GoPro, Inc.
Form 10-Q
July 29, 2016

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

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from ________________ to ________________

Commission file number: 001-36514

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

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

(650) 332-7600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨	Non accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

As of June 30, 2016, 102,936,387 and 36,503,793 shares of Class A and Class B common stock were outstanding, respectively.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GoPro, Inc.
Condensed Consolidated Balance Sheets
(unaudited)

(in thousands, except par values)	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$163,512	$279,672
Marketable securities	115,688	194,386
Accounts receivable, net	65,016	145,692
Inventory	89,889	188,232
Prepaid expenses and other current assets	38,057	25,261
Total current assets	472,162	833,243
Property and equipment, net	66,525	70,050
Intangible assets, net	46,073	31,027
Goodwill	146,459	57,095
Other long-term assets	133,161	111,561
Total assets	$864,380	$1,102,976
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$63,642	$89,989
Accrued liabilities	151,102	192,446
Deferred revenue	11,605	12,742
Total current liabilities	226,349	295,177
Long-term liabilities	40,641	35,766
Total liabilities	266,990	330,943
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,102,936 and 100,596 shares issued and outstanding, respectively; 150,000 Class B shares authorized, 36,504 and 36,005 shares issued and outstanding, respectively	687,894	663,311
Treasury stock, at cost, 1,545 and 1,545 shares, respectively	(35,613)	(35,613)
Retained earnings (accumulated deficit)	(54,891)	144,335
Total stockholders’ equity	597,390	772,033
Total liabilities and stockholders’ equity	$864,380	$1,102,976

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

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

(in thousands, except per share data)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenue	$220,755	$419,919	$404,291	$783,028
Cost of revenue	127,753	225,579	251,575	424,955
Gross profit	93,002	194,340	152,716	358,073
Operating expenses:				
Research and development	93,049	58,453	170,028	107,890
Sales and marketing	84,888	63,494	164,337	119,863
General and administrative	24,442	26,255	49,163	61,914
Total operating expenses	202,379	148,202	383,528	289,667
Operating income (loss)	(109,377)	46,138	(230,812)	68,406
Other income (expense), net	660	122	353	(2,122)
Income (loss) before income taxes	(108,717)	46,260	(230,459)	66,284
Income tax expense (benefit)	(16,950)	11,229	(31,233)	14,501
Net income (loss)	$(91,767)	$35,031	$(199,226)	$51,783
Net income (loss) per share:				
Basic	$(0.66)	$0.26	$(1.44)	$0.39
Diluted	$(0.66)	$0.24	$(1.44)	$0.35
Weighted-average shares used to compute net income (loss) per share:				
Basic	138,942	133,150	138,243	132,716
Diluted	138,942	146,781	138,243	147,720

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

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

(in thousands)	Six months ended June 30, 2016	Six months ended June 30, 2015
Operating activities:		
Net income (loss)	$(199,226)	$51,783
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	17,804	11,791
Stock-based compensation	33,135	44,690
Excess tax benefit from stock-based compensation	(917)	(28,139)
Deferred income taxes	(13,494)	(6,656)
Other	1,162	2,956
Changes in operating assets and liabilities:		
Accounts receivable, net	80,699	65,562
Inventory	98,343	(66,045)
Prepaid expenses and other assets	(9,282)	(21,598)
Accounts payable and other liabilities	(85,492)	78,521
Deferred revenue	(1,457)	(724)
Net cash provided by (used in) operating activities	(78,725)	132,141
Investing activities:		
Purchases of property and equipment, net	(12,192)	(21,269)
Purchases of marketable securities	—	(112,326)
Maturities and sales of marketable securities	78,093	34,446
Acquisitions, net of cash acquired	(104,353)	(57,706)
Net cash used in investing activities	(38,452)	(156,855)
Financing activities:		
Proceeds from issuance of common stock, net	4,405	17,139
Excess tax benefit from stock-based compensation	917	28,139
Payment of deferred acquisition-related consideration	(950)	—
Payment of credit facility issuance costs	(3,221)	—
Payment of deferred public offering costs	—	(903)
Net cash provided by financing activities	1,151	44,375
Effect of exchange rate changes on cash and cash equivalents	(134)	(1,559)
Net increase (decrease) in cash and cash equivalents	(116,160)	18,102
Cash and cash equivalents at beginning of period	279,672	319,929
Cash and cash equivalents at end of period	$163,512	$338,031

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

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

1. Summary of business and significant accounting policies
GoPro, Inc. (GoPro or the Company) makes mountable and wearable cameras and accessories. GoPro's products are sold globally through retailers, wholesale distributors and on the Company’s website. The Company's global corporate headquarters are located in San Mateo, California.
Basis of presentation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Company's fiscal year ends on December 31, and its fiscal quarters end on March 31, June 30, and September 30. The condensed consolidated financial statements reflect all adjustments (which are normal and recurring in nature) that management believes are necessary for the fair statement of the Company's financial statements, but are not necessarily indicative of the results expected for the full fiscal year or any other future period. The condensed consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements at that date, but does not include all of the disclosures required by GAAP. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K (Annual Report) for the year ended December 31, 2015. There have been no significant changes in the Company’s accounting policies from those disclosed in its Annual Report.
Principles of consolidation. These condensed consolidated financial statements include all the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.
Use of estimates. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the Company’s condensed consolidated financial statements and accompanying notes. Significant estimates and assumptions made by management include those related to revenue recognition (including sales returns, implied post contract support and marketing allowances), stock-based compensation, inventory valuation, product warranty liabilities, the valuation and useful lives of long-lived assets (property and equipment, intangible assets and goodwill) and income taxes. The Company bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from management's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations could be affected.
Comprehensive income (loss). For all periods presented, comprehensive income (loss) approximated net income (loss). Therefore, the condensed consolidated statements of comprehensive income (loss) have been omitted.
Prior period reclassifications. Reclassifications of certain prior period amounts in the condensed consolidated financial statements have been made to conform to the current period presentation.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

Recent accounting pronouncements

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
Standards that are not yet adopted			
Accounting Standards Update (ASU) No. 2014-09, 2016-08, 2016-10 and 2016-12, Revenue from Contracts with Customers (Topic 606)	In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09 to achieve a consistent application of revenue recognition within the United States, resulting in a single revenue model to be applied by reporting companies under GAAP. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard requires that entities disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued ASU No. 2016-08, which clarifies the implementation guidance for principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, which amends the new standard related to identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU No. 2016-12, which clarifies three aspects including the objective of the collectibility criterion, the measurement date for noncash consideration and the requirements for a completed contract. The new standards may be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption.	January 1, 2018	The Company is evaluating the impact that the adoption of these standards will have on its consolidated financial statements and related disclosures. The Company has not determined whether the effect will be material to its revenue results.
ASU No. 2016-02, Leases (Topic 842)	This standard requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. Lessees would recognize a right-to-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The new standard should be applied on a modified retrospective basis.	January 1, 2019	The Company is evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.
ASU No. 2016-09, Stock Compensation (Topic 718)	This standard simplifies certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification on the statement of cash flows. The new guidance also allows an entity to make a policy election to account for forfeitures as they occur. Early adoption is permitted for an entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that	January 1, 2017	The Company is evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

	elects early adoption must adopt all of the amendments in the same period.		
Accounting Standards Update (ASU) No. 2016-13, Credit Losses (Topic 326)	The standard requires that entities use a new forward looking "expected loss" model that generally will result in the earlier recognition of allowance for credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount.	January 1, 2020	The Company is evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

Standards that were adopted

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GoPro, Inc.
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ASU No. 2015-03 and ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30)	ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. ASU 2015-15 clarified ASU 2015-03 in that fees related to line-of-credit arrangements should continue to be presented as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement.	January 1, 2016	The adoption of these standards did not have a material impact on the Company's consolidated financial statements.

2. Business Acquisitions

During the six months ended June 30, 2016, the Company completed acquisitions of two privately-held mobile editing application companies for 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. Goodwill is primarily attributable to expected synergies in the technologies that can be leveraged by the Company in future software related offerings. Goodwill is not expected to be deductible for U.S. income tax purposes. The operating results of the acquired companies have been included in the Company's condensed consolidated financial statements for the six months ended June 30, 2016 from the date of acquisition.

The acquired companies are headquartered in Austin, Texas and Paris, France. In addition to the amounts above, aggregate deferred cash and stock compensation of up to approximately $37 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. Actual and pro forma results of operations for these acquisitions have not been presented because they do 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:

	June 30, 2016			December 31, 2015		
(in thousands)	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash equivalents [1]:						
Money market funds	$36,724	$—	$36,724	$51,059	$—	$51,059
Total cash equivalents	$36,724	$—	$36,724	$51,059	$—	$51,059
Marketable securities:						
U.S. agency securities	$—	$13,391	$13,391	$—	$14,451	$14,451
Commercial paper	—	—	—	—	2,197	2,197
Corporate debt securities	—	96,165	96,165	—	165,825	165,825
Municipal securities	—	6,132	6,132	—	11,913	11,913
Total marketable securities	$—	$115,688	$115,688	$—	$194,386	$194,386

[1] Included in “cash and cash equivalents” in the accompanying condensed consolidated balance sheets. Cash balances were $126.8 million and $228.6 million as of June 30, 2016 and December 31, 2015, respectively.

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. At June 30, 2016 and December 31, 2015, 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. There were no transfers of financial assets between levels during the six months ended June 30, 2016.

GoPro, Inc.
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The remaining contractual maturities of available-for-sale marketable securities are as follows:

(in thousands)	June 30, 2016	December 31, 2015
Less than one year	$90,612	$ 122,199
Greater than one year but less than two years	25,076	72,187
Total	$115,688	$ 194,386

At June 30, 2016 and December 31, 2015, the amortized cost of the Company's cash equivalents and marketable securities approximated their fair value and there were no material unrealized gains or losses, either individually or in the aggregate.

For certain other financial assets and liabilities, including accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these balances.

4. Condensed consolidated financial statement details

The following sections and tables provide details of selected balance sheet items.

Inventory

(in thousands)	June 30, 2016	December 31, 2015
Components	$8,190	$ 9,476
Finished goods	81,699	178,756
Total inventory	$89,889	$ 188,232

Property and equipment, net

(in thousands)	June 30, 2016	December 31, 2015
Leasehold improvements	$42,369	$ 40,841
Production, engineering and other equipment	26,957	25,174
Tooling	20,156	19,537
Computers and software	15,971	14,581
Furniture and office equipment	12,006	11,389
Construction in progress	6,528	4,632
Tradeshow equipment and other	6,448	4,136
Gross property and equipment	130,435	120,290
Less: Accumulated depreciation and amortization	(63,910)	(50,240)
Property and equipment, net	$66,525	$ 70,050

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Notes to Condensed Consolidated Financial Statements

In June 2016, the Company committed to a plan to vacate and sublet certain leased office facilities that are auxiliary to our main headquarters. Changes in estimated useful life of associated leasehold improvements and office equipment are expected to result in accelerated depreciation expense of approximately $7 million over the next 13 months, including approximately $4 million in the third quarter of 2016 and approximately $3 million ratably over the remaining period.

Intangible assets and goodwill

	June 30, 2016		
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value
Purchased technology	$48,184	$ (12,486)	$35,698
In-process research and development (IPR&D)	10,375	—	10,375
Total intangible assets	$58,559	$ (12,486)	$46,073

	December 31, 2015		
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value
Purchased technology	$32,952	$ (8,540)	$24,412
IPR&D	6,615	—	6,615
Total intangible assets	$39,567	$ (8,540)	$31,027

Purchased technology acquired in 2016 has an estimated useful life of four years. As of June 30, 2016, technological feasibility has not been established for IPR&D assets, which have no alternative future use and, as such, continue to be accounted for as indefinite-lived intangible assets.

Amortization expense was $3.9 million and $1.2 million in the six months ended June 30, 2016 and 2015, respectively. At June 30, 2016, the expected amortization expense of amortizable intangible assets for future periods is as follows:

(in thousands)	Total
Year ending December 31,	
2016 (remaining 6 months)	$5,075
2017	9,388
2018	8,452
2019	7,669
2020	4,244
Thereafter	870
	$35,698

The carrying amount of goodwill was $146.5 million and $57.1 million as of June 30, 2016 and December 31, 2015, respectively. The increase in 2016 was entirely attributable to the acquisitions described above in Note 2.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

Accrued liabilities

(in thousands)	June 30, 2016	December 31, 2015
Accrued payables	$70,083	$ 64,831
Excess purchase order commitments	12,172	38,477
Accrued sales incentive	20,020	29,298
Employee related liabilities	25,590	26,491
Warranty liability	8,594	10,400
Customer deposits	4,127	8,877
Income taxes payable	3,070	7,536
Other	7,446	6,536
Accrued liabilities	$151,102	$ 192,446

5. Financing Arrangements

In March 2016, the Company entered into a Credit Agreement (Credit Agreement) with JPMorgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, National Association, as co-agent, and the lender parties thereto. The Credit Agreement provides for a secured revolving credit facility (Credit Facility) under which the Company may borrow up to an aggregate of $250 million and the Company and lenders may increase the total commitments under the Credit Facility to up to $300 million, subject to certain conditions. The Credit Facility will terminate, and all outstanding borrowings become due and payable, in March 2021.

The amount that may be borrowed under the Credit Facility is based upon a borrowing base formula with respect to the Company’s inventory and accounts receivable balances. Borrowed funds accrue interest, at the Company’s election, based on an annual rate of (a) London Interbank Offered Rate (LIBOR) or (b) the administrative agent’s base rate, plus an applicable margin of between 1.50% and 2.00% for LIBOR rate loans, and between 0.50% and 1.00% for base rate loans, depending on the level of utilization of the Credit Facility. 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 owing under the Credit Agreement and related credit documents are guaranteed by the Company and its material subsidiaries. The Company and its U.S., Cayman and Netherlands subsidiaries have also granted security interests in substantially all of their assets to collateralize these obligations.

The Credit Agreement contains customary affirmative covenants, such as financial statement reporting requirements and delivery of borrowing base certificates, as well as customary covenants that limit the ability of the Company and its subsidiaries to, among other things, pay dividends, 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 contains customary events of default, such as the failure to pay obligations when due, initiation of bankruptcy or insolvency proceedings, defaults on certain other indebtedness, change of control or breach of representations and warranties or covenants. 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.

As of June 30, 2016, the Company may borrow up to approximately $82 million under the Credit Facility. No borrowings have been made from the Credit Facility to date. As of June 30, 2016, the Company was in compliance with all financial covenants contained in the Credit Agreement.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

6. Stockholders' equity
Stock repurchase program. On September 30, 2015, the Company's board of directors authorized a program to repurchase up to $300 million of the Company's Class A common stock. The repurchase program, which expires in September 2016, does not obligate the Company to acquire any specific number of shares and may be discontinued or extended at any time by the board of directors. Share repurchases under the program may be made from time-to-time through open market transactions, block trades, privately negotiated transactions or otherwise, including under plans complying with both Rule 10b-18 and Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. At June 30, 2016 and December 31, 2015, the Company had a remaining share repurchase authorization of $264.4 million. The Company has recorded its repurchased shares as treasury stock.
CEO stock contributions. In the first six months of 2015, the CEO contributed an aggregate 5.2 million shares of Class B common stock to the Company without consideration per the terms of a Contribution Agreement dated December 28, 2011, and amended on May 11, 2015, representing all of the then remaining shares subject to the contribution obligations. These shares contributed by the CEO were retired during 2015. Refer to the audited financial statements contained in the Company's 2015 Annual Report.

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

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. Options granted under the 2014 Plan generally expire within 10 years from the date of grant and generally vest over four years. Restricted stock units (RSUs) granted under the 2014 Plan generally vest annually over a four year period based upon continued service and are settled at vesting in shares of the Company's Class A common stock. The ESPP allows eligible employees to purchase shares of the Company's Class A common stock through payroll deductions at a price equal to 85% of the lesser of the fair market value of the stock as of the first date or the ending date of each six month offering period. For additional information regarding the Company's equity incentive plans, please refer to the audited financial statements contained in its 2015 Annual Report.
Stock options
A summary of the Company’s stock option activity for the six months ended June 30, 2016 and related information is as follows:

	Options outstanding			
	Shares (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2015:	13,081	$ 11.82	6.70	$ 108,846
Granted	2,405	11.16		
Exercised	(947)	1.56		
Forfeited/Cancelled	(820)	18.67		
Outstanding at June 30, 2016:	13,719	$ 12.01	6.57	$ 49,301
Exercisable at June 30, 2016	8,230	$ 8.28	5.64	$ 48,772
Vested and expected to vest at June 30, 2016	13,427	$ 11.90	6.53	$ 49,267

The aggregate intrinsic value of the stock options outstanding as of June 30, 2016 represents the value of the Company's closing stock price on June 30, 2016 in excess of the exercise price multiplied by the number of options outstanding.
Restricted stock units
A summary of the Company’s RSU activity for the six months ended June 30, 2016 is as follows:

	Shares (in thousands)	Weighted- average grant date fair value
Non-vested shares at December 31, 2015	4,638	$ 32.15
Granted	5,672	11.58
Vested	(715)	22.01
Forfeited	(814)	25.08
Non-vested shares at June 30, 2016	8,781	$ 20.35

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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 service-based vesting condition. The market-based condition was achieved in January 2015. Stock-based compensation expense related to the CEO RSUs was $4.2 million and $21.8 million for the six months ended June 30, 2016 and 2015, respectively.

Employee stock purchase plan (ESPP)

In the six months ended June 30, 2016 and 2015, the Company issued 431,673 and 313,233 shares under its ESPP at weighted average prices of $8.76 and $20.40, respectively. The weighted-average fair value of each right to purchase shares of the Company's Class A common stock granted under the ESPP for these periods was $3.49 and $16.56, respectively.

Stock-based compensation expense

The Company measures compensation expense for all stock-based payment awards based on the estimated fair values on the date of the grant. The fair value of stock options granted and ESPP issuances is estimated using the Black-Scholes option pricing model. The fair value of RSUs is determined using the Company's closing stock price on the date of grant. There have been no significant changes in the Company’s valuation assumptions from those disclosed in its 2015 Annual Report. The following table summarizes stock-based compensation included in the condensed consolidated statements of operations:

(in thousands)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Cost of revenue	$412	$350	$769	$633
Research and development	7,086	3,710	13,096	7,245
Sales and marketing	3,679	2,932	6,883	5,998
General and administrative	6,227	11,197	12,387	30,814
Total stock-based compensation expense, before income taxes	17,404	18,189	33,135	44,690
Total tax benefit recognized	(5,386)	(6,240)	(10,150)	(15,544)
Total stock-based compensation expense, net of income taxes	$12,018	$11,949	$22,985	$29,146

At June 30, 2016, there was total unearned stock-based compensation of $169.4 million related to stock options, RSUs and ESPP, which is expected to be recognized over a weighted average period of 2.9 years.

8. Net income (loss) per share

Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding, including all potentially dilutive common shares.

The rights of the holders of Class A 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.

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Undistributed earnings are allocated based on the contractual participation rights of Class A and Class B common stock as if the earnings for the year have been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. The computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of Class B common stock.
The following table presents the calculations of basic and diluted net income (loss) per share:

(in thousands, except per share data)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Numerator:				
Net income (loss)	$(91,767)	$35,031	$(199,226)	$51,783
Denominator:				
Weighted-average common shares—basic for Class A and Class B common stock	138,942	133,150	138,243	132,716
Effect of potentially dilutive shares	—	13,631	—	15,004
Weighted-average common shares—diluted for Class A and Class B common stock	138,942	146,781	138,243	147,720
Net income (loss) per share:				
Basic	$(0.66)	$0.26	$(1.44)	$0.39
Diluted	$(0.66)	$0.24	$(1.44)	$0.35

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

(in thousands)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Stock options, ESPP shares and RSUs	21,391	1,814	19,848	1,983

9. Income taxes
The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual tax rate changes, a cumulative adjustment is made in that quarter.

(dollars in thousands)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Income tax expense (benefit)	$(16,950)	$11,229	$(31,233)	$14,501
Effective tax rate	15.6 %	24.3 %	13.6 %	21.9 %

The Company recorded an income tax benefit of $17.0 million for the three months ended June 30, 2016 due to a pre-tax net loss, which resulted in an effective tax rate of 15.6%. The lower effective tax rates for the three and six months ended June 30, 2016 compared to 2015 resulted from the Company providing a net tax benefit on pre-tax losses in the United States, which was offset by income taxes paid at lower rates in profitable foreign jurisdictions (primarily Europe). The Company's provision for income taxes in each period has differed from the tax computed at U.S. federal statutory tax rates due to state taxes, the effect of non-U.S. operations, deductible and non-deductible

stock-based compensation expense, federal research and development tax credits, and adjustments to unrecognized tax benefits.

The Company is currently under examination by the Internal Revenue Service for the 2012 through 2014 tax years. The Company is not able to estimate the potential impact that the examination may have on income tax expense. If the examination is resolved unfavorably, there is a possibility it may have a material negative impact on the Company's results of operations. The California Franchise Tax Board has completed an examination for the 2011 and 2012 tax years and the effect on income tax expense was immaterial.

At June 30, 2016 and December 31, 2015, the Company’s gross unrecognized tax benefits was $51.4 million and $36.3 million, respectively. If recognized, $31.2 million of these unrecognized tax benefits (net of U.S. federal benefit) at June 30, 2016 would be recorded as a reduction of future income tax provision. These unrecognized tax benefits relate primarily to unresolved matters with taxing authorities regarding the Company’s transfer pricing positions and tax positions based on the Company’s interpretation of certain U.S. trial and appellate court decisions, which remain subject to appeal and therefore could be overturned in future periods. The Company’s existing tax positions will continue to generate an increase in unrecognized tax benefits in subsequent periods. Management believes events that could occur in the next 12 months and cause a material change in unrecognized tax benefits include, but are not limited to, the completion of examinations by the U.S. or foreign taxing authorities and the expiration of statute of limitations on the Company's tax returns. Although the completion, settlement and closure of any audits is uncertain, it is reasonably possible that the total amount of unrecognized tax benefits will materially increase within the next 12 months. However, given the number of years remaining that are subject to examination, the range of the reasonably possible change cannot be estimated reliably.

10. Related parties

The Company has agreements for certain contract manufacturing and engineering services with a vendor affiliated with one of the Company's investors. The Company recorded no expense and $0.2 million in the six months ended June 30, 2016 and 2015, respectively, for services rendered. As of June 30, 2016 and December 31, 2015, the Company had no accounts payable associated with this vendor.

The Company incurs costs for Company-related chartered aircraft fees for the use of the CEO’s private plane. The Company recorded expense of $0.6 million and $0.7 million in the six months ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and December 31, 2015, the Company had accounts payable associated with this vendor of zero and $0.1 million, respectively.

In 2013, the Company entered into a three-year agreement, which was amended in July 2016 to continue through the end of 2016, with a company affiliated with the son of one of the members of the Company's board of directors to acquire certain naming rights to a kart racing facility. As consideration for these naming rights, the Company would pay a total of $0.5 million over the three year period. As of June 30, 2016, the Company has recorded cumulative expense of $0.5 million, and has also provided 100 GoPro cameras at no cost each year.

See Notes 6 and 7 above for information regarding CEO RSUs and Class B common stock contributed by the CEO back to the Company.

11. Commitments, contingencies and guarantees

Facility Leases. The Company leases its facilities under long-term operating leases, which expire at various dates through 2027. As of December 31, 2015, the Company’s total future minimum lease payments under noncancelable operating leases were $152.2 million. In June 2016, the Company entered into a sub-lease agreement for one of its office facilities that decreased the Company’s total future minimum lease payments by sub-lease rentals of approximately $5 million, which approximates the corresponding remaining lease rentals. The Company has not entered into any new material lease commitments during the six months ended June 30, 2016. Rent expense was $9.8 million and $4.9 million for the six months ended June 30, 2016 and 2015, respectively.

Other Commitments. In the ordinary course of business, the Company also enters into multi-year agreements to purchase sponsorships with event organizers, resorts and athletes as part of its marketing efforts; software licenses

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related to its financial and IT systems; manufacturing equipment for tooling and molds; and various other contractual commitments. In May 2016, the Company entered into a 3.5 year agreement with Red Bull GmbH (Red Bull) that includes content production, distribution and cross-promotion. As part of the agreement, Red Bull will receive equity and cash consideration over the term of the agreement. During the second quarter of 2016, the Company issued unregistered restricted shares of its Class A common stock to Red Bull with a fair value of approximately $7 million. As of June 30, 2016 and December 31, 2015, the Company's total undiscounted future expected obligations under these multi-year agreements described above were approximately $67 million and $28.8 million, respectively. The increase in 2016 was primarily attributable to the Red Bull agreement described above and new software licenses unrelated to the Red Bull agreement.

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

Indemnifications. In the normal course of business, the Company enters into agreements that contain a variety of representations and warranties and provide for general indemnification. The Company’s exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. It is not possible to determine the maximum potential amount under these indemnification agreements due to the Company’s limited history with indemnification claims and the unique facts and circumstances involved in each particular agreement. As of June 30, 2016, the Company has not paid any claims or 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.

Product warranty

The following table summarizes the warranty liability activity:

(in thousands)	Three months ended	Six months ended
	June 30, 2016	