an aggregate of $250.0 million. Our credit facility terminates in March 2021. No borrowings have been made from the credit facility to date. (See Note 5 Financing Arrangements, in the Notes to Consolidated Financial Statements for additional information.)
- We have completed acquisitions in the past and we may evaluate additional possible acquisitions of, or strategic investments in, businesses, products and technologies that are complementary to our business, which may require the use of cash.

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

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Summary of Cash Flows

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

(in thousands)	Year ended December 31, 2018	2017	2016	2018 vs 2017 % Change	2017 vs 2016 % Change
Net cash provided by (used in):					
Operating activities	$(42,434)	$(36,853)	$(107,753)	15 %	(66)%
Investing activities	$(6,235)	$(43,097)	$19,286	(86)%	(323)%
Financing activities	$(1,481)	$88,594	$1,955	(102)%	4,432 %

Cash flows from operating activities

Cash used in operating activities of $42.4 million was primarily attributable to an adjusted net loss of $22.4 million (net loss adjusted for non-cash expenses of $86.7 million) and a net cash outflow of $20.0 million from changes in operating asset and liabilities. Cash outflow related to operating assets and liabilities consisted primarily of decreases in accounts payable and other liabilities of $70.4 million due to payments of 2017 year-end liabilities, partially offset by the receipt of an IRS tax refund of $32.9 million, and other changes in assets and liabilities.

Cash flows from investing activities

Our primary investing activities consist of purchases and maturities of marketable securities, purchases of property and equipment, and a gain on a sale and license of intellectual property. Cash used in investing activities was $6.2 million in 2018 resulting from the gain on a sale and license of intellectual property of $5.0 million, offset by the net purchases of property and equipment of $11.0 million and net purchases of marketable securities of $0.2 million.

Cash flows from financing activities

Our primary financing activities consisted of the issuance of equity securities under our common stock plans. Cash used in financing activities was $1.5 million in 2018 resulting from $6.7 million in tax payments for net RSU settlements, partially offset by $5.2 million received from stock purchases made through our employee stock purchase plan and employee stock option exercises.

Contractual Commitments

Contractual obligations. As of December 31, 2018, our total undiscounted future expected payment obligations under our agreements with terms longer than one year were approximately $289.3 million, including $175.0 million for our Convertible Senior Notes, $107.8 million for operating leases, $4.0 million for sponsorship agreements and $2.4 million for other multi-year agreements. See Note 5 Financing Arrangements, for discussion regarding our Convertible Senior Notes and Note 11 Commitments, contingencies and guarantees, for discussion regarding facility leases and other contractual commitments in the Notes to Consolidated Financial Statements.

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

Indemnifications. We have entered into indemnification agreements with our directors and 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

We prepare our consolidated financial statements in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates, assumptions and judgments that can significantly impact the amounts we report as assets, liabilities, revenue, costs and expenses and the related disclosures. Note 1 Summary of business and significant accounting policies, to the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. Our actual results could differ significantly from these estimates. We believe that the accounting policies discussed below are critical to understanding our historical and future performance as these policies involve a greater degree of judgment and complexity. Our senior management has reviewed these critical accounting policies and related disclosures with the Audit Committee of our board of directors.

Revenue recognition

We derive substantially all of our revenue from the sale of cameras, drones, mounts and accessories and the related implied post contract support, or PCS. We recognize revenue when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The transaction price we expect to be entitled to is primarily comprised of product revenue, net of returns and variable consideration, including sales incentives provided to customers.

For most of our revenue, revenue is recognized at the time the product is delivered and when collection is deemed probable. For customers who purchase products directly from our website, we retain a portion of the risk of loss on these sales during transit, which are accounted for as fulfillment costs.

Our standard terms and conditions of sale for non-web based sales do not allow for product returns other than under warranty. However, we grant limited rights to return product for certain large retailers and distributors. Estimates of expected future product returns are recognized at the time of sale based on analyses of historical return trends by customer class and other factors. An estimated refund liability along with a right to recover assets are recorded for future product returns. Return trends are influenced by product life cycles, new product introductions, market acceptance of products, product sell-through, the type of customer, seasonality and other factors. Return rates may fluctuate over time, but are sufficiently predictable to allow us to estimate expected future product returns. Actual returns in any future period could differ from our estimates, which could impact the revenue that we report.

Our camera and drone sales contain multiple performance obligations that generally include the following three separate obligations: a) a hardware component (camera, drone and/or accessories) and the embedded firmware essential to the functionality of the hardware delivered at the time of sale, b) the implicit right to our downloadable free apps and software solutions, and c) the implied right for the customer to receive post contract support after the initial sale (PCS). PCS includes the right to receive, on a when and if available basis, future unspecified firmware upgrades and features as well as bug fixes, and email and telephone support. Judgment is required to properly identify the accounting units of multiple performance obligations and to determine the manner in which revenue should be allocated among the obligations. We allocate the transaction price to PCS based on a cost-plus method. The transaction price is allocated to the remaining performance obligations on a residual value method. Our process to allocate the transaction price considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable, including: the level of support provided to customers, estimated costs to provide our support, the amount of time and cost that is allocated to our efforts to develop the undelivered elements, and market trends in the pricing for similar offerings. While changes in the allocation of the transaction price among the performance obligations will not affect the amount of total revenue ultimately recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could have a material effect on our financial condition and results of operations.

We provide our customers with sales incentives through various programs, including cooperative advertising, price protection, marketing development funds and other incentives. Sales incentives are considered to be

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variable consideration, which we estimate and record as a reduction to revenue at the date of sale. Sales incentives are influenced by historical experience, product sell-through and other factors. Actual sales incentives and their impact on reported revenue could differ from our estimates.

See Note 1 Summary of business and significant accounting policies, to the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

Inventory valuation and liability for purchase commitments

Inventory consists of finished goods and component parts and is stated at the lower of cost or net realizable value on a first-in, first-out basis. Our inventory balances were $116.5 million and $150.6 million as of December 31, 2018 and 2017, respectively. Our assessment of market value requires the use of estimates regarding the net realizable value of our inventory balances, including an assessment of excess or obsolete inventory. We determine excess or obsolete inventory based on multiple factors, including an estimate of the future demand for our products within a specified time horizon, generally 12 months, product life cycle status, product development plans and current sales levels. We also record a liability for noncancelable purchase commitments with contract manufacturers for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. The estimates used for future demand are also used for near-term capacity planning and inventory purchases and are consistent with our revenue forecast assumptions. If our demand forecast is greater than the actual demand, the amount of our loss will be impacted by our contractual ability to reduce inventory purchases and commitments from our contract manufacturers. Our assumptions of future demand for our products are inherently uncertain, and if there were to be an abrupt and substantial decline in demand for one or more of our products or a change in our product development plans, we may be required to increase our inventory write-downs and our liability for purchase commitments that would adversely affect our results of operations in the period when such write-downs and/or excess commitments are recorded.

Warranty

We generally provide a 12-month warranty coverage on all of our products except in the EU where we provide a 24-month warranty. An extended warranty is also available for a fee under our GoPro Care program which provides for accidental damage coverage along with other perquisites. Our standard warranty provides for repair or replacement of the associated products during the warranty period. We establish a liability for estimated product warranty costs at the time product revenue is recognized. The warranty obligation is affected by product failure rates and the related use of materials, labor costs and freight incurred in correcting any product failure. Should actual product failure rates, use of materials or other costs differ from our estimates, additional warranty liabilities could be required, which could materially affect our results of operations.

Income taxes

We are subject to income taxes in the United States and multiple foreign jurisdictions. Our effective tax rates differ from the United States federal statutory rate, primarily due to changes in our valuation allowance, the effect of non-United States operations, deductible and non-deductible stock-based compensation expense, state taxes, federal research and development tax credits and other adjustments. Our negative effective tax rate was 1.3%, 3.7% and 11.7% in 2018, 2017 and 2016, respectively. The calculation of our provision for income taxes involves the use of estimates, assumptions and judgments while taking into account current tax laws, our interpretation of current tax laws and possible outcomes of future tax audits. We review our tax positions quarterly and adjust the balances as new information becomes available. Our income tax rate is materially affected by the tax rates that apply to our foreign earnings.

As of December 31, 2018, we liquidated our Cayman Islands entity and elected to treat our wholly-owned foreign subsidiaries as disregarded entities (foreign branches) and include them in the United States tax group. We continue to assert indefinite reinvestment to the extent of any foreign withholding taxes on the undistributed earnings related to these foreign branches. Any foreign withholding tax on these earnings is deemed not to be material.

Deferred tax assets. Deferred tax assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future

expected taxable income from all sources, including reversal of taxable temporary differences, forecast operating earnings and available tax planning strategies. As of December 31, 2018, we had a valuation allowance on all of our United States net deferred tax assets based on our assessment that it is not more likely than not that the deferred tax asset will be realized.

Uncertain tax positions. We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We file annual income tax returns in multiple taxing jurisdictions around the world and a number of years may elapse before an uncertain tax position is audited by the relevant tax authorities and finally resolved. We have established reserves to address potential exposures related to tax positions that could be challenged by tax authorities. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves reflect the more likely outcome.

Our future effective tax rates could be adversely affected if actual earnings are different than our estimates, by changes in the valuation of our deferred tax assets or liabilities, outcomes resulting from income tax examinations, or by changes or interpretations in tax laws, regulations or accounting principles.

We were under examination by the Internal Revenue Service (IRS) for the 2012 through 2015 tax years. In the first quarter of 2018, the IRS audit concluded and an income tax refund of $32.9 million was received.

United States Tax Reform. The Tax Cuts and Jobs Act (TCJA) of 2017, enacted on December 22, 2017, contained significant changes to United States tax law, including lowering the United States corporate income tax rate to 21%, implementing a territorial tax system, and imposing a one-time tax on deemed repatriated earnings of foreign subsidiaries.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of United States GAAP in situations when a registrant did not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA.

We recognized the provisional tax impacts related to deemed repatriated earnings and the revaluation of deferred tax assets and liabilities to the extent needed and included these amounts in our consolidated financial statements for the year ended December 31, 2017.

As of December 31, 2018, we completed accounting for all of the enactment-date income tax effects of the TCJA and determined that there were no material adjustments in the three and twelve months ended December 31, 2018.

While the TCJA provides for a territorial tax system, beginning in 2018, it includes two new United States tax base erosion provisions, the global intangible low-taxed income (GILTI) provisions and the base-erosion and anti-abuse tax (BEAT) provisions. As of December 31, 2018, we have determined that these provisions did not have a tax impact to us in 2018. See Note 9 Income taxes, to the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for more information.

Stock-based compensation

We measure and recognize stock-based compensation based on the fair value measurement for all stock-based awards granted to employees and directors over the service period for awards which vest. See Note 7 Employee benefit plans, to the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K. We use the Black-Scholes option-pricing model to determine the fair value of stock options and employee stock purchase plan options. The determination of the grant date fair value of options using an option-pricing model is affected by our common stock fair value as well as assumptions regarding a number of variables, of which the most subjective were estimated as follows:

- Expected Term. We do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time stock-based awards have been exercisable since the completion of our IPO in July 2014. As a result, we used the simplified method to calculate the expected term estimate based on the vesting and contractual terms of the option. Under the simplified method, the

expected term is equal to the average of the stock-based awards weighted average vesting period and its contractual term.

- Volatility. The expected stock price volatility for our common stock was estimated by taking the average of our historic volatility and the historical volatility of the common stock of a group of comparable publicly traded companies over a period equivalent to the expected term.

Goodwill and acquired intangible assets

When we acquire a business, we allocate the purchase price to the net tangible and identifiable intangible assets, with the residual of the purchase price recorded as goodwill. The determination of the fair value of the intangible assets acquired involves significant judgments and estimates. These judgments can include, but are not limited to, the cash flows that an asset is expected to generate in the future, technology obsolescence, and the appropriate weighted average cost of capital. Our estimate of the fair value of certain assets may differ materially from that determined by others who use different assumptions or utilize different business models.

We perform an annual assessment of our goodwill during the fourth quarter to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in the overall industry demand, that would indicate that it is more likely than not that the fair value of our single reporting unit would be reduced below its carrying amount. If further testing is deemed necessary, we perform a two-step process. The first step involves comparing the fair value of our reporting unit to its carrying value. The second step, if necessary, measures the amount of impairment, if any, by comparing the carrying value of the goodwill to its implied fair value. As of December 31, 2018, we determined that no impairment of the carrying value of goodwill was required.

Recent Accounting Pronouncements

Refer to Recent Accounting Pronouncements in Note 1 Summary of business and significant accounting policies, to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Non-GAAP Financial Measures

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

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

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

- adjusted EBITDA does not reflect tax payments that reduce cash available to us;
- adjusted EBITDA excludes depreciation and amortization and, although these are non-cash charges, the property and equipment being depreciated and amortized often will have to be replaced in the future, and adjusted EBITDA does not reflect any cash capital expenditure requirements for such replacements;

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

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

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

	Three months ended December 31,	
(in thousands)	2018	2017
Net income (loss)	$31,671	$(55,848)
Income tax (benefit) expense	1,655	(6,943)
Interest expense, net	4,470	4,163
Depreciation and amortization	7,290	9,218
POP display amortization	2,788	4,342
Stock-based compensation	9,716	15,020
Restructuring costs	1,217	3,504
Adjusted EBITDA	$58,807	$(26,544)

	Year ended December 31,				
(in thousands)	2018	2017	2016	2015	2014
Net income (loss)	$(109,034)	$(182,873)	$(419,003)	$36,131	$128,088
Income tax expense	1,359	6,486	43,829	16,454	52,887
Interest expense	17,278	12,804	1,401	234	5,038
Depreciation and amortization	35,063	41,478	41,639	28,981	17,945
POP display amortization	13,482	19,190	19,623	16,829	18,023
Stock-based compensation	40,887	51,255	69,527	80,680	71,399
Impairment of intangible assets	—	—	7,088	—	—
Restructuring costs	22,743	20,292	43,089	—	—
Adjusted EBITDA	$21,778	$(31,368)	$(192,807)	$179,309	$293,380

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

	Three months ended December 31,	
(in thousands, except per share data)	2018	2017
Net income (loss)	$31,671	$(55,848)
Stock-based compensation	9,716	15,020
Acquisition-related costs	2,101	2,360
Restructuring costs	1,217	3,504
Non-cash interest expense	2,124	1,979
Gain on sale and license of intellectual property	(5,000)	—
Income tax adjustments	527	(8,334)
Non-GAAP net income (loss)	$42,356	$(41,319)
Non-GAAP income (loss) per share	$0.30	$(0.30)
GAAP shares for diluted net income (loss) per share	140,882	136,886
Add: effect of potentially dilutive shares	2,359	—
Non-GAAP shares for diluted net income (loss) per share	143,241	136,886

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

	Year ended December 31,				
(in thousands)	2018	2017	2016	2015	2014
Net income (loss)	$(109,034)	$(182,873)	$(419,003)	$36,131	$128,088
Stock-based compensation	40,887	51,255	69,527	80,680	71,399
Acquisition-related costs	11,456	8,991	17,346	5,370	1,133
Restructuring costs	22,743	20,292	43,089	—	—
Non-cash interest expense	8,112	5,345	—	—	—
Gain on sale and license of intellectual property	(5,000)	—	—	—	—
Income tax adjustments [1]	(1,073)	1,123	87,794	(10,617)	(11,707)
Non-GAAP net income (loss)	$(31,909)	$(95,867)	$(201,247)	$111,564	$188,913
Non-GAAP diluted income (loss) per share	$(0.23)	$(0.69)	$(1.44)	$0.76	$1.32
GAAP shares for diluted net income (loss) per share	139,495	138,056	139,425	146,486	123,630
Add: preferred shares conversion	—	—	—	—	15,136
Add: initial public offering shares	—	—	—	—	4,414
Non-GAAP shares for diluted net income (loss) per share	139,495	138,056	139,425	146,486	143,180

(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.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include foreign currency and interest rate risks as follows:

Foreign currency risk. To date, the majority of our product sales and inventory purchases have been denominated in U.S. dollars. We therefore have had insignificant foreign currency risk associated with these two activities. The functional currency of all of our entities is the U.S. dollar. Our operations outside of the United States hold foreign denominated cash balances and incur a majority of their operating expenses in foreign currencies, principally the Euro, Japanese Yen, British Pound and Chinese Yuan. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. However, we believe that the exposure to foreign currency fluctuation from operating expenses is immaterial at this time as the related costs do not constitute a significant portion of our total expenses. As we expand our operations, if foreign currency exchange rates become volatile, or if foreign currency held in our foreign entities increases, our exposure to foreign currency risk could become more significant. To date, we have not entered into any material foreign currency exchange contracts. For assets and liabilities denominated in other currencies, we do not believe that the effects of a 10% shift in exchange rates between those currencies and the U.S. dollar would have a material effect on our results of operations from such a shift.

Interest rate risk. Our exposure to market risk for changes in interest rates primarily relates to our cash and cash equivalents and marketable securities. Our cash equivalents and marketable securities are comprised primarily of money market funds, commercial paper, U.S. treasury securities and corporate debt securities. The primary objectives of our investment activities are to preserve principal and provide liquidity without significantly increasing risk. Our cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the relatively short-term nature of our investment portfolio, we do not believe that an immediate 10% increase in interest rates would have a material effect on the fair value of our investment portfolio.

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

Item 8. Financial Statements and Supplementary Data

GoPro, Inc.
Index to consolidated financial statements

The supplementary financial information required by this Item 8, is included in Part II, Item 7 under the caption Results of Operations, which is incorporated herein by reference.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of GoPro, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of GoPro, Inc. and its subsidiaries (the "Company") as of December 31, 2018 and December 31, 2017, and the related consolidated statements of operations, of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018 based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers and the manner in which it accounts for the tax consequences of intra-entity asset transfers in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
San Jose, California
February 15, 2019

We have served as the Company's auditor since 2011.

GoPro, Inc.
Consolidated Balance Sheets

(in thousands, except par values)	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 152,095	$ 202,504
Marketable securities	45,417	44,886
Accounts receivable, net	129,216	112,935
Inventory	116,458	150,551
Prepaid expenses and other current assets	30,887	62,811
Total current assets	474,073	573,687
Property and equipment, net	46,567	68,587
Intangible assets, net	13,065	24,499
Goodwill	146,459	146,459
Other long-term assets	18,195	37,014
Total assets	$ 698,359	$ 850,246
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 148,478	$ 138,257
Accrued liabilities	135,892	213,030
Deferred revenue	15,129	19,244
Total current liabilities	299,499	370,531
Long-term taxes payable	19,553	21,188
Long-term debt	138,992	130,048
Other long-term liabilities	28,203	29,774
Total liabilities	486,247	551,541
Commitments, contingencies and guarantees (Note 11)		
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, 105,170 and 101,034 shares issued and outstanding, respectively; 150,000 Class B shares authorized, 35,897 and 35,966 shares issued and outstanding, respectively	894,755	854,452
Treasury stock, at cost, 10,710 and 10,710 shares, respectively	(113,613)	(113,613)
Accumulated deficit	(569,030)	(442,134)
Total stockholders' equity	212,112	298,705
Total liabilities and stockholders' equity	$ 698,359	$ 850,246

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

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GoPro, Inc.
Consolidated Statements of Operations

	Year ended December 31,		
(in thousands, except per share data)	2018	2017	2016
Revenue	$1,148,337	$1,179,741	$1,185,481
Cost of revenue	786,903	795,211	723,561
Gross profit	361,434	384,530	461,920
Operating expenses:			
Research and development	167,296	229,265	358,902
Sales and marketing	222,096	236,581	368,620
General and administrative	66,004	82,144	107,367
Total operating expenses	455,396	547,990	834,889
Operating loss	(93,962)	(163,460)	(372,969)
Other income (expense):			
Interest expense	(18,683)	(13,660)	(2,992)
Other income, net	4,970	733	787
Total other expense, net	(13,713)	(12,927)	(2,205)
Loss before income taxes	(107,675)	(176,387)	(375,174)
Income tax expense	1,359	6,486	43,829
Net loss	$(109,034)	$(182,873)	$(419,003)
Basic and diluted net loss per share	$(0.78)	$(1.32)	$(3.01)
Weighted average number of shares outstanding, basic and diluted	139,495	138,056	139,425

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

GoPro, Inc.
Consolidated Statements of Stockholders’ Equity

(in thousands)	Common stock and additional paid-in capital Shares	Amount	Treasury stock Amount	Retained earnings (accumulated deficit)	Stockholders’ equity
Balances at December 31, 2015	136,601	$663,311	$(35,613)	$ 144,335	$ 772,033
Common stock issued under employee benefit plans, net of shares withheld for tax	3,936	10,103	—	—	10,103
Taxes paid related to net share settlements	—	(6,889)	—	—	(6,889)
Shares issued to third-party vendor for services	822	7,297	—	—	7,297
Stock-based compensation expense	—	69,499	—	—	69,499
Stock-based compensation expense related to restructuring	—	15,566	—	—	15,566
Excess tax benefit from stock-based compensation	—	(1,661)	—	—	(1,661)
Net loss	—	—	—	(419,003)	(419,003)
Balances at December 31, 2016	141,359	757,226	(35,613)	(274,668)	446,945
Common stock issued under employee benefit plans, net of shares withheld for tax	4,807	9,732	—	—	9,732
Taxes paid related to net share settlements	—	(12,118)	—	—	(12,118)
Stock-based compensation expense	—	54,037	—	—	54,037
Repurchase of common stock under Prepaid Forward contract	(9,166)	(1)	(78,000)	—	(78,001)
Issuance of Convertible Note	—	45,211	—	—	45,211
Cumulative effect of adoption of new accounting standard	—	365	—	15,407	15,772
Net loss	—	—	—	(182,873)	(182,873)
Balances at December 31, 2017	137,000	854,452	(113,613)	(442,134)	298,705
Common stock issued under employee benefit plans, net of shares withheld for tax	4,067	5,099	—	—	5,099
Taxes paid related to net share settlements	—	(6,650)	—	—	(6,650)
Stock-based compensation expense (Note 7)	—	41,854	—	—	41,854
Cumulative effect of adoption of new accounting standards (Note 1)	—	—	—	(17,862)	(17,862)
Net loss	—	—	—	(109,034)	(109,034)
Balances at December 31, 2018	141,067	$894,755	$(113,613)	$ (569,030)	$ 212,112

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

GoPro, Inc.
Consolidated Statements of Cash Flows

	Year ended December 31,		
(in thousands)	2018	2017	2016
Operating activities:			
Net loss	$(109,034)	$(182,873)	$(419,003)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	35,063	41,478	41,640
Stock-based compensation	40,887	51,255	69,527
Excess tax benefit from stock-based compensation (1)	—	—	(3,463)
Deferred income taxes	(389)	(2,527)	38,568
Non-cash restructuring charges	6,282	7,315	17,601
Non-cash interest expense	8,112	5,345	—
Impairment of intangible assets	—	—	7,088
Gain on sale and license of intellectual property	(5,000)	—	—
Other	1,696	4,094	7,574
Changes in operating assets and liabilities:			
Accounts receivable, net	(16,460)	52,278	(18,816)
Inventory	34,093	16,641	21,040
Prepaid expenses and other assets	35,390	9,303	(14,618)
Accounts payable and other liabilities	(70,400)	(44,411)	142,941
Deferred revenue	(2,674)	5,249	2,168
Net cash used in operating activities	(42,434)	(36,853)	(107,753)
Investing activities:			
Purchases of property and equipment, net	(11,004)	(24,061)	(43,627)
Purchases of marketable securities	(57,731)	(52,318)	—
Maturities of marketable securities	57,500	21,659	119,918
Sale of marketable securities	—	11,623	47,348
Proceeds from the sale and license of intellectual property	5,000	—	—
Acquisitions, net of cash acquired	—	—	(104,353)
Net cash provided by (used in) investing activities	(6,235)	(43,097)	19,286
Financing activities:			
Proceeds from issuance of common stock	5,169	9,751	9,664
Taxes paid related to net share settlement of equity awards	(6,650)	(12,118)	(6,889)
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)	—	—	3,463
Payment of deferred acquisition-related consideration	—	(75)	(950)
Payment of debt issuance costs	—	(5,964)	(3,333)
Net cash provided by (used in) financing activities	(1,481)	88,594	1,955
Effect of exchange rate changes on cash and cash equivalents	(259)	1,746	(1,046)
Net increase (decrease) in cash and cash equivalents	(50,409)	10,390	(87,558)
Cash and cash equivalents at beginning of period	202,504	192,114	279,672
Cash and cash equivalents at end of period	$152,095	$202,504	$192,114

Supplementary cash flow disclosure:			
Cash paid for interest	$6,125	$3,114	$—
Cash paid (refunded) for income taxes, net	$(32,090)	$8,370	$9,690
Non-cash investing and financing activities:			
Purchases of property and equipment included in accounts payable and accrued liabilities	$223	$5,785	$2,258

(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.

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

GoPro, Inc.
Notes to Consolidated Financial Statements

1. Summary of business and significant accounting policies

GoPro, Inc. and its subsidiaries (GoPro or the Company) helps its consumers capture and share their experiences in immersive and exciting ways. The Company is committed to developing solutions that create an easy, seamless experience for consumers to capture, create and share engaging personal content. To date, the Company's cameras, drones, and mountable and wearable accessories have generated substantially all of its revenue. The Company sells its products globally through retailers, wholesale distributors and on its website. The Company's global corporate headquarters are located in San Mateo, California.

Basis of presentation. The accompanying consolidated financial statements have been prepared in accordance with United States 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.

Principles of consolidation. These 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 consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the Company's consolidated financial statements and accompanying notes. Significant estimates and assumptions made by management include those related to revenue recognition (including sales incentives, sales returns and implied post contract support), 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 consolidated statements of comprehensive income (loss) have been omitted.

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

Cash equivalents and marketable securities. Cash equivalents primarily consist of investments in money market funds with maturities of three months or less from the date of purchase. Marketable securities consist of commercial paper, U.S. treasury securities and corporate debt securities, and are classified as available-for-sale securities. The Company views these securities as available to support current operations and has classified all available-for-sale securities as current assets. Available-for-sale securities are carried at fair value with unrealized gains and losses, if any, included in stockholders' equity. Unrealized losses are charged against other income, net, for declines in fair value below the cost of an individual investment that is deemed to be other than temporary. The Company has not identified any marketable securities as other-than-temporarily impaired for the periods presented. The cost of securities sold is based upon a specific identification method.

Accounts receivable and allowance for doubtful accounts. Accounts receivable are stated at invoice value less estimated allowances for doubtful accounts. Allowances are recorded based on the Company's assessment of various factors, such as: historical experience, credit quality of its customers, age of the accounts receivable balances, geographic related risks, economic conditions and other factors that may affect a customer's ability to pay. The allowance for doubtful accounts as of December 31, 2018 and 2017 was $0.5 million and $0.8 million, respectively.

Inventory. Inventory consists of finished goods and component parts, which are purchased directly from contract manufacturers or from suppliers. Inventory is stated at the lower of cost or net realizable value on a first-in, first-out basis. The Company writes down its inventory for estimated obsolescence or excess inventory equal to the difference between the cost of inventory and estimated market value plus the estimated cost to sell. The Company's assessment of market value is based upon assumptions around market conditions and estimated

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future demand for its products within a specified time horizon, generally 12 months. Adjustments to reduce inventory to net realizable value are recognized in cost of revenue.

Point of purchase (POP) displays. The Company provides retailers with POP displays, generally free of charge, in order to facilitate the marketing of the Company's products within retail stores. The POP displays contain a display that broadcasts video images taken by GoPro cameras along with product placement available for cameras and accessories. POP display costs are capitalized as long-term assets and charged to sales and marketing expense over the expected period of benefit, which generally ranges from 24 to 36 months. Cash outflows and amortization related to POP displays are classified as operating activities in the consolidated statement of cash flows. Amortization was $13.5 million, $19.2 million and $19.6 million in 2018, 2017 and 2016, respectively.

Property and equipment, net. Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful life of the assets, ranging from one to nine years. Leasehold improvements are amortized over the shorter of the lease term or their expected useful life. Property and equipment pending installation, configuration or qualification are classified as construction in progress. Costs of maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. The Company estimates and categorizes the fair value of its financial assets by applying the following hierarchy:

Level 1	Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to directly access.
Level 2	Valuations based on quoted prices for similar assets or liabilities; valuations for interest-bearing securities based on non-daily quoted prices in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
Level 3	Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value of Level 2 financial instruments is obtained from an independent pricing service, which may use quoted market prices for identical or comparable instruments or model driven valuations using observable market data or inputs corroborated by observable market data.

Leases. The Company leases its office space and facilities under cancelable and non-cancelable operating leases. For leases that contain rent escalation or rent concession provisions, the Company recognizes rent expense on a straight-line basis over the term of the lease. The Company does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably assured at lease inception. The Company also calculates a liability for costs that will continue to be incurred under a lease for its remaining term without economic benefit to the Company upon determination of a cease-use date. The fair value of the liability is determined based on remaining lease payments, estimated sublease income and the effects of any prepaid or deferred items recognized under the lease.

Goodwill and other intangible assets. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. Acquired intangible assets other than goodwill are amortized over their useful lives unless the lives are determined to be indefinite. For intangible assets acquired in a business combination, the estimated fair values of the assets received are used to establish their recorded values. Valuation approaches consistent with the market approach, income approach and/or cost approach are used to measure fair value.

Impairment of goodwill and long-lived assets. The Company performs an annual assessment of its goodwill during the fourth quarter of each calendar year or more frequently if indicators of potential impairment exist, such as an adverse change in business climate or a decline in the overall industry demand, that would indicate it is more likely than not that the fair value of its single reporting unit is less than its carrying value. There was no

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impairment of goodwill recorded for any periods presented. For the Company's annual impairment testing in 2018, the Company did not identify any indicators of potential impairment of its single reporting unit. Other indefinite-lived intangible assets are assessed for impairment at least annually. If their carrying value exceeds the estimated fair value, the difference is recorded as an impairment. See Note 4 Consolidated financial statement details, for information regarding impairment charges recorded for indefinite-lived intangible assets.

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount to the estimated future undiscounted cash flows expected to be generated by the asset group. If it is determined that an asset group is not recoverable, an impairment charge is recognized for the amount by which the carrying amount of the asset group exceeds its fair value. There was no material impairment of long-lived assets for any periods presented.

Warranty. The Company records a liability for estimated product warranty costs at the time product revenue is recognized. The Company's standard warranty obligation to its end-users generally provides a 12-month warranty coverage on all of its products except in the European Union where the Company provides a 2-year warranty. The Company also offers extended warranty programs for a fee. The Company's estimate of costs to service its warranty obligations is based on its historical experience of repair and replacement of the associated products and expectations of future conditions. The warranty obligation is affected by product failure rates and the related use of materials, labor costs and freight incurred in correcting any product failure.

Revenue recognition. The Company derives substantially all of its revenue from the sale of cameras, drones, mounts and accessories and the related implied post contract support to customers. The Company recognizes revenue when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The transaction price the Company expects to be entitled to is primarily comprised of product revenue, net of returns and variable consideration, including sales incentives provided to customers. For most of the Company's revenue, revenue is recognized at the time products are delivered and when collection is deemed probable. For customers who purchase products directly from the Company's website, the Company retains a portion of the risk of loss on these sales during transit, which are accounted for as fulfillment costs. The Company provides sales commissions to internal and external sales representatives which are earned in the period in which revenue is recognized. As a result, the Company expenses such costs as incurred under Accounting Standards Update (ASU) 2014-19 Revenue from Contracts with Customers, which was adopted on January 1, 2018.

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

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

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The transaction prices allocated to the delivered hardware, related embedded firmware and free software solutions are recognized as revenue at the time of sale, provided the conditions for recognition of revenue have been met. The transaction price allocated to PCS is deferred and recognized as revenue on a straight-line basis over the estimated term of the support period, which is estimated to be 15 months based on historical experience. Deferred revenue as of December 31, 2018 and December 31, 2017 also included immaterial amounts related to the Company's GoPro Care and GoPro Plus fee-based service offerings. The Company's deferred revenue balance was $16.1 million as of December 31, 2018 and the Company recognized $17.0 million of related revenue during the year ended December 31, 2018.

Prior to January 1, 2018, the Company recognized revenue under Accounting Standards Codification (ASC) 605, Revenue Recognition. ASC 605 is materially similar to ASC 606, Revenue from Contracts with Customers, with the following differences:

- The Company recognized revenue when persuasive evidence of an arrangement existed, delivery had occurred, the sales price was fixed and determinable and collectability was reasonably assured.
- The Company allocated the transaction price based on its best estimate of the selling price (BESP). The Company's process for determining BESP was materially the same as its' current allocation of the transaction price to each performance obligation.
- Sales incentives were recorded as a reduction to revenue in the period the incentives were offered to customers or the related revenue was recognized, whichever was later.

Additionally, the Company allocated the transaction price based on its best estimate of the selling price (BESP). The Company's process for determining BESP was materially the same as its' current allocation of the transaction price to each performance obligation. Lastly, sales incentives were recorded as a reduction to revenue in the period the incentives were offered to customers or the related revenue was recognized, whichever was later.

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

Shipping costs. Amounts billed to customers for shipping and handling are classified as revenue and the Company's related shipping and handling costs incurred are classified as cost of revenue.

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

Advertising costs. Advertising costs consist of costs associated with print, television and e-commerce media advertisements and are expensed as incurred. The Company incurs promotional expenses resulting from payments under event, resort and athlete sponsorship contracts. These sponsorship arrangements are considered to be executory contracts and, as such, the costs are expensed as performance under the contract is received. The costs associated with the preparation of sponsorship activities, including the supply of GoPro products, media team support, and activation fees are expensed as incurred. Prepayments made under sponsorship agreements are included in prepaid expenses or other long-term assets depending on the period to which the prepayment applies. Advertising costs were $73.0 million, $61.3 million and $106.0 million in 2018, 2017 and 2016, respectively.

Stock-based compensation. Stock-based awards granted to employees and directors are measured at fair value and recognized as an expense. The Company primarily issues restricted stock units and accounts for forfeitures as they occur. For service-based awards, stock-based compensation is recognized on a straight-line basis over the requisite service period. For performance and market-based awards which also require a service period, the Company uses graded vesting over the longer of the derived service period or when the performance or market condition is satisfied.

Foreign currency. The U.S. dollar is the functional currency of the Company's foreign subsidiaries. The Company remeasures monetary assets or liabilities denominated in currencies other than the U.S. dollar using

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exchange rates prevailing on the balance sheet date, and non-monetary assets and liabilities at historical rates. Foreign currency remeasurement and transaction gains and losses are included in other income, net and have not been material for any periods presented.

Income taxes. The Company utilizes the asset and liability method for computing its income tax provision, under which deferred tax assets and liabilities are recognized for the expected future consequences of temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates. Management makes estimates, assumptions and judgments to determine the Company's provision for income taxes, deferred tax assets and liabilities, and any valuation losses recorded against deferred tax assets. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent the Company believes recovery is not likely, establishes a valuation allowance.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties related to unrecognized tax benefits are recognized within income tax expense.

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

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Recent accounting standards

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

customers.

under previous guidance. Upon adoption, the Company's accumulated deficit decreased by $2.0 million related to revenue that would have been recognized in the prior period from the Company's website sales that had shipped but had not been delivered as of December 31, 2017. In addition, the Company recorded a $1.0 million increase to deferred tax assets and a corresponding $1.0 million increase in valuation allowance. Additionally, under the new standard, the Company reclassed its refund liability from an offset to accounts receivable to an increase in accrued liabilities, which increased the Company's days sales outstanding.

The Company adopted the standard using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Prior periods were not retrospectively adjusted. Refer below for the impact on each financial statement line item as of and for the full year ended December 31, 2018 due to the adoption of the standard.

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

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

The adoption of ASU 2014-09 (ASC 606) impacted the timing of revenue recognized related to certain sales incentives and sales from the Company's website, which impacted the revenue and current deferred revenue consolidated financial statement line items. Additionally, under ASC 606, the Company presents an estimated refund liability along with a right to recover asset for future product returns, which impacts the accounts receivable, net, inventory, net, prepaid expenses and other assets, and accrued liabilities consolidated financial statement line items resulting in an increase in the Company's accounts receivable days sales outstanding (DSO) calculation. These adjustments do not impact net cash used in operating activities, however, they do impact the changes in operating assets and liabilities for the related accounts within the disclosure of operating activities on the consolidated statements of cash flows. Refer to the tables below for the quantitative impact to the Company's consolidated financial statements for the periods ended December 31, 2018 due to the adoption of ASC 606.

	Year ended December 31, 2018		
(in thousands)	As Reported Under ASC 606	Effect of Change	Balance Under ASC 605
Revenue	$1,148,337	$2,659	$1,150,996

	As of December 31, 2018		
(in thousands)	As Reported Under ASC 606	Effect of Change	Balance Under ASC 605
Accounts receivable, net	$129,216	$(13,100)	$116,116
Inventory, net	116,458	5,474	121,932
Prepaid expenses and other current assets	30,887	(5,474)	25,413
Accrued liabilities	135,892	(13,100)	122,792
Current deferred revenue	15,129	2,184	17,313

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Standard	Description	Expected date of adoption	Effect on the consolidated financial statements or other significant matters
Standards not yet adopted			
Leases ASU No. 2016-02, 2018-10, 2018-11, (Topic 842)	This standard requires lessees to reflect most leases on their balance sheets and recognize the expenses on their income statements in a manner similar to current practice. Lessees would recognize a right-to-use asset and a lease liability for all leases with terms of more than 12 months. The new standard should be applied on a modified retrospective basis or using the cumulative effect transition method.	January 1, 2019	The Company identified its population of lease arrangements by reviewing its current lease agreements to identify the changes to total assets and total liabilities on the Company's consolidated balance sheet as a result of adopting the standard. The Company plans to elect the package of practical expedients, which among other things, allows the Company to maintain its existing classification of its current leases. The Company also plans to elect the hindsight practical expedient to determine the reasonably certain lease term for existing leases. Additionally, the Company plans to make a policy election to maintain its current lease accounting for leases with an initial term of 12 months or less. The Company plans to adopt the standard using the cumulative effect transition method. While the Company is finalizing the impact of its restructuring plans on its right of use asset calculation, the Company expects the adoption of the standard will result in the recognition of additional lease liabilities of approximately $89 million to $93 million. The Company does not believe the standard will have a material impact on its consolidated income statement and consolidated statement of cash flows.
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 is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017, and requires use of a prospective transition method.	January 1, 2020	The Company does not expect that the adoption of this standard will have a material impact on its 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 accounting pronouncements has had or will have a material impact on its consolidated financial statements.

2. Business Acquisitions

In 2016, the Company completed acquisitions of two privately-held mobile editing application companies for total cash consideration of approximately $104 million. The aggregate allocation of the purchase prices primarily included $17.4 million of identifiable intangible assets, $3.4 million of net deferred tax liabilities and approximately $89 million of residual goodwill. Net tangible assets acquired were not material. In addition to the amounts above, 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. This amount is being recognized as compensation expense over the requisite service periods of up to four years from the respective acquisition dates, including approximately $22 million recognized in 2016.

Goodwill is primarily attributable to expected synergies in the technologies that can be leveraged by the Company in future product offerings related to device and software related offerings. Goodwill is not expected to be deductible for United States income tax purposes. The operating results of the acquired companies have been included in the Company’s consolidated financial statements from the date of acquisition.

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Actual and pro forma results of operations for these acquisitions have not been presented because they did not have a material impact to the Company's consolidated results of operations, either individually or in aggregate.

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

	December 31, 2018			December 31, 2017		
(in thousands)	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash equivalents [1]:						
Money market funds	$10,901	$—	$10,901	$25,251	$—	$25,251
Commercial paper	7,577	—	7,577	14,981	—	14,981
Corporate debt securities	—	—	—	—	2,500	2,500
Agency securities	—	—	—	—	4,999	4,999
Total cash equivalents	$18,478	$—	$18,478	$40,232	$7,499	$47,731
Marketable securities:						
U.S. treasury securities	$—	$6,336	$6,336	$—	$4,995	$4,995
Commercial paper	20,657	—	20,657	19,888	—	19,888
Corporate debt securities	—	18,424	18,424	—	20,003	20,003
Total marketable securities	$20,657	$24,760	$45,417	$19,888	$24,998	$44,886

(1) Included in cash and cash equivalents in the accompanying consolidated balance sheets. Cash balances were $133.6 million and $154.8 million as of December 31, 2018 and 2017, respectively.

There were no transfers of financial assets between levels for the periods presented.
Cash equivalents and marketable securities are classified as Level 1 or Level 2 because the Company uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value. The contractual maturities of available-for-sale marketable securities as of December 31, 2018 and 2017 were all less than one year in duration. At December 31, 2018 and 2017, the Company had no financial assets or liabilities that were classified as Level 3, which are valued based on inputs supported by little or no market activity.
At December 31, 2018 and 2017, the amortized cost of the Company's cash equivalents and marketable securities approximated their fair value and there were no material realized or unrealized gains or losses, either individually or in the aggregate.
In April 2017, the Company issued $175.0 million principal amount of Convertible Senior Notes due 2022 (Notes) (see Note 5 Financing Arrangements). The estimated fair value of the Notes is based on quoted market prices of the Company's instruments in markets that are not active and are classified as Level 2 within the fair value hierarchy. The Company estimated the fair value of the Notes by evaluating quoted market prices and calculating the upfront cash payment a market participant would require to assume these obligations. The calculated fair value of the Notes of $143.3 million, is highly correlated to the Company's stock price and as a result, significant changes to the Company's stock price will have a significant impact on the calculated fair value of the Notes.
For certain other financial assets and liabilities, including accounts receivable, accounts payable and other current assets and liabilities, the carrying amounts approximate their fair value primarily due to the relatively short maturity of these balances.

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4. Consolidated financial statement details
The following sections and tables provide details of selected balance sheet items.
Inventory

(in thousands)	December 31, 2018	December 31, 2017
Components	$ 19,205	$ 18,995
Finished goods	97,253	131,556
Total inventory	$ 116,458	$ 150,551

Property and equipment, net

(in thousands)	Useful life (in years)	December 31, 2018	December 31, 2017
Leasehold improvements	1–9	$ 66,198	$ 67,713
Production, engineering and other equipment	1-4	43,019	47,502
Tooling	1–2	17,808	24,871
Computers and software	2	20,865	20,636
Furniture and office equipment	3	14,969	14,895
Tradeshow equipment and other	2–5	7,009	7,237
Construction in progress		80	347
Gross property and equipment		169,948	183,201
Less: Accumulated depreciation and amortization		(123,381)	(114,614)
Property and equipment, net		$ 46,567	$ 68,587

Depreciation expense was $23.6 million in 2018, and $32.4 million in 2017 and 2016. In 2017 and 2016, the Company recorded accelerated depreciation charges in connection with its plans to vacate certain leased office facilities as disclosed in Note 13 Restructuring charges.
Intangible assets

(in thousands)	Useful life (in months)	December 31, 2018 Gross carrying value	Accumulated amortization	Net carrying value
Purchased technology	20-72	$50,501	$ (37,451)	$13,050
Domain name		15	—	15
Total intangible assets		$50,516	$ (37,451)	$13,065

(in thousands)	Useful life (in months)	December 31, 2017 Gross carrying value	Accumulated amortization	Net carrying value
Purchased technology	24-72	$49,901	$ (26,017)	$23,884
IPR&D		615	—	615
Total intangible assets		$50,516	$ (26,017)	$24,499

In 2018 and 2017, the Company did not record any impairment charges for in-process research and development (IPR&D) assets. In 2016, the Company recorded impairment charges of $6.3 million to research and development expense for abandoned IPR&D assets.

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Amortization expense was $11.4 million, $9.0 million and $9.1 million in 2018, 2017 and 2016, respectively. At December 31, 2018, expected amortization expense of intangible assets with definite lives for future periods was as follows:

(in thousands)	Total
Year ending December 31,	
2019	$7,818
2020	4,363
2021	869
2022	—
2023	—
	$13,050

Other long-term assets

(in thousands)	December 31, 2018	December 31, 2017
POP displays	$ 9,130	$ 16,451
Long-term deferred tax assets	945	825
Deposits and other	8,120	19,738
Other long-term assets	$ 18,195	$ 37,014

Accrued liabilities

(in thousands)	December 31, 2018	December 31, 2017
Accrued sales incentives	$ 40,918	$ 89,549
Accrued payables [1]	34,696	44,582
Employee related liabilities [1]	19,775	24,945
Refund liability [2]	13,100	—
Warranty liability	9,604	9,934
Inventory received	5,061	14,470
Customer deposits	3,105	8,700
Purchase order commitments	2,015	6,162
Income taxes payable	1,948	1,247
Other	5,670	13,441
Accrued liabilities	$ 135,892	$ 213,030

(1) See Note 13 Restructuring charges, for amounts associated with restructuring liabilities.
(2) See Note 1 Summary of business and significant accounting policies for a discussion on recently adopted accounting standards.

Product warranty

	Year ended December 31,		
(in thousands)	2018	2017	2016
Beginning balance	$10,373	$11,945	$10.856
Charged to cost of revenue	24,725	20,139	19.272
Settlement of warranty claims	(24,127)	(21,711)	(18.183)
Warranty liability	$10,971	$10,373	$11.945

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At December 31, 2018, $9.6 million of the warranty liability was recorded as an element of accrued liabilities and $1.4 million was recorded as an element of other long-term liabilities.

5. Financing Arrangements
Credit Facility
In March 2016, the Company entered into a Credit Agreement (Credit Agreement) with certain banks which provides for a secured revolving credit facility (Credit Facility) under which the Company may borrow up to an aggregate amount of $250.0 million. The Company and its lenders may increase the total commitments under the Credit Facility to up to an aggregate amount of $300.0 million, subject to certain conditions. The Credit Facility will terminate and any outstanding borrowings become due and payable in March 2021.
The amount that may be borrowed under the Credit Facility is determined at periodic intervals and is based upon the Company's inventory and accounts receivable balances. Borrowed funds accrue interest based on an annual rate of (a) London Interbank Offered Rate (LIBOR) or (b) the administrative agent's base rate, plus an applicable margin of between 1.50% and 2.00% for LIBOR rate loans, and between 0.50% and 1.00% for base rate loans. The Company is required to pay a commitment fee on the unused portion of the Credit Facility of 0.25% or 0.375% per annum, based on the level of utilization of the Credit Facility. Amounts owed under the Credit Agreement and related credit documents are guaranteed by GoPro, Inc. and its material subsidiary. GoPro, Inc. and its Netherlands subsidiary have also granted security interests in substantially all of their assets to collateralize this obligation.
The Credit Agreement contains customary covenants, such as financial statement reporting requirements and limiting the ability of the Company and its subsidiaries to pay dividends or incur debt, create liens and encumbrances, make investments, and redeem or repurchase stock. The Company is required to maintain a minimum fixed charge coverage ratio if and when the unborrowed availability under the Credit Facility is less than the greater of $25.0 million or 10.0% of the borrowing base at such time. The Credit Agreement also contains customary events of default, such as the failure to pay obligations when due, initiation of bankruptcy or insolvency proceedings, or defaults on certain other indebtedness. Upon an event of default, the lenders may, subject to customary cure rights, require the immediate payment of all amounts outstanding and foreclose on collateral.
At December 31, 2018 and 2017, the Company was in compliance with all financial covenants contained in the Credit Agreement. The Company has made no borrowings from the Credit Facility to date.
Convertible Notes
In April 2017, the Company issued $175.0 million aggregate principal amount of 3.50% Convertible Senior Notes due 2022 (Notes). The Notes are senior, unsecured obligations of GoPro and mature on April 15, 2022 (Maturity Date), unless earlier repurchased or converted into shares of Class A common stock under certain circumstances. The Notes are convertible into cash, shares of the Company's Class A common stock, or a combination thereof, at the Company's election, at an initial conversion rate of 94.0071 shares of Class A common stock per $1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately $10.64 per share of common stock, subject to adjustment. Based on current and projected liquidity, the Company has the intent and ability to deliver cash up to the principal amount of the Notes then outstanding upon conversion. The Company pays interest on the Notes semi-annually in arrears on April 15 and October 15 of each year.
The $175.0 million of proceeds received from the issuance of the Notes were allocated between long-term debt (liability component) of $128.3 million and additional paid-in-capital (equity component) of $46.7 million on the consolidated balance sheet. The fair value of the liability component was measured using rates determined for similar debt instruments without a conversion feature. The carrying amount of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the aggregate face value of the Notes. The liability component will be accreted up to the face value of the Notes of $175.0 million, which will result in additional non-cash interest expense being recognized in the consolidated statements of operations through the Notes' Maturity Date. The accretion of the Notes to par and debt issuance cost recorded to long-term debt is amortized into interest expense over the term of the Note using an effective interest rate of approximately 10.5%.

The equity component will not be remeasured as long as it continues to meet the conditions

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for equity classification.
The Company incurred approximately $5.7 million of issuance costs related to the issuance of the Notes, of which $4.2 million and $1.5 million were recorded to long-term debt and additional paid-in capital, respectively. The $4.2 million of issuance costs recorded as long-term debt on the consolidated balance sheet are being amortized over the five-year contractual term of the Notes using the effective interest method.
The Company may not redeem the Notes prior to the Maturity Date and no sinking fund is provided for the Notes. The indenture includes customary terms and covenants, including certain events of default after which the Notes may be due and payable immediately.
Holders have the option to convert the Notes in multiples of $1,000 principal amount at any time prior to January 15, 2022, but only in the following circumstances:

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

At any time on or after January 15, 2022 until the second scheduled trading day immediately preceding the Maturity Date of the Notes on April 15, 2022, a holder may convert its Notes, in multiples of $1,000 principal amount. Holders of the Notes who convert their Notes in connection with a make-whole fundamental change (as defined in the indenture) are, under certain circumstances, entitled to an increase in the conversion rate. In addition, in the event of a fundamental change prior to the Maturity Date, holders will, subject to certain conditions, have the right, at their option, to require the Company to repurchase for cash all or part of the Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest up to, but excluding, the repurchase date.
As of December 31, 2018 and 2017, the outstanding principal on the Notes was $175.0 million, the unamortized debt discount was $33.3 million and $41.4 million, respectively, the unamortized debt issuance cost was $2.7 million and $3.6 million, respectively, and the net carrying amount of the liability component was $139.0 million and $130.0 million, respectively, which was recorded as long-term debt within the consolidated balance sheets. For the year ended December 31, 2018 and 2017, the Company recorded interest expense of $6.1 million and $4.4 million, respectively, for contractual coupon interest, $0.8 million and $0.6 million, respectively, for amortization of debt issuance costs, and $8.1 million and $5.3 million, respectively, for amortization of the debt discount.
In connection with the offering, the Company entered into a prepaid forward stock repurchase transaction (Prepaid Forward) with a financial institution (Forward Counterparty). Pursuant to the Prepaid Forward, the Company used approximately $78.0 million of the net proceeds from the offering of the Notes to fund the Prepaid Forward. The aggregate number of shares of the Company’s Class A common stock underlying the Prepaid Forward was approximately 9.2 million. The expiration date for the Prepaid Forward is April 15, 2022, although it may be settled earlier in whole or in part. Upon settlement of the Prepaid Forward, at expiration or upon any early settlement, the Forward Counterparty will deliver to the Company the number of shares of Class A common stock underlying the Prepaid Forward or the portion thereof being settled early. The shares purchased under the Prepaid Forward are treated as treasury stock on the consolidated balance sheet (and not outstanding for purposes of the calculation of basic and diluted income (loss) per share), but will remain outstanding for corporate law purposes, including for purposes of any future stockholders’ votes, until the Forward Counterparty delivers the shares underlying the Prepaid Forward to the Company. The Company’s Prepaid Forward hedge transaction exposes the Company to credit risk to the extent that its counterparty may be unable to meet the terms of the transaction. The Company mitigates this risk by limiting its counterparty to a major financial institution.

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6. Stockholders’ equity

Common stock. The Company has two classes of authorized common stock: Class A common stock with 500 million shares authorized and Class B common stock with 150 million shares authorized. As of December 31, 2018, 105.2 million shares of Class A stock were issued and outstanding and 35.9 million shares of Class B stock were issued and outstanding. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting power and conversion rights. 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. The Class B common stock is also convertible into Class A common stock on the same basis upon any transfer, whether or not for value, except for “permitted transfers” as defined in the Company’s restated certificate of incorporation. 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. As of December 31, 2018, the Class B stock continued to represent greater than 10% of the overall outstanding shares.

The Company had the following shares of common stock reserved for issuance upon the exercise of equity instruments as of December 31, 2018:

(in thousands)	December 31, 2018
Stock options outstanding	5,993
Restricted stock units outstanding	7,217
Performance stock units outstanding	300
Common stock available for future grants	31,421
Total common stock shares reserved for issuance	44,931

7. 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.

The 2014 Plan serves as a successor to the 2010 Plan and provides for the granting of incentive and nonqualified stock options, restricted stock awards (RSAs), restricted stock units (RSUs), stock appreciation rights, stock bonus awards and performance awards to qualified employees, non-employee directors and consultants. Options granted under the 2014 Plan generally expire within ten years from the date of grant and generally vest over one to four years. RSUs granted under the 2014 Plan generally vest over two to four years based upon continued service and are settled at vesting in shares of the Company’s Class A common stock. Performance stock units (PSUs) granted under the 2014 Plan generally vest over three years based upon continued service and the Company achieving certain revenue targets, and are settled at vesting in shares of the Company’s Class A common stock. The Company accounts for forfeitures of stock-based payment awards in the period they occur.

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. The 2014 Plan and the ESPP also provide for automatic annual increases in the number of shares reserved for future issuance.

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Employee retirement plan. The Company has a defined contribution retirement plan covering the United States and other international full-time employees that provides for voluntary employee contributions from 1% to 100% of annual compensation, subject to a maximum limit allowed by Internal Revenue Service guidelines. The Company matches 100% of each employee's contributions up to a maximum of 4% of the employee's eligible compensation. The Company's matching contributions to the plan were \$4.3 million, \$5.5 million and \$7.2 million in 2018, 2017 and 2016, respectively.

Stock options

A summary of the Company's stock option activity is as follows:

	Shares (in thousands)	Weighted average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2017	9,809	\$ 11.16	6.00	\$ 19,971
Granted	1,333	5.77		
Exercised	(654)	0.74		
Forfeited/Cancelled	(4,495)	16.26		
Outstanding at December 31, 2018	5,993	\$ 7.28	5.44	\$ 7,897
Vested and expected to vest at December 31, 2018	5,988	\$ 7.28	5.44	\$ 7,897
Exercisable at December 31, 2018	4,459	\$ 7.40	4.20	\$ 7,897

The weighted average grant date fair value of all options granted and assumed was \$2.95, \$4.06 and \$4.84 per share in 2018, 2017 and 2016, respectively. The total fair value of all options vested was \$6.1 million, \$19.5 million and \$27.2 million in 2018, 2017 and 2016, respectively. The aggregate intrinsic value of the stock options outstanding as of December 31, 2018 represents the value of the Company's closing stock price on the last trading day of the year in excess of the exercise price multiplied by the number of options outstanding.

Restricted stock units

A summary of the Company's RSU activity is as follows:

	Shares (in thousands)	Weighted average grant date fair value
Non-vested shares at December 31, 2017	9,483	\$ 11.87
Granted	4,612	5.83
Vested	(3,559)	11.70
Forfeited	(3,319)	11.75
Non-vested shares at December 31, 2018	7,217	\$ 8.15

The weighted average grant date fair value of all RSUs granted was \$5.83, \$9.40 and \$12.10 per share in 2018, 2017 and 2016, respectively. The total fair value of all RSUs vested was \$41.6 million, \$57.7 million and \$49.5 million in 2018, 2017 and 2016, respectively.

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

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compensation expense related to the CEO RSUs was zero, $0.6 million and $6.4 million for 2018, 2017 and 2016, respectively.

Performance stock units

In 2018, the Company granted PSUs to certain executives and employees. PSUs are subject to both a one-year performance-based vesting condition and a three-year service-based vesting condition. The performance-based condition is related to the Company achieving certain revenue targets.

A summary of the Company's PSU activity is as follows:

	Shares (in thousands)	Weighted average grant date fair value
Non-vested shares at December 31, 2017	—	$ —
Granted	334	5.76
Vested	—	—
Forfeited	(34)	5.74
Non-vested shares at December 31, 2018	300	$ 5.76

The total fair value of all PSUs vested was zero in 2018.

Employee stock purchase plan. In 2018, 2017 and 2016, the Company issued 981,000, 934,000 and 668,000 shares under its ESPP, respectively, at weighted average prices of $4.78, $8.02 and $9.15, respectively.

Fair value disclosures. 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 RSUs and PSUs are determined using the Company's closing stock price on the date of grant. The fair value of stock options granted and purchases under the Company's ESPP is estimated using the Black-Scholes option pricing model. Expected term of stock options granted was estimated based on the simplified method. Expected stock price volatility was estimated by taking the Company's average historic volatility and the historical volatility for industry peers based on daily price observations over a period equivalent to the expected term. Risk-free interest rate was based on the yields of U.S. Treasury securities with maturities similar to the expected term. Dividend yield was zero as the Company does not have any history of, nor plans to make, dividend payments.

The fair value of stock options granted was estimated as of the grant date using the following assumptions:

	Year ended December 31,		
	2018	2017	2016
Volatility	51%	44%-49%	44%-45%
Expected term (years)	5.4-6.1	5.3-5.8	5.2-6.1
Risk-free interest rate	2.7%-3.0%	1.8%-2.1%	1.2%-2.0%
Dividend yield	—%	—%	—%

The fair value of stock purchase rights granted under the ESPP was estimated using the following assumptions:

	Year ended December 31,		
	2018	2017	2016
Volatility	48%-53%	33%-36%	43%-54%
Expected term (years)	0.5	0.5	0.5
Risk-free interest rate	1.8%-2.2%	0.7%-1.2%	0.4%-0.5%
Dividend yield	—%	—%	—%

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Stock-based compensation expense. The following table summarizes stock-based compensation expense included in the consolidated statements of operations:

	Year ended December 31,		
(in thousands)	2018	2017	2016
Cost of revenue	$1,954	$1,935	$1,616
Research and development	19,636	24,963	31,365
Sales and marketing	9,459	10,498	13,883
General and administrative	9,838	13,859	22,663
Total stock-based compensation expense	$40,887	$51,255	$69,527

The income tax benefit related to stock-based compensation expense was zero for 2018, 2017 and 2016 due to a full valuation allowance on the Company's United States deferred tax assets (see Note 9 Income taxes).
At December 31, 2018, total unearned stock-based compensation of $49.0 million related to stock options, RSUs, and ESPP shares is expected to be recognized over a weighted average period of 2.2 years.

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

	Year ended December 31,		
(in thousands, except per share data)	2018	2017	2016
Numerator:			
Net loss	$(109,034)	$(182,873)	$(419,003)
Denominator:			
Weighted-average common shares—basic and diluted for Class A and Class B common stock	139,495	138,056	139,425
Basic and diluted net loss per share	$(0.78)	$(1.32)	$(3.01)

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

	Year ended December 31,		
(in thousands)	2018	2017	2016
Anti-dilutive stock-based awards	15,267	18,994	21,000

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The Company has the intent and ability to deliver cash up to the principal amount of the Notes subject to conversion, based on the Company’s current and projected liquidity. As such, no shares associated with the Note conversion were included in the Company’s weighted-average number of common shares outstanding for any periods presented. The Company’s Notes mature on April 15, 2022, unless earlier repurchased or converted into shares of Class A common stock under certain circumstances as described further in Note 5 Financing Arrangements. The Notes are convertible into cash, shares of the Company’s Class A common stock, or a combination thereof, at the Company’s election. While the Company has the intent and ability to deliver cash up to the principal amount, the maximum number of shares issuable upon conversion of the Notes is 20.6 million shares of Class A common stock. Additionally, the calculation of weighted-average shares outstanding for the year ended December 31, 2018 and 2017, excludes approximately 9.2 million shares and 6.6 million shares, respectively, effectively repurchased and held in treasury stock on the consolidated balance sheets as a result of the Prepaid Forward transaction entered into in connection with the Note offering.

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

9. Income taxes

Loss before income taxes consisted of the following:

	Year ended December 31,		
(in thousands)	2018	2017	2016
United States	$(110,318)	$(123,325)	$(200,595)
Foreign	2,643	(53,062)	(174,579)
	$(107,675)	$(176,387)	$(375,174)

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In 2018, the Company made changes to its overall entity structure, including elections to treat certain wholly-owned foreign subsidiaries as disregarded entities (foreign branches) for United States income tax purposes.

Income tax expense consisted of the following:

	Year ended December 31,		
(in thousands)	2018	2017	2016
Current			
Federal	$(2,821)	$(1,857)	$(2,925)
State	175	240	(356)
Foreign	4,394	10,631	8,542
Total current	1,748	9,014	5,261
Deferred			
Federal	248	(248)	37,573
State	—	—	4,436
Foreign	(637)	(2,280)	(3,441)
Total deferred	(389)	(2,528)	38,568
Income tax expense	$1,359	$6,486	$43,829

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	Year ended December 31,					
	2018		2017		2016	
(dollars in thousands)	$	%	$	%	$	%
Reconciliation to statutory rate						
Tax at federal statutory rate	$(22,612)	21.0 %	$(61,735)	35.0 %	$(131,311)	35.0 %
Change in valuation allowance	42,772	(39.7)	(36,497)	20.7	101,878	(27.2)
DTA rate change impact due to TCJA	—	—	73,423	(41.6)	—	—
Impact of foreign operations	3,285	(3.1)	34,039	(19.3)	84,491	(22.5)
Stock-based compensation	10,974	(10.2)	12,001	(6.8)	15,718	(4.2)
State income taxes, net of federal benefit	(2,997)	2.8	(6,469)	3.7	(14,195)	3.8
Impact of IRS audit	(9,687)	9.0	—	—	—	—
Restructuring adjustment	(18,694)	17.4	—	—	—	—
Tax credits	(5,996)	5.6	(9,957)	5.6	(12,992)	3.5
Permanent tax adjustments	3,786	(3.5)	—	—	—	—
Other	528	(0.6)	1,681	(1.0)	240	(0.1)
Income tax provision at effective tax rate	$1,359	(1.3)%	$6,486	(3.7)%	$43,829	(11.7)%

The negative effective tax rate of 1.3% for 2018 resulted from a benefit related to the conclusion of the IRS audit and a benefit related to the set up and current year activity of disregarded entities (foreign branches) for United States tax purposes, all offset by the valuation allowance on United States federal and state net deferred tax assets and a shortfall tax impact from stock-based compensation. The negative effective tax rate of 3.7% for 2017 resulted from a significant benefit on pre-tax book losses, offset by the valuation allowance on United States federal and state net deferred tax assets and by income taxes paid at lower rates in profitable foreign jurisdictions (primarily wholly owned subsidiaries in Europe). In addition, due to the United States enactment of the Tax Cuts and Jobs Act (TCJA), United States deferred tax assets were revalued by $73.4 million at the statutory rate of 21% effective January 1, 2018, with a corresponding and equivalent valuation allowance adjustment. Overall, the provision for income taxes in each period has differed from the tax computed at United States federal statutory tax rates due to changes in the valuation allowance, the effect of non-United States operations, deductible and non-deductible stock-based compensation expense, states income taxes, United States research and development tax credits and other adjustments.

The lower negative effective tax rate of 3.7% for 2017 compared to the negative effective tax rate of 11.7% for 2016 resulted from a significant benefit on pre-tax book losses, offset by the establishment of a valuation allowance on all United States federal and state net deferred tax assets and by income taxes paid at lower rates in profitable foreign jurisdictions (primarily wholly owned subsidiaries in Europe). The provision for income taxes in each period has differed from the tax computed at United States federal statutory tax rates due to changes in the valuation allowance, the effect of non-United States operations, deductible and non-deductible stock-based compensation expense, states taxes, United States research and development tax credits, and other adjustments.

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities were as follows:

	Year ended December 31,	
(in thousands)	2018	2017
Deferred tax assets:		
Net operating loss carryforwards	$166,281	$121,952
Tax credit carryforwards	70,189	66,983
Stock-based compensation	6,414	13,055
Allowance for returns	3,147	5,452
Intangible assets	4,591	770
Depreciation and amortization	609	—
Accruals and reserves	20,975	18,981
Total deferred tax assets	272,206	227,193
Valuation allowance	(271,374)	(226,458)
Total deferred tax assets, net of valuation allowance	832	735
Deferred tax liabilities:		
Depreciation and amortization	—	(292)
Total deferred tax liabilities	—	(292)
Net deferred tax assets	$832	$443

Recognition of deferred tax assets is appropriate when the realization of such assets is more likely than not. Based upon the weight of available evidence, the Company believes it is not more likely than not that the United States deferred tax assets will be realized. Accordingly, a valuation allowance has been established and maintained against United States deferred tax assets. The remaining deferred tax asset balances at December 31, 2018 reflect foreign deferred tax assets in each jurisdiction and are supported by taxable income or in the case of acquired companies, by the future reversal of deferred tax liabilities. It is more likely than not that a significant portion of the Company's foreign deferred tax assets will be realized and thus, only a $0.3 million valuation allowance is required on its foreign deferred tax assets. The Company will continue to assess the realizability of the deferred tax assets in each of the applicable jurisdictions going forward. The Company's valuation allowance increased by $44.9 million to $271.4 million as of December 31, 2018, primarily due to $21.0 million of set up of net beginning deferred assets of the disregarded entities (foreign branches) for United States tax purposes, current year deferred movement primarily on the United States deferred tax assets of $14.9 million, IRS audit related adjustments of $7.2 million, adoption of new accounting standards adjustments of $2.1 million, and other deferred movements on deferred tax assets of negative $0.3 million.

As of December 31, 2018, the Company's federal, California and other state net operating loss carryforwards for income tax purposes were $639.6 million, $229.8 million and $251.9 million, net of reserves, respectively. Also, the Company's federal and California state tax credit carryforwards were $40.7 million and $37.4 million, net of reserves, respectively. If not utilized, federal losses that arose before 2018, federal credit and California loss carryforwards will begin to expire from 2030 to 2038, while other state loss carryforwards will begin to expire from 2019 to 2038. Federal losses that arose in 2018 and will arise in subsequent years, and California tax credits will be carried forward indefinitely.

Under the provisions of §382 of the Internal Revenue Code, a change of control may impose an annual limitation on the amount of the Company's net operating loss and tax credit carryforwards that can be used to reduce future tax liabilities. Of the Company's total $639.6 million federal net operating loss carryforwards, approximately $8.1 million was from one of the Company's acquisitions in 2016. These acquired tax attributes are subject to an annual limitation of $1.7 million per year for federal purposes and will begin to expire in the year 2034, if not utilized.

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Uncertain income tax positions. The Company had gross unrecognized tax benefits of $32.6 million, $58.6 million and $56.9 million, as of December 31, 2018, 2017 and 2016, respectively. For fiscal year 2018, 2017 and 2016, total unrecognized income tax benefits were $17.3 million, $19.8 million and $24.1 million, respectively, and if recognized, would reduce income tax expense after considering the impact of the change in the valuation allowance in the United States. A material portion of the Company's gross unrecognized tax benefits, if recognized, would increase the Company's net operating loss carryforward, which would be offset by a full valuation allowance based on present circumstances.

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 United States trial and appellate court decisions, which remain subject to appeal and therefore could be overturned in future periods. Although the completion, settlement and closure of any audits are uncertain, it is reasonably possible that the total amount of unrecognized tax benefits will not materially change 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.

A reconciliation of the beginning and ending amount of gross unrecognized income tax benefits are as follows:

	Year ended December 31,		
(in thousands)	2018	2017	2016
Balance at January 1	$58,584	$56,909	$36,273
Increase related to current year tax positions	483	20,002	20,594
Decrease related to tax rate change for current year tax positions	—	(2,299)	—
Increase related to prior year tax positions	445	—	130
Decrease related to prior year tax positions	(26,956)	(3,927)	(88)
Decrease related to tax rate change for prior year tax positions	—	(12,101)	—
	$32,556	$58,584	$56,909

The Company's policy is to account for interest and penalties related to income tax liabilities within the provision for income taxes. The balances of accrued interest and penalties recorded in the balance sheets and provision were not material for any period presented.

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

In 2018, the Company liquidated its Cayman Islands entity and elected to treat its wholly-owned foreign subsidiaries as disregarded entities (foreign branches) and include them in the United States consolidated tax group. As of December 31, 2018, the Company continues to assert indefinite reinvestment to the extent of any foreign withholding taxes on the undistributed earnings related to these foreign branches. Any foreign withholding tax on these earnings is deemed not to be material.

United States Tax Reform. The Tax Cuts and Job Act (TCJA) of 2017, enacted on December 22, 2017, contained significant changes to the United States tax law, including lowering the United States corporate income tax rate to 21%, implementing a territorial tax system, and imposing a one-time tax on deemed repatriated earnings of foreign subsidiaries.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of United States GAAP in situations when a registrant did not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA.

GoPro, Inc.
Notes to Consolidated Financial Statements

The TCJA reduced the United States statutory tax rate from 35% to 21%, effective January 1, 2018. During the three months ended December 31, 2017, the Company recorded a $73.4 million tax expense representing the detriment of remeasuring its United States deferred tax assets at the lower 21% statutory tax rate, as well as a corresponding valuation allowance for the same amount resulting in no impact to the Company's statement of operations.
The TCJA also implemented a territorial tax system. Under the territorial tax system, in general, the Company's foreign earnings will no longer be subject to tax in the United States. As part of transitioning to the territorial tax system the TCJA included a mandatory deemed repatriation of all undistributed foreign earnings that were subject to United States income tax. On December 31, 2017, the Company concluded that the deemed repatriation would not result in any additional United States income tax due to an overall accumulated foreign deficit.
As of December 31, 2018, the Company completed accounting for all of the enactment date income tax effects of the TCJA and determined that there were no material adjustments in the three and twelve months ended December 31, 2018.
While the TCJA provides for a territorial tax system, beginning in 2018, it includes two new United States tax base erosion provisions, the global intangible low-taxed income (GILTI) provisions and the base-erosion and anti-abuse tax (BEAT) provisions. As of December 31, 2018, the Company has determined that these provisions did not have a tax impact on the Company in 2018.

10. Related party transactions
The Company incurred costs for Company-related chartered aircraft fees for the use of the CEO's private plane. The Company recorded a de minimis expense in 2018, and $0.1 million and $0.5 million in 2017 and 2016, respectively. As of December 31, 2018 and 2017, the Company had zero accounts payable associated with these aircraft fees.
In 2016, 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 $0.1 million in 2018, zero in 2017, and $0.4 million in 2016. As of December 31, 2018 and 2017, the Company had $0.1 million and zero in accounts payable, respectively, associated with this vendor.
See Note 7 Employee benefit plans for information regarding CEO RSUs.

11. Commitments, contingencies and guarantees

(in thousands)	Total	2019	2020	2021	2022	2023	Thereafter
Operating leases (1)	$107,817	$14,845	$17,654	$17,763	$17,552	$17,052	$ 22,951
Sponsorship commitments (2)	4,018	3,906	112	—	—	—	—
Other contractual commitments (3)	2,447	2,229	114	104	—	—	—
Long-term debt (4)	175,000	—	—	—	175,000	—	—
Total contractual cash obligations	$289,282	$20,980	$17,880	$17,867	$192,552	$17,052	$ 22,951

(1) The Company leases its facilities under long-term operating leases, which expire at various dates through 2027.
(2) The Company enters into multi-year sponsorship agreements with event organizers, resorts and athletes as part of its marketing efforts.
(3) The Company enters into other contractual commitments, including software licenses related to the Company's financial and IT systems which require payments over several years.
(4) The Company's convertible senior notes are due April 2022. Refer to Note 5 Financing Arrangements.
In 2017 and 2016, the Company entered into sub-lease agreements for its office facilities that decreased the Company's total future minimum lease payments by sub-lease rentals of approximately $0.9 million which approximates the corresponding remaining lease rentals.
Rent expense was $13.6 million, $19.1 million and $19.8 million for 2018, 2017 and 2016, respectively.

GoPro, Inc.
Notes to Consolidated Financial Statements

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 I, Item 3 Legal Proceedings, of this Annual Report on Form 10-K. 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 December 31, 2018, the Company has not paid any claims nor has it been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations.

12. Concentrations of risk and geographic information
Customer concentration. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables. The Company believes that credit risk for accounts receivable is mitigated by the Company's credit evaluation process, relatively short collection terms and dispersion of its customer base. The Company generally does not require collateral and losses on trade receivables have historically been within management's expectations.
Customers who represented 10% or more of the Company's net accounts receivable balance were as follows:

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

* Less than 10% of net accounts receivable for the period indicated.
The following table summarizes the Company's accounts receivables sold, without recourse, and factoring fees paid:

	Year ended December 31,		
(in thousands)	2018	2017	2016
Accounts receivable sold	$126,220	$178,300	$167,769
Factoring fees	1,639	1,630	1,266

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

	Year ended December 31,		
	2018	2017	2016
Customer A	13%	15%	17%
Customer B	*	*	11%

Supplier concentration. The Company relies on third parties for the supply and manufacture of its products, some of which are sole-source suppliers. The Company believes that outsourcing manufacturing enables greater scale and flexibility. As demand and product lines change, the Company periodically evaluates the need and advisability of adding manufacturers to support its operations. In instances where a supply and manufacture agreement does not exist or suppliers fail to perform their obligations, the Company may be unable to find

GoPro, Inc.
Notes to Consolidated Financial Statements

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)	Year ended December 31, 2018	2017	2016	2018 vs 2017 % Change	2017 vs 2016 % Change
Americas	$498,633	$591,879	$619,784	(16)%	(5)%
Europe, Middle East and Africa (EMEA)	366,037	334,872	366,352	9	(9)
Asia and Pacific (APAC)	283,667	252,990	199,345	12	27
Total revenue	$1,148,337	$1,179,741	$1,185,481	(3)%	— %

Revenue in the United States, which is included in the Americas geographic region, was $423.0 million, $528.7 million and $554.9 million for 2018, 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 December 31, 2018 and 2017, long-lived assets, which represent net property and equipment, located outside the United States, primarily in Hong Kong and Mainland China, were $15.9 million and $28.1 million, respectively.

13. Restructuring charges

Restructuring charges for each period were as follows:

(in thousands)	Year ended December 31, 2018	2017	2016
Cost of revenue	$1,379	$634	$497
Research and development	12,794	10,092	17,197
Sales and marketing	5,291	7,047	12,064
General and administrative	3,279	2,519	13,331
Total restructuring charges	$22,743	$20,292	$43,089

GoPro, Inc.
Notes to Consolidated Financial Statements

First quarter 2018 restructuring plan

On January 2, 2018, the Company approved a restructuring plan to further reduce future operating expenses and better align resources around its long-term business strategy. The restructuring provided for a reduction of the Company's global workforce of approximately 18%, the closure of the Company's aerial group and the consolidation of certain leased office facilities. Under the first quarter 2018 restructuring plan, the Company recorded restructuring charges of $17.8 million, including $14.1 million related to severance and $3.7 million related to other charges.

The following table provides a summary of the Company's restructuring activities and the related liabilities recorded in accrued liabilities on the consolidated balance sheet under the first quarter 2018 restructuring plan.

(in thousands)	Severance	Other	Total
Restructuring liability as of December 31, 2017	$ —	$—	$—
Restructuring charges	14,107	3,686	17,793
Cash paid	(12,460)	(1,988)	(14,448)
Non-cash reductions	(528)	(1,299)	(1,827)
Restructuring liability as of December 31, 2018	$ 1,119	$399	$1,518

First quarter 2017 restructuring plan

On March 15, 2017, the Company approved a restructuring plan to reduce future operating expenses and further align resources around its long-term business strategy. The restructuring provided for a reduction of the Company's global workforce by approximately 17% and the consolidation of certain leased office facilities. Under the first quarter 2017 restructuring plan, the Company recorded restructuring charges of $21.7 million, including $10.3 million related to severance, and $11.4 million related to accelerated depreciation and other charges. The actions associated with the first quarter 2017 restructuring plan were substantially completed by the fourth quarter of 2017. The restructuring charges recorded in 2018 are due to updated estimates as it relates to the consolidation of certain leased office facilities.

The following table provides a summary of the Company's restructuring activities and the related liabilities recorded in accrued liabilities on the consolidated balance sheet under the first quarter 2017 restructuring plan.

(in thousands)	Severance	Other	Total
Restructuring liability as of December 31, 2016	$ —	$—	$—
Restructuring charges	10,312	6,654	16,966
Cash paid	(9,509)	(151)	(9,660)
Non-cash reductions	(803)	(2,953)	(3,756)
Restructuring liability as of December 31, 2017	—	3,550	3,550
Restructuring charges	—	4,783	4,783
Cash paid	—	(3,293)	(3,293)
Non-cash charges	—	627	627
Restructuring liability as of December 31, 2018	$ —	$5,667	$5,667

Fourth quarter 2016 restructuring plan

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

GoPro, Inc.
Notes to Consolidated Financial Statements

The following table provides a summary of the Company's restructuring activities and the related liabilities recorded in accrued liabilities on the consolidated balance sheet under the fourth quarter 2016 restructuring plan.

(in thousands)	Severance	Other	Total
Restructuring liability as of December 31, 2015	$ —	$ —	$ —
Restructuring charges	18,893	879	19,772
Cash paid	(8,440)	—	(8,440)
Non-cash settlements	(793)	—	(793)
Restructuring liability as of December 31, 2016	9,660	879	10,539
Restructuring charges	2,134	1,055	3,189
Cash paid	(11,411)	(1,884)	(13,295)
Non-cash settlements	17	—	17
Restructuring liability as of December 31, 2017	400	50	450
Restructuring charges	143	—	143
Cash paid	(244)	—	(244)
Restructuring liability as of December 31, 2018	$ 299	$ 50	$ 349

First quarter 2016 restructuring plan

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

GoPro, Inc.
Notes to Consolidated Financial Statements

Schedule II
GoPro, Inc.
VALUATION AND QUALIFYING ACCOUNTS
For the year ended December 31, 2018, 2017 and 2016

(in thousands)	Balance at Beginning of Year	Charges to Revenue	Charges to Expense	Charges to Other Accounts - Equity	Deductions/Write-offs	Balance at End of Year
Allowance for doubtful accounts receivable:						
Year ended December 31, 2018	$ 750	$ —	$ 199	$ —	$ (449)	$ 500
Year ended December 31, 2017	1,281	—	(263)	—	(268)	750
Year ended December 31, 2016	1,400	—	40	—	(159)	1,281
Allowance for sales returns:						
Year ended December 31, 2018	$ 26,758	$ 67,403	$ —	$ —	$ (81,061)	$ 13,100
Year ended December 31, 2017	20,038	55,274	—	—	(48,554)	26,758
Year ended December 31, 2016	26,280	35,136	—	—	(41,378)	20,038
Valuation allowance for deferred tax assets:						
Year ended December 31, 2018	$ 226,458	$ —	$ 42,772	$ 2,144	$ —	$ 271,374
Year ended December 31, 2017	110,433	—	(36,497)	152,522	—	226,458
Year ended December 31, 2016	8,555	—	101,878	—	—	110,433

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. Based on the evaluation of our disclosure controls and procedures as of December 31, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria established in “Internal Control - Integrated Framework” (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018. The effectiveness of the Company’s internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, recognizes that our disclosure controls and procedures or our internal control over financial reporting cannot prevent or detect all possible instances of errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Item 9B. Other Information

On February 13, 2019, as part of its annual compensation review process, our Compensation and Leadership Committee (the Committee) approved an Executive Severance Policy (the Policy), to be immediately effective. Subject to executing a written agreement agreeing to the terms and conditions of the Policy, the participants in the Policy (individually, a Participant and collectively, Participants) are certain senior leadership team members (other than our Chief Executive Officer), and other employees as may be designated by our Board or the Committee. As of February 13, 2019, the Committee designated the following named executive officers for the fiscal year ended December 31, 2018 as Participants: Sandor Barna, Brian McGee and Eve Saltman. The Policy is administered by our Board or the Committee.

If a Participant undergoes a Qualifying Termination (as defined in the Policy), and executes an irrevocable general release of claims in favor of the Company within 60 days following a Participant's Qualifying Termination, we will provide the Participant the following severance benefits in addition to the compensation and benefits earned by the Participant but not yet paid by us through the date of Termination:

Cash Severance. We will pay the Participant a cash lump sum equal to 12 months of the Participant's base salary (less applicable deductions and withholding), as in effect immediately prior to the Participant's Termination (as defined in the Policy) by the Company or, in the case of voluntary Termination by the Participant with Good Reason (as defined in the Policy), immediately prior to the occurrence of the event constituting Good Reason.

COBRA Payments. Subject to the Participant timely electing coverage in accordance with the requirements of COBRA, we will continue to pay the employer portions of such insurance premiums for the Participant and/or his or her eligible dependents, as applicable, for up to 12 months following the Participant's Termination. Such COBRA subsidies will cease if a Participant becomes eligible for comparable group medical, dental and/or vision insurance coverage under the plan(s) of a subsequent employer or if the Participant otherwise ceases to receive COBRA coverage under our plan(s) before the end of the aforementioned 12-month period.

If the Participant is or becomes eligible to receive any other cash severance benefits from us comparable to those described in the paragraph above under "Cash Severance", including in a "double-trigger" arrangement in connection with a change in control or other liquidity event of the Company, then the amounts of such comparable cash severance benefits will be such that the Participant receives the greater of the payments under the Policy or such other arrangement.

Finally, Participants will agree that, during the six-month period following their cessation of employment, (1) they will cooperate with us in every reasonable respect, and will use their best efforts to assist us with the transition of their duties to their successors and (2) they will not in any way or by any means disparage the company, the members of our board or our officers and employees.

The Policy is attached hereto as Exhibit 10.06 and is incorporated herein by reference. The foregoing summary is qualified entirely by reference to the full text of the Policy.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2019 Annual Meeting of Stockholders within 120 days after the end of the fiscal year ended December 31, 2018.

Item 11. Executive Compensation

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2019 Annual Meeting of Stockholders within 120 days after the end of the fiscal year ended December 31, 2018.

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

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2019 Annual Meeting of Stockholders within 120 days after the end of the fiscal year ended December 31, 2018.

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

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2019 Annual Meeting of Stockholders within 120 days after the end of the fiscal year ended December 31, 2018.

Item 14. Principal Accounting Fees and Services

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2019 Annual Meeting of Stockholders within 120 days after the end of the fiscal year ended December 31, 2018.

PART IV

Item 15. Exhibits, Financial Statement Schedules

1. Financial Statements

The financial statements filed as part of this report are listed in the "Index to Financial Statements" under Part II, Item 8 of this Form 10-K.

2. Financial Statement Schedules

The financial statement schedule filed in response to Part II, Item 8 and Part IV, Item 15(c) of this Form 10-K is listed under Part II, Item 8 on the Index to Consolidated Financial Statements.

3. Exhibit Listing

Exhibit Number	Exhibit Title	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.01	Restated Certificate of Incorporation of the Registrant, with Certificate of Change of Registered Agent and/or Registered Office					X
3.02	Amended and Restated Bylaws of the Registrant.	S-1	333-200038	3.02	November 10, 2014	
4.01	Form of Registrant's Class A common stock certificate.	S-1	333-196083	4.01	May 19, 2014	
10.01*	Form of Indemnity Agreement by and between the Registrant and each of its directors and executive officers.	S-1	333-196083	10.01	May 19, 2014	
10.02*	Form of Change in Control Severance Agreement.	S-1	333-196083	10.09	May 19, 2014	
10.03*	2010 Equity Incentive Plan, as amended, and form of stock option agreement and restricted stock unit agreement.	S-1	333-196083	10.02	May 19, 2014	
10.04*	2014 Equity Incentive Plan, as amended, and forms thereunder.	10-Q	001-36514	10.03	July 29, 2016	
10.05*	2014 Employee Stock Purchase Plan and forms thereunder.	S-1/A	333-196083	10.04	June 11, 2014	
10.06*	Executive Severance Policy.					X
10.07*	Employment Letter to Nicholas Woodman from the Registrant, dated June 2, 2014.	S-1/A	333-196083	10.16	June 11, 2014	
10.08*	Waiver Agreement dated January 1, 2018 by and between Nicholas Woodman and the Registrant.	10-K	001-36514	10.17	February 16, 2018	
10.09*	Offer Letter to Eve Saltman from the Registrant, dated March 7, 2018.	10-Q	001-36514	10.02	May 4, 2018	
10.10*	Offer Letter to Brian McGee from the Registrant, dated September 3, 2015.	10-K	001-36514	10.12	February 16, 2017	
10.11*	Offer Letter to Sandor Barna from the Registrant, dated July 8, 2015					X
10.12*	Officer Letter to Sandor Barna from the Registrant, dated February 12, 2018	10-Q	001-36514	10.01	May 4, 2018	
10.13	Office Lease Agreement, dated as of November 1, 2011, by and between Locon San Mateo, LLC and the Registrant, as amended, and other leases for the Registrant's headquarters.	S-1	333-196083	10.12	May 19, 2014	
10.14	Eighth amendment to Office Lease Agreement, by and between RAR2 - Clearview Business Park Owner QRS, LLC and the Registrant, dated February 24, 2016.	10-K	001-36514	10.15	February 16, 2017	

10.15	Ninth amendment to Office Lease Agreement, by and between RAR2 - Clearview Business Park Owner QRS, LLC and the Registrant, dated August 3, 2016.	10-K	001-36514	10.16	February 16, 2017	
10.16	Credit Agreement by and among Registrant, the Lenders party thereto and JPMorgan Chase Bank, N.A. dated March 25, 2016.	10-Q	001-36514	10.17	May 6, 2016	
10.17	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	
10.18	First Amendment, dated August 12, 2016, to Office Lease Agreement dated November 1, 2011, between the Company and RAR2-Clearview Business Park Owner, LLC.	10-Q	001-36514	10.02	August 4, 2017	
21.01	List of Subsidiaries.					X
23.01	Consent of Independent Registered Public Accounting Firm.					X
24.01	Power of Attorney (included on the signature page to this Annual Report on Form 10-K).					X
31.1	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
31.2	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
32.1‡	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					

* Indicates a management contract or compensatory plan.
‡ As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Annual Report on Form 10-K 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.

Item 16. Form 10-K Summary
None.

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:	February 15, 2019	By: /s/ Nicholas Woodman Nicholas Woodman Chief Executive Officer (Principal Executive Officer)
Dated:	February 15, 2019	By: /s/ Brian McGee Brian McGee Chief Financial Officer (Principal Financial Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Nicholas Woodman and Brian McGee, and each of them, as his true and lawful attorneys-in-fact, proxies and agents, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, proxies and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, proxies and agents, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
By: /s/ Nicholas Woodman Nicholas Woodman	Chief Executive Officer and Chairman (Principal Executive Officer)	February 15, 2019
By: /s/ Brian McGee Brian McGee	Chief Financial Officer (Principal Financial and Accounting Officer)	February 15, 2019
By: /s/ Kenneth Goldman Kenneth Goldman	Director	February 15, 2019
By: /s/ Peter Gotcher Peter Gotcher	Director	February 15, 2019
By: /s/ James Lanzone James Lanzone	Director	February 15, 2019
By: /s/ Tyrone Ahmad-Taylor Tyrone Ahmad-Taylor	Director	February 15, 2019
By: /s/ Alexander Lurie Alexander Lurie	Director	February 15, 2019
By: /s/ Susan Lyne Susan Lyne	Director	February 15, 2019
By: /s/ Frederic Welts Frederic Welts	Director	February 15, 2019
By: /s/ Lauren Zalaznick Lauren Zalaznick	Director	February 15, 2019