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

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

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from ________________ to ________________

Commission file number: 001-36514
GOPRO, INC.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one).

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

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 30, 2017, 107,841,904 and 36,867,151 shares of Class A and Class B common stock were outstanding, respectively.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

GoPro, Inc.
Condensed Consolidated Balance Sheets
(unaudited)

(in thousands, except par values)	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$149,755	$ 192,114
Marketable securities	—	25,839
Accounts receivable, net	95,872	164,553
Inventory	126,708	167,192
Prepaid expenses and other current assets	29,515	38,115
Total current assets	401,850	587,813
Property and equipment, net	71,833	76,509
Intangible assets, net	29,001	33,530
Goodwill	146,459	146,459
Other long-term assets	72,828	78,329
Total assets	$721,971	$ 922,640
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$76,208	$ 205,028
Accrued liabilities	151,317	211,323
Deferred revenue	15,036	14,388
Total current liabilities	242,561	430,739
Long-term taxes payable	20,865	26,386
Long-term debt	125,817	—
Other long-term liabilities	19,906	18,570
Total liabilities	409,149	475,695
Commitments, contingencies and guarantees (Note 8)		
Stockholders’ equity:		
Preferred stock, $0.0001 par value, 5,000 shares authorized; none issued	—	—
Common stock and additional paid-in capital, $0.0001 par value, 500,000 Class A shares authorized, 98,766 and 104,647 shares issued and outstanding, respectively; 150,000 Class B shares authorized, 36,867 and 36,712 shares issued and outstanding, respectively	827,382	757,226
Treasury stock, at cost, 10,710 and 1,545 shares, respectively	(113,613)	(35,613)
Accumulated deficit	(400,947)	(274,668)
Total stockholders’ equity	312,822	446,945
Total liabilities and stockholders’ equity	$721,971	$ 922,640

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

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

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

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

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

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

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

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

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

1. Summary of business and significant accounting policies

GoPro, Inc. (GoPro or the Company) makes mountable and wearable cameras, drones and accessories. The Company's products are sold globally through retailers, wholesale distributors and on the Company's website. The Company's global corporate headquarters are located in San Mateo, California.

Basis of presentation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Company's fiscal year ends on December 31, and its fiscal quarters end on March 31, June 30 and September 30. The condensed consolidated financial statements reflect all adjustments (which are normal and recurring in nature) that management believes are necessary for the fair statement of the Company's financial statements, but are not necessarily indicative of the results expected for the full fiscal year or any other future period. The condensed consolidated balance sheet at December 31, 2016 has been derived from the audited financial statements at that date, but does not include all the disclosures required by GAAP. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K (Annual Report) for the year ended December 31, 2016. There have been no significant changes in the Company's accounting policies from those disclosed in its Annual Report.

Principles of consolidation. These condensed consolidated financial statements include all the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of estimates. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the Company's condensed consolidated financial statements and accompanying notes. Significant estimates and assumptions made by management include those related to revenue recognition (including sales returns, implied post contract support and marketing allowances), stock-based compensation, inventory valuation, product warranty liabilities, the valuation and useful lives of long-lived assets (property and equipment, intangible assets and goodwill) and income taxes. The Company bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from management's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations could be affected.

Comprehensive income (loss). For all periods presented, comprehensive income (loss) approximated net income (loss). Therefore, the condensed consolidated statements of comprehensive income (loss) have been omitted.

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

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

Recent accounting standards

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
Standards that were adopted			
Stock Compensation Accounting Standards Update (ASU) No. 2016-09 (Topic 718)	This standard simplifies certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification on the statement of cash flows. The new guidance also allows an entity to make a policy election to account for forfeitures as they occur.	January 1, 2017	Adoption of the standard resulted in the recognition of previously unrecognized excess tax benefits using the modified retrospective method. The Company recorded an increase to U.S. deferred tax assets of $179 million which was recorded directly against accumulated deficit. The increased deferred tax asset allowed for an offset against long-term income tax payable of $16 million. A full valuation allowance was provided on the remaining U.S. deferred tax asset of $163 million, which was also recorded against accumulated deficit. The net impact to equity was a decrease in the accumulated deficit of approximately $16 million. The Company elected to apply the change in presentation to the statements of cash flows prospectively and elected to account for forfeitures as they occur.
Standards not yet adopted			
Revenue from Contracts with Customers ASU No. 2014-09, 2016-08, 2016-10 and 2016-12 (Topic 606)	The updated revenue standard establishes principles for recognizing revenue and develops a common revenue standard for all industries. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard requires that entities disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Early adoption is permitted, but not earlier than the first quarter of 2017. The retrospective or cumulative effect transition method is permitted.	January 1, 2018	The Company completed an initial analysis of the impact of the standard on its sales contract portfolio by reviewing its current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to its sales contracts. The Company's analysis of its contracts under the new standard supports the recognition of most of its revenue at the time product is shipped, consistent with its current revenue policy. Although the Company is continuing to review certain aspects of its policies and practices, it expects that, as a result of the adoption of the new guidance, the timing of recognizing certain sales incentives as a reduction of revenue will generally be earlier than under the existing guidance. (The Company recognized approximately $19 and $42 million as a reduction to revenue for such sales incentives for the first six months of 2017 and for the full year 2016, respectively.) The Company does not expect that the adoption of ASU 2014-09 will have a material impact to the quarterly or yearly sales incentives recognized. The Company expects to utilize the modified retrospective transition method.
Leases			

ASU No. 2016-02(Topic 842)	This standard requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. Lessees would recognize a right-to-use asset and lease liability for all leases with terms of more than 12 months. The new standard should be applied on a modified retrospective basis.	January 1, 2019	Although the Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures, the Company currently expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.
Income Taxes ASU No. 2016-16 (Topic 740)	This standard requires entities to recognize the income tax consequences of intra-entity asset transfers when they occur. This removes the exception to postpone recognition until the asset has been sold to an outside party. The updated standard is effective in annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted during the first interim period of a fiscal year.	January 1, 2018	The Company is evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

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Intangible - Goodwill and Other ASU No. 2017-04 (Topic 350)	This standard simplifies the accounting for goodwill and removes Step 2 of the annual goodwill impairment test. Upon adoption, goodwill impairment will be determined based on the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017, and requires a prospective transition method.	January 1, 2020	The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements and related disclosures.
Stock Compensation ASU No. 2017-09 (Topic 718)	This standard clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under this standard, modification is required only if the fair value, the vesting conditions, or the classification of an award as equity or liability changes as a result of the change in terms or conditions. The updated standard is effective in annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted.	January 1, 2018	The Company is evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

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

2. Condensed consolidated financial statement details
The following sections and tables provide details of selected balance sheet items.
Cash, cash equivalents and marketable securities

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

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

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

GoPro, Inc.
Notes to Condensed Consolidated Financial Statements

Property and equipment, net

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

Intangible assets

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

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

As of June 30, 2017, technological feasibility has not been established for the remaining IPR&D assets, which have no alternative future use and, as such, continue to be accounted for as indefinite-lived intangible assets.

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

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

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Accrued liabilities

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

(1) See Note 10 for amounts associated with restructuring liabilities.

3. Financing Arrangements

Credit Facility

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

The amount that may be borrowed under the Credit Facility is determined at periodic intervals and is based upon a borrowing base formula with respect to the Company's inventory and accounts receivable balances. For additional information regarding the credit facility, please refer to the audited financial statements contained in our Annual Report.

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

Convertible Notes

On April 12, 2017, the Company issued $175.0 million aggregate principal amount of 3.50% Convertible Senior Notes due 2022 (Notes) in a private offering to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended (Securities Act). The Notes were issued pursuant to an Indenture, dated as of April 12, 2017, between the Company and Wells Fargo Bank, National Association, as trustee (Wells Fargo). The Notes are senior, unsecured, obligations of GoPro. The Notes mature on April 15, 2022, unless earlier repurchased or converted into shares of Class A common stock under certain circumstances described below. The Notes are convertible into cash, shares of the Company's Class A common stock, or a combination thereof, at the Company's election, at an initial conversion rate of 94.0071 shares of Class A common stock per $1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately $10.64 per share of common stock, subject to adjustment. Upon conversion, the Company currently intends to deliver cash up to the principal amount of the Notes then outstanding. The Company will pay interest on the Notes semi-annually in arrears on April 15 and October 15 of each year with interest payments beginning on October 15, 2017.

The $175.0 million of proceeds received from the issuance of the Notes were allocated between long-term debt (the liability component) of $128.3 million and additional paid-in-capital (the equity component) of $46.7 million on the condensed consolidated balance sheet. The fair value of the liability component was measured using rates determined for similar debt instruments without a conversion feature. The carrying amount of the equity component, representing

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Notes to Condensed Consolidated Financial Statements

the conversion option, was determined by deducting the fair value of the liability component from the aggregate face value of the Notes. The liability component will be accreted up to the face value of the Notes of $175.0 million, which will result in additional non-cash interest expense being recognized in the condensed consolidated statements of operations through the Notes maturity date. The nonconvertible borrowing rate on the Notes, including accretion of the notes to par and debt issuance cost amortization, was approximately 10.5%. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

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

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

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

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

Regardless of whether any of the foregoing circumstances occurs, a holder may convert its Notes, in multiples of $1,000 principal amount, at any time on or after January 15, 2022 until the second scheduled trading day immediately preceding the maturity date of the Notes on April 22, 2022. Holders of the Notes who convert their Notes in connection with a make-whole fundamental change (as defined in the Indenture) are, under certain circumstances, entitled to an increase in the conversion rate. In addition, in the event of a fundamental change prior to the maturity date (as defined in the Indenture), holders will, subject to certain conditions, have the right, at their option, to require the Company to repurchase for cash all or part of their notes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date.

As of June 30, 2017, the outstanding principal on the Notes was $175.0 million, the unamortized debt discount was $45.2 million, the unamortized debt issuance cost was $4.0 million and the net carrying amount of the liability component was $125.8 million, which was recorded as long-term debt within the condensed consolidated balance sheet. For the first half of 2017, the Company recorded interest expense of $1.2 million for contractual coupon interest, $0.2 million for amortization of debt issuance costs and $1.5 million for amortization of the debt discount.

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

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Notes to Condensed Consolidated Financial Statements

4. Employee benefit plans

Equity incentive plans. The Company has outstanding equity grants from its three stock-based employee compensation plans: the 2014 Equity Incentive Plan (2014 Plan), the 2010 Equity Incentive Plan (2010 Plan) and the 2014 Employee Stock Purchase Plan (ESPP). No new options or awards have been granted under the 2010 Plan since June 2014. Outstanding options and awards under the 2010 Plan continue to be subject to the terms and conditions of the 2010 Plan. Options granted under the 2014 Plan generally expire within 10 years from the date of grant and generally vest over one to four years. Restricted stock units (RSUs) granted under the 2014 Plan generally vest over two to four-years based upon continued service and are settled at vesting in shares of the Company's Class A common stock. The ESPP allows eligible employees to purchase shares of the Company's Class A common stock through payroll deductions at a price equal to 85% of the lesser of the fair market value of the stock as of the first date or the ending date of each six month offering period. For additional information regarding the Company's equity incentive plans, please refer to the audited financial statements contained in its 2016 Annual Report.

Stock options

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

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

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

Restricted stock units

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

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

In June 2014, the Company granted an award of 4.5 million RSUs covering shares of the Company's Class B common stock to the Company's CEO (CEO RSUs), which included 1.5 million RSUs that vested immediately upon grant and 3.0 million RSUs that were subject to both a market-based vesting condition and a three-year service-based vesting condition. The market-based condition was achieved in January 2015. Stock-based compensation expense related to the CEO RSUs was $0.6 million and $4.2 million for the six months ended June 30, 2017 and 2016, respectively.

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

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

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

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

5. Net loss per share
Basic net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding, including all potentially dilutive common shares. Additionally, the calculation of weighted average shares outstanding as of June 30, 2017 excludes approximately 9.2 million shares that will be repurchased as a result of the Prepaid Forward transactions.
The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock is convertible at any time at the option of the stockholder into one share of Class A common stock and has no expiration date. Each share of Class B common stock will convert automatically into one share of Class A common stock upon the date when the outstanding shares of Class B common stock represent less than 10% of the aggregate number of shares of common stock then outstanding. Class A common stock is not convertible into Class B common stock. The computation of the diluted net loss per share of Class A common stock assumes the conversion of Class B common stock.

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

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

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

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

6. Income taxes

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

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

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

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The Company recorded an income tax provision of $2.0 million for the three months ended June 30, 2017 on a pre-tax net loss of $28.5 million, which resulted in a negative effective tax rate of 7.0%. The Company recorded an income tax provision of $24.3 million for the six months ended June 30, 2017 on a pre-tax net loss of $117.4 million, which resulted in a negative effective tax rate of 20.7%. The Company’s income tax provisions in the three and six months ended June 30, 2017 were principally composed of tax expenses incurred on pre-tax income in profitable foreign jurisdictions. While the Company incurred pre-tax losses in the United States and certain lower-rate jurisdictions, the Company does not expect to recognize any tax benefits on pre-tax losses in the United States due to a full valuation allowance recorded against its U.S. deferred tax assets. The effective tax rate of 15.6% and 13.6% for the three months ended and six months ended June 30, 2016 resulted from the Company providing a net tax benefit on pre-tax losses in the United States, which was offset by income taxes at lower rates in profitable foreign jurisdictions (primarily related to the Company's wholly owned subsidiaries in Europe). Future changes in the forecast annual income (loss) projections, tax rate changes, or discrete tax items could result in significant adjustments to quarterly income tax expense (benefit) in future periods.

The Company is currently under examination by the Internal Revenue Service for the 2012 through 2015 tax years and is not able to estimate the potential impact that the examination may have on income tax expense. If the examination is resolved unfavorably, there is a possibility it may have a material negative impact on the Company's results of operations. At June 30, 2017 and December 31, 2016, the Company’s gross unrecognized tax benefits were $73.5 million and $56.9 million, respectively. If recognized, $16.7 million of these unrecognized tax benefits (net of U.S. federal benefit) at June 30, 2017 would be recorded as a reduction of future income tax provision. These unrecognized tax benefits relate primarily to unresolved matters with taxing authorities regarding the Company’s transfer pricing positions and tax positions based on the Company’s interpretation of certain U.S. trial and appellate court decisions, which remain subject to appeal and therefore could be overturned in future periods. The Company’s existing tax positions will continue to generate an increase in unrecognized tax benefits in subsequent periods. Management believes events that could occur in the next 12 months and cause a material change in unrecognized tax benefits include, but are not limited to, the completion of examinations by the U.S. or foreign taxing authorities and the expiration of statute of limitations on the Company's tax returns. Although the completion, settlement and closure of any audits is uncertain, it is reasonably possible that the total amount of unrecognized tax benefits will materially increase within the next 12 months. However, given the number of years remaining that are subject to examination, the range of the reasonably possible change cannot be estimated reliably.

7. Related party transactions

The Company incurs costs for Company-related chartered aircraft fees for the use of the CEO’s private plane. The Company recorded expense of zero and $0.6 million in the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and December 31, 2016, the Company had no accounts payable associated with these aircraft fees.

The Company obtained services from a vendor whose CEO is also one of the members of the Company's board of directors. The Company recorded expense of zero and $0.1 million in the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and December 31, 2016, the Company had accounts payable associated with this vendor of zero and $0.3 million, respectively.

See Note 4 above for information regarding CEO RSUs.

8. Commitments, contingencies and guarantees

Facility Leases. The Company leases its facilities under long-term operating leases, which expire at various dates through 2027. As of December 31, 2016, the Company’s total future minimum lease payments under non-cancelable operating leases were $139.5 million. There have been no material changes to the Company's lease commitments during the first and second quarters of 2017. Rent expense was $10.0 million and $9.8 million for the six months ended June 30, 2017 and 2016, respectively.

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

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

Product warranty

The following table summarizes the warranty liability activity:

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

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

Indemnifications. In the normal course of business, the Company enters into agreements that contain a variety of representations and warranties and provide for general indemnification. The Company’s exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. It is not possible to determine the maximum potential amount under these indemnification agreements due to the Company’s limited history with indemnification claims and the unique facts and circumstances involved in each particular agreement. As of June 30, 2017, the Company has not paid any claims nor has it been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations.

9. Concentrations of risk and geographic information

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

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

	June 30, 2017	December 31, 2016
Customer A	17%	15%
Customer B	32%	27%

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

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

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

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

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

Supplier concentration. The Company relies on third parties for the supply and manufacture of its products, some of which are sole-source suppliers. The Company's management believes that outsourcing manufacturing en