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

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

For the quarterly period ended June 30, 2021

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.)*
3025 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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.0001 par value	GPRO	NASDAQ Global Select Market

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 ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	☑	Smaller reporting company	☐
Accelerated filer	☐	Emerging growth company	☐
Non-accelerated filer	☐		

If an emerging growth company, indicate 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 ☑

As of August 2, 2021, 126,408,297 and 27,666,296 shares of Class A and Class B common stock were outstanding, respectively.

GoPro, Inc.
Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GoPro, Inc.

Condensed Consolidated Balance Sheets

(unaudited)

(in thousands, except par values)	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 285,806	$ 325,654
Restricted cash	—	2,000
Marketable securities	32,889	—
Accounts receivable, net	96,471	107,244
Inventory	106,751	97,914
Prepaid expenses and other current assets	28,763	23,872
Total current assets	550,680	556,684
Property and equipment, net	20,519	23,711
Operating lease right-of-use assets	29,114	31,560
Intangible assets, net	203	1,214
Goodwill	146,459	146,459
Other long-term assets	10,969	11,771
Total assets	$ 757,944	$ 771,399
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 86,076	$ 111,399
Accrued expenses and other current liabilities	108,018	113,776
Short-term operating lease liabilities	9,126	9,369
Deferred revenue	32,631	28,149
Short-term debt	118,087	—
Total current liabilities	353,938	262,693
Long-term taxes payable	5,573	18,099
Long-term debt	107,680	218,172
Long-term operating lease liabilities	47,609	51,986
Other long-term liabilities	4,979	4,431
Total liabilities	519,779	555,381
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, 126,184 and 122,233 shares issued and outstanding, respectively; 150,000 Class B shares authorized, 27,866 and 28,885 shares issued and outstanding, respectively	995,510	980,147
Treasury stock, at cost, 10,710 and 10,710 shares, respectively	(113,613)	(113,613)
Accumulated deficit	(643,732)	(650,516)
Total stockholders' equity	238,165	216,018
Total liabilities and stockholders' equity	$ 757,944	$ 771,399

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

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

(in thousands, except per share data)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenue	$ 249,586	$ 134,246	$ 453,266	$ 253,646
Cost of revenue	150,304	93,554	275,288	174,527
Gross profit	99,282	40,692	177,978	79,119
Operating expenses:				
Research and development	37,800	34,558	70,230	66,839
Sales and marketing	35,670	34,965	71,460	78,467
General and administrative	16,310	16,083	30,298	34,841
Total operating expenses	89,780	85,606	171,988	180,147
Operating income (loss)	9,502	(44,914)	5,990	(101,028)
Other income (expense):				
Interest expense	(5,532)	(4,671)	(11,412)	(9,514)
Other income (expense), net	1,312	(321)	1,755	(493)
Total other expense, net	(4,220)	(4,992)	(9,657)	(10,007)
Income (loss) before income taxes	5,282	(49,906)	(3,667)	(111,035)
Income tax expense (benefit)	(11,670)	1,069	(10,451)	3,468
Net income (loss)	$ 16,952	$ (50,975)	$ 6,784	$ (114,503)
Net income (loss) per share:				
Basic	$ 0.11	$ (0.34)	$ 0.04	$ (0.77)
Diluted	$ 0.10	$ (0.34)	$ 0.04	$ (0.77)
Shares used to compute net income (loss) per share:				
Basic	153,634	148,497	152,911	148,028
Diluted	164,857	148,497	162,455	148,028

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, 2021	Six months ended June 30, 2020
Operating activities:		
Net income (loss)	$ 6,784	$ (114,503)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	6,228	10,693
Non-cash operating lease cost	2,446	4,158
Stock-based compensation	18,898	13,513
Deferred income taxes	(9)	53
Non-cash restructuring charges	(99)	3,299
Non-cash interest expense	6,945	4,850
Other	(831)	1,199
Changes in operating assets and liabilities:		
Accounts receivable, net	10,095	131,889
Inventory	(8,837)	2,085
Prepaid expenses and other assets	(2,719)	3,137
Accounts payable and other liabilities	(46,790)	(169,944)
Deferred revenue	5,571	(2,457)
Net cash used in operating activities	(2,318)	(112,028)
Investing activities:		
Purchases of property and equipment, net	(2,018)	(2,163)
Purchases of marketable securities	(32,890)	—
Maturities of marketable securities	—	14,830
Asset acquisition	—	(438)
Net cash provided by (used in) investing activities	(34,908)	12,229
Financing activities:		
Proceeds from issuance of common stock	4,200	1,909
Taxes paid related to net share settlement of equity awards	(7,975)	(2,354)
Proceeds from borrowings	—	30,000
Net cash provided by (used in) financing activities	(3,775)	29,555
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(847)	(378)
Net change in cash, cash equivalents and restricted cash	(41,848)	(70,622)
Cash, cash equivalents and restricted cash at beginning of period	327,654	150,301
Cash, cash equivalents and restricted cash at end of period	$ 285,806	$ 79,679

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

GoPro, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(unaudited)

(in thousands)	Common stock and additional paid-in capital Shares	Common stock and additional paid-in capital Amount	Treasury stock Amount	Accumulated deficit	Stockholders' equity
Balances at December 31, 2019	146,818	$ 930,875	$ (113,613)	$ (583,733)	$ 233,529
Common stock issued under employee benefit plans, net of shares withheld for tax	1,542	1,863	—	—	1,863
Taxes paid related to net share settlements	—	(2,003)	—	—	(2,003)
Stock-based compensation expense	—	7,637	—	—	7,637
Net loss	—	—	—	(63,528)	(63,528)
Balances at March 31, 2020	148,360	938,372	(113,613)	(647,261)	177,498
Common stock issued under employee benefit plans, net of shares withheld for tax	278	30	—	—	30
Taxes paid related to net share settlements	—	(351)	—	—	(351)
Stock-based compensation expense	—	5,876	—	—	5,876
Net loss	—	—	—	(50,975)	(50,975)
Balances at June 30, 2020	148,638	$ 943,927	$ (113,613)	$ (698,236)	$ 132,078
Balances at December 31, 2020	151,119	$ 980,147	$ (113,613)	$ (650,516)	$ 216,018
Common stock issued under employee benefit plans, net of shares withheld for tax	2,214	2,998	—	—	2,998
Taxes paid related to net share settlements	—	(6,246)	—	—	(6,246)
Stock-based compensation expense	—	8,869	—	—	8,869
Net loss	—	—	—	(10,168)	(10,168)
Balances at March 31, 2021	153,333	985,768	(113,613)	(660,684)	211,471
Common stock issued under employee benefit plans, net of shares withheld for tax	717	1,442	—	—	1,442
Taxes paid related to net share settlements	—	(1,729)	—	—	(1,729)
Stock-based compensation expense (Note 5)	—	10,029	—	—	10,029
Net income	—	—	—	16,952	16,952
Balances at June 30, 2021	154,050	$ 995,510	$ (113,613)	$ (643,732)	$ 238,165

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

1. Summary of business and significant accounting policies

GoPro, Inc. and its subsidiaries (GoPro or the Company) make it easy for the world to capture and share itself in immersive and exciting ways, helping people get the most out of their photos and videos. The Company is committed to developing solutions that create an easy, seamless experience for consumers to capture, create, manage and share engaging personal content. To date, the Company's cameras, mountable and wearable accessories, and subscription services have generated substantially all of its revenue. The Company sells its products globally on its website, and through retailers and wholesale distributors. 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 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.

The Company's operating results, financial position and cash flows for fiscal year 2020 were negatively impacted by the COVID-19 pandemic. As the global impact of the pandemic began to emerge in the first quarter of 2020, the Company accelerated a shift in its sales channel strategy to focus more on direct-to-consumer sales through GoPro.com, and implemented a restructuring plan in April 2020, which primarily impacted the Company's global workforce, sales and marketing expenses, and leased facilities. These actions were reflected in the Company's financial results starting in the second quarter of 2020 by reducing on-going operating expenses and helped accelerate its ability to achieve profitability in the second half of 2020. In 2020, the Company also issued additional convertible senior notes and entered into a new credit facility thus providing sufficient resources to continue as a going concern for at least one year from the date of issuance of the condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q.

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 any other future period. The Condensed Consolidated Balance Sheet at December 31, 2020 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, 2020. There have been no material changes in the Company's critical accounting policies and estimates 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 condensed 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 condensed consolidated financial statements and accompanying notes. Significant estimates and assumptions made by management include those related to revenue recognition and the allocation of the transaction price (including sales incentives, sales returns and implied post contract support), inventory valuation, product warranty liabilities, the valuation, impairment and useful lives of long-lived assets (property and equipment, operating lease right-of-use assets, intangible assets and goodwill), fair value of convertible senior notes, 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, including but not limited to the potential impacts arising from the COVID-19 pandemic, 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. The extent and continued impact of COVID-19 has been taken into account by management in making the significant assumptions and estimates related to the above; however, if the duration and spread of the outbreak, the impact on our customers, and the effect on our contract manufacturers, vendors and supply chain is different from the Company's estimates and assumptions, then actual results could differ materially. Given the uncertainty with respect to COVID-19, the Company's estimates and assumptions may evolve as conditions change. 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.

Revenue recognition. The Company derives substantially all of its revenue from the sale of cameras, mounts and accessories, the related implied post contract support to customers and subscription services. The transaction price recognized as revenue represents the amount the Company expects to be entitled to and is primarily comprised of product revenue, net of returns and variable consideration, including sales incentives provided to customers.

The Company’s camera sales contain multiple performance obligations that can include four separate obligations: a) a camera hardware component (which may be bundled with hardware accessories) and the embedded firmware essential to the functionality of the camera component delivered at the time of sale, b) the implicit right to the Company’s downloadable free apps and software solutions, c) the implied right for the customer to receive post contract support after the initial sale (PCS), and d) a subscription service. 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 a portion of the transaction price to the PCS performance obligation based on a cost-plus methodology and recognizes the associated revenue on a straight-line basis over the estimated term of the support period, which is estimated to be 24 months based on historical experience. The transaction price allocated to subscription services is based on the standalone selling price and is recognized ratably over the subscription term, with payments received in advance of services being rendered recorded in deferred revenue. The transaction price is allocated to the remaining performance obligations on a residual value methodology. The transaction price 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 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, market trends in the pricing for similar offerings and the standalone selling price.

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, primarily 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 return 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.

For customers who purchase products directly from GoPro.com, 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.

Deferred revenue as of June 30, 2021 and December 31, 2020 also included amounts related to the Company’s subscription services. The Company’s short-term and long-term deferred revenue balances totaled $34.9 million and $29.3 million as of June 30, 2021 and December 31, 2020, respectively. Of the deferred revenue balance as of December 31, 2020 and 2019, the Company recognized $9.3 million and $4.0 million of revenue during the three months ended June 30, 2021 and 2020, respectively, and $21.0 million and $9.8 million of revenue during the six months ended June 30, 2021 and 2020, respectively. Of the deferred revenue balance as of March 31, 2021 and 2020, the Company recognized $13.7 million and $5.5 million of revenue during the three months ended June 30, 2021 and 2020, respectively.

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.

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.

Recent accounting standards

Standard	Description	Expected date of adoption	Effect on the condensed consolidated financial statements or other significant matters
Standards not yet adopted			
Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40) ASU No. 2020-06	This standard simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible debt instruments and contracts on an entity's own equity. Specifically, the standard removes certain accounting models which separate the embedded conversion features from the host contract for convertible instruments, requiring bifurcation only if the convertible debt feature qualifies as a derivative under ASC 815 or if the convertible debt was issued at a substantial premium. This standard also removes certain settlement conditions required for equity contracts to qualify for the derivative scope exception. Lastly, entities are required to use the if-converted method for convertible instruments in the diluted earnings per share calculation. Early adoption is permitted, but no earlier than the fiscal year beginning after December 15, 2020. The standard can be applied using a full or modified retrospective approach.	January 1, 2022	Upon adoption, the Company expects a decrease to additional paid in capital, an increase in the carrying value of its convertible notes and an increase to retained earnings. After adoption, the Company expects a reduction in its reported interest expense but does not expect a material income tax impact due to a full valuation allowance on the United States net deferred tax assets. Additionally, the Company expects the use of the if-converted method for calculating diluted earnings per share will result in an increase in weighted-average shares outstanding. The Company will continue to evaluate the effect that the adoption of this standard will have on its financial statements.

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 condensed consolidated financial statements.

2. Fair value measurements

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

	June 30, 2021			December 31, 2020		
(in thousands)	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash equivalents [1]:						
Money market funds	$ 188,516	$ —	$ 188,516	$ 19,445	$ —	$ 19,445
Total cash equivalents	$ 188,516	$ —	$ 188,516	$ 19,445	$ —	$ 19,445
Marketable securities:						
Commercial paper	$ —	$ 26,355	$ 26,355	$ —	$ —	$ —
Corporate debt securities	—	6,534	6,534	—	—	—
Total marketable securities	$ —	$ 32,889	$ 32,889	$ —	$ —	$ —

(1) Included in cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets. Cash balances were $97.3 million as of June 30, 2021 and $308.2 million, including $2.0 million of restricted cash, as of December 31, 2020.

Cash equivalents are classified as Level 1 because the Company uses quoted market prices to determine their fair value. Marketable securities are classified as Level 2 because the Company uses 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 June 30, 2021 were all less than one year in duration. At June 30, 2021 and December 31, 2020, the Company had no financial assets or liabilities measured at fair value on a recurring basis that were classified as Level 3, which are valued based on inputs supported by little or no market activity.

At June 30, 2021 and December 31, 2020, 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 (2022 Notes). In November 2020, the Company issued $143.8 million principal amount of Convertible Senior Notes due 2025 (2025 Notes) (see Note 4 Financing arrangements). The estimated fair value of the 2022 Notes and 2025 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 2022 Notes and 2025 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 2022 Notes was $163.4 million and $146.0 million as of June 30, 2021 and December 31, 2020, respectively, while the calculated fair value of the 2025 Notes was $202.7 million and $166.8 million as of June 30, 2021 and December 31, 2020, respectively. The calculated fair value 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 2022 Notes and 2025 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.

The Company also measures certain non-financial assets at fair value on a nonrecurring basis, primarily goodwill, intangible assets and operating lease right-of-use assets, in connection with periodic evaluations for potential impairment.

3. Condensed consolidated financial statement details

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

Inventory

(in thousands)	June 30, 2021	December 31, 2020
Components	$ 9,913	$ 13,229
Finished goods	96,838	84,685
Total inventory	$ 106,751	$ 97,914

Property and equipment, net

(in thousands)	June 30, 2021	December 31, 2020
Leasehold improvements	$ 33,771	$ 35,180
Production, engineering and other equipment	44,829	48,908
Tooling	17,539	17,635
Computers and software	22,461	22,385
Furniture and office equipment	5,609	6,315
Tradeshow equipment and other	5,589	5,860
Construction in progress	42	22
Gross property and equipment	129,840	136,305
Less: Accumulated depreciation and amortization	(109,321)	(112,594)
Property and equipment, net	$ 20,519	$ 23,711

Intangible assets

	June 30, 2021		
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value
Purchased technology	$ 51,066	$ (50,878)	$ 188
Domain name	15	—	15
Total intangible assets	$ 51,081	$ (50,878)	$ 203

	December 31, 2020		
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value
Purchased technology	$ 51,066	$ (49,867)	$ 1,199
Domain name	15	—	15
Total intangible assets	$ 51,081	$ (49,867)	$ 1,214

Amortization expense was $0.3 million and $1.0 million for the three months ended June 30, 2021 and 2020, respectively, and $1.0 million and $2.9 million for the six months ended June 30, 2021 and 2020, respectively. At June 30, 2021, expected amortization expense of intangible assets with definite lives for future periods was as follows:

(in thousands)	Total
Year ending December 31,	
2021 (remaining 6 months)	$ 141
2022	47
	$ 188

Other long-term assets

(in thousands)	June 30, 2021	December 31, 2020
Point of purchase (POP) displays	$ 2,775	$ 3,612
Long-term deferred tax assets	931	966
Deposits and other	7,263	7,193
Other long-term assets	$ 10,969	$ 11,771

Accrued expenses and other current liabilities

(in thousands)	June 30, 2021	December 31, 2020
Accrued liabilities	$ 31,086	$ 39,444
Accrued sales incentives	25,100	30,609
Employee related liabilities	16,228	7,067
Return liability	9,480	10,817
Warranty liability	7,234	7,997
Inventory received	2,244	1,709
Customer deposits	4,715	2,347
Purchase order commitments	1,341	1,921
Income taxes payable	219	221
Other	10,371	11,644
Accrued expenses and other current liabilities	$ 108,018	$ 113,776

Product warranty

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2021	2020	2021	2020
Beginning balance	$ 7,452	$ 8,954	$ 8,523	$ 11,398
Charged to cost of revenue	4,114	1,269	6,769	2,986
Settlement of warranty claims	(3,945)	(2,897)	(7,671)	(7,058)
Warranty liability	$ 7,621	$ 7,326	$ 7,621	$ 7,326

At June 30, 2021 and December 31, 2020, $7.2 million and $8.0 million, respectively, of the warranty liability was recorded as a component of accrued expenses and other current liabilities, and $0.4 million and $0.5 million, respectively, was recorded as a component of other long-term liabilities.

4. Financing arrangements

2021 Credit Facility

In January 2021, the Company entered into a Credit Agreement (2021 Credit Agreement) with a certain bank which provides for a revolving credit facility (2021 Credit Facility) under which the Company may borrow up to an aggregate amount of $50.0 million. The 2021 Credit Facility will terminate and any outstanding borrowings become due and payable on the earlier of (i) January 2024 and (ii) unless the Company has cash in a specified deposit account in an amount equal to or greater than the amount required to repay the Company’s convertible notes due April 2022, 91 days prior to the maturity date of such convertible notes. Concurrently with the execution of the 2021 Credit Agreement in January 2021, the Company terminated its previous 2016 Credit Agreement, which would otherwise have matured in March 2021.

The amount that may be borrowed under the 2021 Credit Agreement may be based on a customary borrowing base calculation if the Company’s Asset Coverage Ratio is at any time less than 1.50. The Asset Coverage Ratio is defined as the ratio of (i) the sum of (a) the Company’s cash and cash equivalents in the United States plus specified percentages of other qualified debt investments (Qualified Cash) plus (b) specified percentages of the net book values of the Company’s accounts receivable and certain inventory to (ii) $50.0 million.

At the Company’s option, borrowed funds accrue interest at either (i) a floating rate per annum equal to the base rate plus a margin of from 0.50% to 1.00% depending on the Company’s Asset Coverage Ratio or (ii) a per annum rate equal to the rate at which dollar deposits are offered in the London interbank market plus a margin of from 1.50% to 2.00% depending on the Company’s Asset Coverage Ratio. The Company is required to pay a commitment fee on the unused portion of the 2021 Credit Facility of 0.375% to 0.50% per annum, based on the level of utilization of the 2021 Credit Facility. Amounts owed under the 2021 Credit Agreement are guaranteed by certain of the Company’s United States subsidiaries and secured by a first priority security interest in substantially all of the assets of the Company and certain of its subsidiaries (other than intellectual property, which is subject to a negative pledge restricting grants of security interests to third parties).

The 2021 Credit Agreement contains customary representations, warranties, and affirmative and negative covenants. The negative covenants include restrictions on the incurrence of liens and indebtedness, certain investments, dividends, stock repurchases and other matters, all subject to certain exceptions. In addition, the Company is required to maintain Liquidity (the sum of unused availability under the credit facility and the Company’s Qualified Cash) of at least $55.0 million (of which at least $40.0 million shall be attributable to Qualified Cash), or, if the borrowing base is then in effect, minimum unused availability under the credit facility of at least $10.0 million. The 2021 Credit Agreement also includes customary events of default that include, among other things, non-payment of principal, interest or fees, inaccuracy of representations and warranties, violation of certain covenants, cross default to certain other indebtedness, bankruptcy and insolvency events, material judgments and change of control. Upon an event of default, the lender may, subject to customary cure rights, require the immediate payment of all amounts outstanding.

At June 30, 2021, the Company was in compliance with all financial covenant contained in the 2021 Credit Agreement. The Company has made no borrowings from the 2021 Credit Facility to date.

2022 Convertible Notes

In April 2017, the Company issued $175.0 million aggregate principal amount of 3.50% Convertible Senior Notes due 2022 (2022 Notes). The 2022 Notes are senior, unsecured obligations of GoPro and mature on April 15, 2022, unless earlier repurchased or converted into shares of Class A common stock under certain circumstances. The 2022 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 2022 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 2022 Notes then outstanding upon conversion. The Company pays interest on the 2022 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 2022 Notes were allocated between long-term debt (liability component) of $128.3 million and additional paid-in-capital (equity component) of $46.7 million on the Condensed Consolidated Balance Sheets. 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 2022 Notes. The liability component will be accreted up to the face value of the 2022 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 2022 Notes' maturity date. The accretion of the 2022 Notes to par and debt issuance cost recorded to long-term debt is amortized into interest expense over the term of the 2022 Note using an effective interest rate of approximately 10.5%. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

The Company incurred approximately $5.7 million of issuance costs related to the issuance of the 2022 Notes, of which $4.2 million and $1.5 million were recorded to long-term debt and additional paid-in capital, respectively. The $4.2 million of issuance costs recorded as long-term debt on the Condensed Consolidated Balance Sheets are being amortized over the five-year contractual term of the 2022 Notes using the effective interest method.

The Company may not redeem the 2022 Notes prior to the maturity date and no sinking fund is provided for the 2022 Notes. The indenture includes customary terms and covenants, including certain events of default after which the 2022 Notes may be due and payable immediately.

Holders have the option to convert the 2022 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 2022 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 2022 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 2022 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 2022 Notes on April 15, 2022, a holder may convert its 2022 Notes, in multiples of $1,000 principal amount. Holders of the 2022 Notes who convert their 2022 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 2022 Notes at a repurchase price equal to 100% of the principal amount of the 2022 Notes to be repurchased, plus accrued and unpaid interest up to, but excluding, the repurchase date. During the three months ended June 30, 2021, the conditions allowing holders of the 2022 Notes to convert were not met.

Concurrently with the November 2020 issuance of the 2025 Notes, the Company used $56.2 million of the net cash proceeds from the 2025 Notes to repurchase $50.0 million principal amount of the 2022 Notes through an individual, privately negotiated transaction. The $56.2 million net cash proceeds were allocated between long-term debt (liability component) of $50.6 million and additional paid-in capital (equity component) of $5.4 million on the Condensed Consolidated Balance Sheets, and the remaining $0.2 million was related to the payment of interest. The fair value of the liability component was measured using rates determined for similar debt instrument without a conversion feature. The Company's effective interest rate of 2.4% was based on the trading details of the 2022 Notes immediately prior to the repurchase date to determine the volatility of the 2022 Notes, and their remaining term. The cash consideration allocated to the equity component was calculated by deducting the fair value of the liability component and interest payment from the total aggregate cash consideration. The difference between the fair value of the 2022 Notes repurchased and the carrying value of $45.2 million resulted in a $5.4 million loss on extinguishment of debt.

As of June 30, 2021 and December 31, 2020, the outstanding principal on the 2022 Notes was $125.0 million, the unamortized debt discount was $6.4 million and $10.2 million, respectively, the unamortized debt issuance cost was $0.5 million and $0.8 million, respectively, and the net carrying amount of the liability component was $118.1 million and $114.0 million, respectively, which was recorded as short-term debt and long-term debt, respectively, within the Condensed Consolidated Balance Sheets. For the three months ended June 30, 2021 and 2020, the Company recorded interest expense of $1.1 million and $1.6 million, respectively, for contractual coupon interest, $0.2 million for amortization of debt issuance costs, and $1.9 million and $2.5 million, respectively, for amortization of the debt discount. For the six months ended June 30, 2021 and 2020, the Company recorded interest expense of $2.2 million and $3.1 million, respectively, for contractual coupon interest, $0.3 million and $0.4 million, respectively, for amortization of debt issuance costs, and $3.8 million and $4.9 million, respectively, for amortization of the debt discount.

In connection with the 2022 Notes 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 2022 Notes to fund the Prepaid Forward. The aggregate number of shares of the Company’s Class A common stock underlying the Prepaid Forward was approximately 9.2 million. The expiration date for the Prepaid Forward is April 15, 2022, although it may be settled earlier in whole or in part. Upon settlement of the Prepaid Forward, at expiration or upon any early settlement, the Forward Counterparty will deliver to the Company the number of shares of Class A common stock underlying the Prepaid Forward or the portion thereof being settled early. The shares purchased under the Prepaid Forward are treated as treasury stock on the Condensed Consolidated Balance Sheets (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.

In the fourth quarter of 2020, 8.8 million shares out of the 9.2 million shares of Class A common stock underlying the Prepaid Forward entered into as part of the Company’s 2022 Notes were early settled and delivered to the Company. In April 2021, the remaining 0.4 million shares of Class A common stock underlying the Prepaid Forward were early settled and delivered to the Company. There was no financial statement impact due to the return of shares; however, shares outstanding for corporate law purposes are reduced by the early settlements.

2025 Convertible Notes

In November 2020, the Company issued $125.0 million aggregate principal amount of 1.25% Convertible Senior Notes due 2025 and granted an option to the initial purchasers to purchase up to an additional $18.8 million aggregate principal amount of the 2025 Notes to cover over-allotments, of which $18.8 million was subsequently exercised during November 2020, resulting in a total issuance of $143.8 million aggregate principal amount of the 2025 Notes. The 2025 Notes are senior, unsecured obligations of GoPro and mature on November 15, 2025, unless earlier repurchased or converted into shares of Class A common stock under certain circumstances. The 2025 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 107.1984 shares of Class A common stock per $1,000 principal amount of the 2025 Notes, which is equivalent to an initial conversion price of approximately $9.3285 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 2025 Notes then outstanding upon conversion. The Company pays interest on the 2025 Notes semi-annually in arrears on May 15 and November 15 of each year.

The $143.8 million of proceeds received from the issuance of the 2025 Notes were allocated between long-term debt (liability component) of $106.9 million and additional paid-in-capital (equity component) of $36.9 million on the Condensed Consolidated Balance Sheets. 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 2025 Notes. The liability component will be accreted up to the face value of the 2025 Notes of $143.8 million, which will result in additional non-cash interest expense being recognized in the Condensed Consolidated Statements of Operations through the 2025 Notes' maturity date. The accretion of the 2025 Notes to par and debt issuance cost recorded to long-term debt is amortized into interest expense over the term of the 2025 Note using an effective interest rate of approximately 7.5%. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

The Company incurred approximately $4.7 million of issuance costs related to the issuance of the 2025 Notes, of which $3.5 million and $1.2 million were recorded to long-term debt and additional paid-in capital, respectively. The $3.5 million of issuance costs recorded as long-term debt on the Condensed Consolidated Balance Sheets are being amortized over the five-year contractual term of the 2025 Notes using the effective interest method.

The Company may redeem all or any portion of the 2025 Notes on or after November 20, 2023 for cash if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides the redemption notice, at a redemption price equal to 100% of the principal amount of the 2025 Notes to be redeemed, plus accrued interest and unpaid interest to, but excluding the redemption date. No sinking fund is provided for the 2025 Notes. The indenture includes customary terms and covenants, including certain events of default after which the 2025 Notes may be due and payable immediately.

Holders have the option to convert the 2025 Notes in multiples of $1,000 principal amount at any time prior to August 15, 2025, but only in the following circumstances:

- during any calendar quarter beginning after the calendar quarter ending on March 31, 2021, 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 2025 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 2025 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 2025 Notes on each such trading day;
- if the Company calls any or all of the 2025 Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately before the redemption date; or
- upon the occurrence of specified corporate events.

At any time on or after August 15, 2025 until the second scheduled trading day immediately preceding the maturity date of the 2025 Notes on November 15, 2025, a holder may convert its 2025 Notes, in multiples of $1,000 principal amount. Holders of the 2025 Notes who convert their 2025 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 2025 Notes at a repurchase price equal to 100% of the principal amount of the 2025 Notes to be repurchased, plus accrued and unpaid interest up to, but excluding, the repurchase date. During the three months ended June 30, 2021, the conditions allowing holders of the 2025 Notes to convert were not met.

As of June 30, 2021 and December 31, 2020, the outstanding principal on the 2025 Notes was $143.8 million, the unamortized debt discount was $33.0 million and $36.1 million, respectively, the unamortized debt issuance cost was $3.1 million and $3.4 million, respectively, and the net carrying amount of the liability component was $107.7 million and $104.2 million, respectively, which was recorded as long-term debt within the Condensed Consolidated Balance Sheets. For the three months ended June 30, 2021, the Company recorded interest expense of $0.5 million for contractual coupon interest, $0.2 million for amortization of debt issuance costs, and $1.5 million for amortization of the debt discount. For the six months ended June 30, 2021, the Company recorded interest expense of $0.9 million for contractual coupon interest, $0.4 million for amortization of debt issuance costs, and $3.1 million for amortization of the debt discount.

In connection with the offering of the 2025 Notes, the Company paid $10.2 million to enter into privately negotiated capped call transactions with certain financial institutions (Capped Calls). The Capped Calls have an initial strike price of $9.3285 per share, which corresponds to the initial conversion price of the 2025 Notes. The Capped Calls cover, subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the 2025 Notes, the number of Class A common stock initially underlying the 2025 Notes. The Capped Calls are generally expected to reduce potential dilution to the Company's Class A common stock upon any conversion of the 2025 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2025 Notes, as the case may be, with such reduction and/or offset subject to a cap, initially equal to $12.0925, and is subject to certain adjustments under the terms of the Capped Call transactions. The Capped Calls will expire in November 2025, if not exercised earlier.

The Capped Calls are subject to adjustment upon the occurrence of specified extraordinary events affecting the Company, including merger events, tender offers and announcement events. In addition, the Capped Calls are subject to certain specified additional disruption events that may give rise to a termination of the Capped Calls, including nationalization, insolvency or delisting, changes in law, failures to deliver, insolvency filings and hedging disruptions. For accounting purposes, the Capped Calls are separate transactions, and not part of the terms of the 2025 Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders' equity as a reduction to additional paid-in capital and will not be remeasured as long as they continue to meet certain accounting criteria.

5. Employee benefit plans

Equity incentive plans. The Company has outstanding equity grants from its three stock-based employee compensation plans: the 2014 Equity Incentive Plan (2014 Plan), the 2010 Equity Incentive Plan (2010 Plan) and the 2014 Employee Stock Purchase Plan (ESPP). No new options or awards have been granted under the 2010 Plan since June 2014. Outstanding options and awards under the 2010 Plan continue to be subject to the terms and conditions of the 2010 Plan. Options granted under the 2014 Plan generally expire within ten years from the date of grant and generally vest over one to four years. Restricted stock units (RSUs) granted under the 2014 Plan generally vest over two to four years based upon continued service and are settled at vesting in shares of the Company's Class A common stock. Performance stock units (PSUs) granted under the 2014 Plan generally vest over three years based upon continued service and the Company achieving certain financial and operating 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. For additional information regarding the Company's equity incentive plans, refer to the 2020 Annual Report.

Stock options

A summary of the Company’s stock option activity for the six months ended June 30, 2021 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, 2020	3,431	$ 8.79	6.50	$ 6,259
Granted	309	7.97		
Exercised	(485)	5.23		
Forfeited/Cancelled	(47)	19.53		
Outstanding at June 30, 2021	3,208	$ 9.09	6.40	$ 12.633
Vested and expected to vest at June 30, 2021	3,208	$ 9.09	6.40	$ 12.663
Exercisable at June 30, 2021	2,034	$ 11.09	5.06	$ 5.553

The aggregate intrinsic value of the stock options outstanding as of June 30, 2021 represents the value of the Company’s closing stock price on June 30, 2021 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, 2021 is as follows:

	Shares (in thousands)	Weighted-average grant date fair value
Non-vested shares at December 31, 2020	10,639	$ 5.04
Granted	3,457	8.22
Vested	(2,520)	4.98
Forfeited	(489)	5.80
Non-vested shares at June 30, 2021	11,087	$ 6.01

Performance stock units

A summary of the Company’s PSU activity for the six months ended June 30, 2021 is as follows:

	Shares (in thousands)	Weighted-average grant date fair value
Non-vested shares at December 31, 2020	1,319	$ 4.48
Granted	573	7.93
Vested	(427)	4.59
Forfeited	(288)	4.05
Non-vested shares at June 30, 2021	1,177	$ 6.23

Employee stock purchase plan. For the six months ended June 30, 2021 and 2020, the Company issued 0.5 million and 0.6 million shares under its ESPP, respectively, at weighted-average prices of $4.15 and $3.38, respectively.

Stock-based compensation expense. The Company measures compensation expense for all stock-based payment awards based on the estimated fair values on the date of the grant. The fair value of stock options granted and ESPP issuance is estimated using the Black-Scholes option pricing model. The fair value of RSUs and PSUs are determined using the Company's closing stock price on the date of grant. There have been no significant changes in the Company's valuation assumptions from those disclosed in its 2020 Annual Report.

The following table summarizes stock-based compensation expense included in the Condensed Consolidated Statements of Operations:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2021**	**2020**	**2021**	**2020**
Cost of revenue	$ 508	$ 332	$ 937	$ 835
Research and development	4,615	3,063	8,751	6,085
Sales and marketing	2,153	789	4,018	2,506
General and administrative	2,753	1,692	5,192	4,087
Total stock-based compensation expense	$ 10,029	$ 5,876	$ 18,898	$ 13,513

The income tax benefit related to stock-based compensation expense was zero for the three and six months ended June 30, 2021 and 2020 due to a full valuation allowance on the Company's United States net deferred tax assets (see Note 7 Income taxes).

At June 30, 2021, total unearned stock-based compensation of $60.1 million related to stock options, RSUs, PSUs and ESPP shares is expected to be recognized over a weighted-average period of 2.1 years.

6. Net income (loss) per share

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

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except per share data)	**2021**	**2020**	**2021**	**2020**
Numerator:				
Net income (loss)	$ 16,952	$ (50,975)	$ 6,784	$ (114,503)
Denominator:				
Weighted-average common shares - basic for Class A and Class B common stock	153,634	148,497	152,911	148,028
Effect of dilutive securities	11,223	—	9,544	—
Weighted-average common shares - diluted for Class A and Class B common stock	164,857	148,497	162,455	148,028
Net income (loss) per share				
Basic	$ 0.11	$ (0.34)	$ 0.04	$ (0.77)
Diluted	$ 0.10	$ (0.34)	$ 0.04	$ (0.77)

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, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Stock-based awards	1,397	15,057	1,672	14,519
Shares related to convertible senior notes	—	—	—	—
Total anti-dilutive securities	1,397	15,057	1,672	14,519

The Company has the intent and ability to deliver cash up to the principal amount of the 2022 Notes and 2025 Notes subject to conversion, based on the Company's current and projected liquidity. The Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread is dilutive in periods of net income when the average market price of the Company's Class A common stock for a given reporting period exceeds the initial conversion prices of $10.64 and $9.3285 per share for the 2022 Notes and 2025 Notes, respectively. For the three months ended June 30, 2021, the conversion spread relating to both the 2022 Notes and 2025 Notes had a dilutive effect on net income per share. For the six months ended June 30, 2021, only the conversion spread relating to the 2025 Notes had a dilutive effect on net income per share. The initial conversion price of the 2022 Notes was greater than the average market price of the Company's Class A Common Stock for the six months ended June 30, 2021, and as such, had no impact on anti-dilutive or dilutive share calculations. Upon conversion of the 2025 Notes, there will be no economic dilution until the average market price of the Company's Class A common stock exceeds the cap price of $12.0925 per share, as exercise of the Capped Calls offset any dilution from the 2025 Notes from the initial conversion price up to the cap price. The Capped Calls are excluded from diluted net income per share as they would be anti-dilutive under the treasury stock method.

The Company's 2022 Notes mature on April 15, 2022 and the 2025 Notes mature on November 15, 2025, unless earlier repurchased or converted into shares of Class A common stock under certain circumstances as described further in Note 4 Financing arrangements. The 2022 Notes and 2025 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 2022 Notes is 20.6 million shares of Class A common stock and 20.8 million shares of Class A common stock upon conversion of the 2025 Notes. Additionally, the calculation of weighted-average shares outstanding for the three and six months ended June 30, 2021 and 2020 excludes approximately 9.2 million shares effectively repurchased and held in treasury stock on the Condensed Consolidated Balance Sheets as a result of the Prepaid Forward transaction entered into in connection with the 2022 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.

7. Income taxes

The Company's income tax expense (benefit) and the resulting effective tax rate are based upon the estimated annual effective tax rates applicable for the respective period, including losses generated in countries where the Company is projecting annual losses for which deferred tax assets are not anticipated to be recognized.

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

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	**2021**	**2020**	**2021**	**2020**
Income tax expense (benefit)	$ (11,670)	$ 1,069	$ (10,451)	$ 3,468

The Company recorded an income tax benefit of $11.7 million for the three months ended June 30, 2021, on a pre-tax net income of $5.3 million, which resulted in a negative effective tax rate of 220.9%. The Company’s income tax benefit for the three months ended June 30, 2021, was composed of $1.0 million of tax expense incurred on pre-tax income, and discrete items that primarily included $12.6 million tax benefit due to the release of a portion of the Company’s uncertain tax positions as a result of a lapse in the statute of limitations in certain jurisdictions, $1.0 million of net excess tax benefit for employee stock-based compensation, $0.2 million of tax benefit relating to restructuring charges and $0.2 million of tax benefit relating to the foreign provision to income tax return adjustments, partially offset by a net increase in the valuation allowance of $1.3 million. The Company recorded an income tax benefit of $10.5 million for the six months ended June 30, 2021, on a pre-tax net loss of $3.7 million, which resulted in an effective tax rate of 285.0%. The Company’s income tax benefit for the six months ended June 30, 2021, was composed of $2.3 million of tax expense incurred on pre-tax income, and discrete items that primarily included a $12.6 million tax benefit due to the release of a portion of the Company’s uncertain tax positions as a result of a lapse in the statute of limitations in certain jurisdictions, $2.8 million of net excess tax benefit for employee stock-based compensation, $0.4 million of tax benefit relating to restructuring charges and $0.4 million of tax benefit relating to the foreign provision to income tax return adjustments, partially offset by a net increase in the valuation allowance of $3.3 million.

For the three months ended June 30, 2020, the Company recorded an income tax expense of $1.1 million on a pre-tax net loss of $49.9 million, which resulted in a negative effective tax rate of 2.1%. The Company’s income tax expense for the three months ended June 30, 2020 was composed of $0.6 million of tax expense incurred on pre-tax income, and discrete items that primarily included $0.7 million of net non-deductible equity tax expense for employee stock-based compensation, $2.6 million of tax expense relating to a reduction in deferred tax assets due to the treatment of stock-based compensation as a result of the Altera Corp. vs. Commissioner decision by the Ninth Circuit Court of appeals and $0.5 million of tax expense relating to certain states and foreign jurisdiction reserves, partially offset by a $2.4 million tax benefit related to restructuring charges and a net decrease in the valuation allowance of $0.8 million. The Company recorded an income tax expense of $3.5 million for the six months ended June 30, 2020, on a pre-tax net loss of $111.0 million, which resulted in a negative effective tax rate of 3.1%. The Company’s income tax expense for the six months ended June 30, 2020, was composed of $2.9 million of tax expense incurred on pre-tax income, and discrete items that primarily included $1.8 million of net non-deductible equity tax expense for employee stock-based compensation, $2.6 million of tax expense relating to a reduction in deferred tax assets due to the treatment of stock-based compensation as a result of the Altera Corp. vs. Commissioner decision by the Ninth Circuit Court of appeals and $0.5 million of tax expense relating to certain states and foreign jurisdiction reserves, partially offset by a $2.4 million tax benefit related to restructuring charges and a net decrease in the valuation allowance of $2.0 million.

At June 30, 2021 and December 31, 2020, the Company’s gross unrecognized tax benefits were $15.7 million and $27.5 million, respectively. If recognized, $5.4 million of these unrecognized tax benefits (net of United States federal benefit) at June 30, 2021 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 deferred tax assets, which would be offset by a full valuation allowance based on present circumstances. The unrecognized tax benefits relate primarily to unresolved matters with taxing authorities regarding the Company’s transfer pricing positions. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that its reserves reflect the more likely outcome.

During Q2 2021, it was determined that no material adjustments were required to the Company's valuation allowances. However, the Company will continue to monitor expected 2021 projections and their potential impact on its assessment regarding the recoverability of its deferred tax asset balances and in the event there is a need to release the valuation allowance, a tax benefit will be recorded.

8. Commitments, contingencies and guarantees

Facility Leases. The Company leases its facilities under long-term operating leases, which expire at various dates through 2027.

The components of net lease cost, which were recorded in operating expenses, were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2021**	**2020**	**2021**	**2020**
Operating lease cost [(1)]	$ 2,892	$ 4,088	$ 5,988	$ 8,295
Sublease income	(100)	(131)	(233)	(260)
Net lease cost	$ 2,792	$ 3,957	$ 5,755	$ 8,035

(1) Operating lease cost includes variable lease costs, which are immaterial.

Supplemental cash flow information related to leases was as follows:

	Six months ended June 30,	
(in thousands)	**2021**	**2020**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 7,493	$ 7,441
Right-of-use assets obtained in exchange for operating lease liabilities	1,018	147

Supplemental balance sheet information related to leases was as follows:

	June 30, 2021	December 31, 2020
Weighted-average remaining lease term (in years) - operating leases	5.12	5.53
Weighted-average discount rate - operating leases	6.1%	6.2%

As of June 30, 2021, maturities of operating lease liabilities were as follows:

(in thousands)	**June 30, 2021**
2021 (remaining 6 months)	$ 5,479
2022	13,312
2023	12,124
2024	11,686
2025	11,477
Thereafter	12,683
Total lease payments	66,761
Less: Imputed interest	(10,286)
Present value of lease liabilities	$ 56,475

Other Commitments. In the ordinary course of business, the Company enters into multi-year agreements to purchase sponsorships with event organizers, resorts and athletes as part of its marketing efforts; software licenses related to its financial and IT systems; debt agreements; and various other contractual commitments. As of June 30, 2021, the Company's total undiscounted future expected obligations under multi-year agreements described above with terms longer than one year was $358.1 million.

Legal proceedings and investigations. On February 13, 2018 and February 27, 2018, two purported shareholder derivative lawsuits (the Consolidated 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 Consolidated Federal Derivative Actions 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. The plaintiffs seek corporate reforms, disgorgement of profits from stock sales, and fees and costs.

Different shareholders filed two similar purported shareholder derivative actions on October 30, 2018 and November 7, 2018 in the Delaware Court of Chancery (the Consolidated Delaware Derivative Actions). On April 28, 2020, the Delaware Court of Chancery granted defendants' motion to dismiss the Consolidated Delaware Derivative Action complaint with prejudice (the "April 28 Order"). Plaintiffs filed a notice of appeal of the April 28 Order to the Delaware Supreme Court on May 8, 2020. On August 3, 2021, pursuant to the terms of the Settlement described below, the parties filed a stipulation dismissing the appeal, which the Delaware Supreme Court entered on August 4, 2021.

Other shareholders filed similar purported shareholder derivative actions on December 26, 2018, February 15, 2019, and January 27, 2020 in the Delaware Court of Chancery.

Following settlement negotiations, an agreement in principle to settle all derivative claims on behalf of the Company (the Settlement) was reached by plaintiffs in the Consolidated Federal Derivative Actions, the Consolidated Delaware Derivative Actions, certain other plaintiffs (the Settling Plaintiffs), and the current and former executive officers and members of the Company's Board. On February 9, 2021, the Settling Plaintiffs filed a motion for preliminary approval of the Settlement in the Consolidated Federal Derivative Actions, and the court preliminarily approved the Settlement on April 1, 2021. On July 28, 2021, the court entered an order granting final approval of the Settlement and judgment was entered the same day (the "Final Order and Judgment"). Pursuant to the terms of the Settlement, certain of the other plaintiffs have ten days from the date of the Final Order and Judgment to dismiss their cases. The Settlement is not expected to have a material impact on the Company's condensed consolidated financial statements.

On January 5, 2015, Contour LLC filed a complaint against the Company in federal court in Utah alleging, among other things, patent infringement in relation to certain GoPro cameras. GoPro filed an inter partes review (IPR) at the United States Patent and Trademark Office. On November 30, 2015, Contour dismissed the Utah action, and Contour IP Holdings LLC (CIPH), a non-practicing entity, re-filed a similar complaint in Delaware. The case was transferred to the Northern District of California in July 2017 (case 3:17-cv-04738) and was stayed pending the IPR proceedings. Upon conclusion of the IPRs, the District Court lifted the stay on October 1, 2019. Due to COVID-19 delays, the trial was delayed several times. Separately, on March 26, 2021, CIPH filed a new lawsuit against Company in the same court (case 3:21-cv-02143), asserting the same patents against certain GoPro products. On May 6, 2021, the Court consolidated the two cases and set a trial date of April 18, 2022. The Company believes that the matters lack merit, and intends to vigorously defend against CIPH.

The Company regularly evaluates the associated developments of the legal proceedings described above, as well as other legal proceedings that arise in the ordinary course of business. While litigation is inherently uncertain, based on the currently available information, the Company is unable to determine a loss or a range of loss, and does not believe the ultimate cost to resolve these matters will have a material adverse effect on its business, financial condition, cash flows or results of operations.

Indemnifications. The Company has entered into indemnification agreements with its directors and executive officers which requires the Company to indemnify its directors and executive officers against liabilities that may arise by reason of their status or service. In addition, 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, 2021, 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

Concentration of risk. Financial instruments which potentially subject the Company to concentration of credit risk includes cash and cash equivalents, restricted cash, marketable securities, accounts receivable, and derivative instruments, including the Capped Calls associated with the 2025 Notes. The Company places cash and cash-equivalents with high-credit-quality financial institutions; however, the Company maintains cash balances in excess of the FDIC insurance limits. 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. The Company believes its counterparty credit risk related to its derivative instruments is mitigated by transacting with major financial institutions with high credit ratings.

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

	June 30, 2021	December 31, 2020
Customer A	19%	23%
Customer B	38%	15%
Customer C	10%	12%

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

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2021	2020	2021	2020
Accounts receivable sold	$ 3,902	$ 4,242	$ 34,636	$ 35,561
Factoring fees	8	38	215	186

Third-party customers who represented 10% or more of the Company's total revenue were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Customer A	11%	*	19%	*
Customer B	*	10%	17%	*
Customer C	*	13%	10%	*

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

Geographic information

Revenue by geographic region was as follows:

(in thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Americas	$ 146,600	$ 82,640	$ 253,238	$ 139,887
Europe, Middle East and Africa (EMEA)	61,190	34,909	110,993	64,628
Asia and Pacific (APAC)	41,796	16,697	89,035	49,131
Total revenue	$ 249,586	$ 134,246	$ 453,266	$ 253,646

Revenue from the United States, which is included in the Americas geographic region, was $131.4 million and $76.8 million for the three months ended June 30, 2021 and 2020, respectively, and $224.7 million and $122.5 million for the six months ended June 30, 2021 and 2020, respectively. No other individual country exceeded 10% of total revenue for any period presented. The Company does not disclose revenue by product category as it does not track sales incentives and other revenue adjustments by product category to report such data.

As of June 30, 2021 and December 31, 2020, long-lived assets, which represent net property and equipment, located outside the United States, primarily in Hong Kong and mainland China, were $5.8 million and $6.9 million, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

Our MD&A is provided in addition to the accompanying condensed consolidated financial statements and accompanying notes to assist readers in understanding our results of operations, financial condition and cash flows.

This MD&A is organized as follows:

- Overview. Discussion of our business and overall analysis of financial and other highlights affecting the Company in order to provide context for the remainder of MD&A.
- Results of Operations. Analysis of our financial results comparing the second quarter and first six months of 2021 to 2020.
- 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 schedules and indemnifications as of June 30, 2021.
- 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.

The following discussion should be read in conjunction with our 2020 Annual Report and the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q of GoPro, Inc. and its subsidiaries (GoPro or we or the Company). Our MD&A contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects, product and marketing plans, or future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward-looking. To identify forward-looking statements, we use words such as "expect," "anticipate," "believe," "may," "will," "estimate," "intend," "target," "goal," "plan," "likely," "potentially," or variations of such words and similar expressions. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. If any of management's assumptions prove incorrect or should unanticipated circumstances arise, the Company's actual results could materially differ from those anticipated by such forward-looking statements. The differences could be caused by a number of factors or combination of factors including, but not limited to, those factors identified and detailed in Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2021. Forward-looking statements include, but are not limited to, plans to expand and improve product offerings, projections of results of operations, research and development plans, marketing plans, plans for international expansion and revenue growth drivers, plans to reduce operating expenses and drive profitability, including our restructuring plans and the improved efficiencies in our operations that such plans may create, the impact of COVID-19 and the economic recovery therefrom on our business, operations, liquidity and capital resources, employees, customers, supply chain, financial results and the world economy, and the scope and duration thereof, plans to settle note conversion in cash, expectations regarding the volatility of the Company's tax provision and resulting effective tax rate and projections of results of operations, the outcome of pending or future litigation and legal proceedings and any discussion of the trends and other factors that drive our business and future results in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations, and other sections of this Quarterly Report on Form 10-Q, including but not limited to Item 1A Risk Factors. In particular, the consequences of the COVID-19 pandemic to economic conditions and the industry in general, and the financial position and operating results of the Company in particular have been material, and changing rapidly, and cannot be predicted. Readers are strongly encouraged to consider the foregoing including those factors when evaluating any forward-looking statements concerning the Company. The Company does not undertake any obligation to update any forward-looking statements in this Quarterly Report on Form 10-Q to reflect future events or developments.

Overview

GoPro makes it easy for the world to capture and share itself in immersive and exciting ways, helping people get the most out of their photos and videos. We are committed to developing solutions that create an easy, seamless experience for consumers to capture, create, manage and share engaging personal content. We make the world’s most versatile cameras, sophisticated, yet simple-to-use content-management and mobile editing software, and enable our product ecosystem for our customers through the GoPro and Quik subscriptions. 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, lifestyle gear, and software and subscription offerings. We believe new camera features and subscription benefits drive a replacement cycle among existing users and attract new users, expanding our total addressable market. Our investments in image stabilization, the Quik app’s content management, editing and sharing solutions, modular accessories, our cameras’ auto-upload capabilities, local language user-interfaces and voice recognition in more than 12 languages drive the expansion of our global market.

In September 2020, we began shipping our HERO9 Black flagship camera which features a 23.6MP sensor that provides stunning 5K video, the highest resolution ever for a HERO camera, 20MP photos and HyperSmooth 3.0 video stabilization. The HERO9 Black camera also features a new front-facing display, a larger rear touch display, an extended battery life, new Power Tools, TimeWarp 3.0, SuperPhoto, live streaming, webcam mode, built-in mounting, cloud connectivity and voice control. HyperSmooth 3.0 is our most advanced stabilization ever and includes in-camera horizon leveling that keeps shots smooth and level. TimeWarp Video 3.0 features Real Speed, which allows users to slow down footage to real speed and capture audio while recording, and Half Speed, which allows users to slow down footage even more for epic slow motion. Webcam Mode enables users to connect their HERO9 Black camera to a computer with the included USB-C cable to use the camera as a 1080p high-definition wide-angle webcam. We also introduced new Power Tools including HindSight, Scheduled Capture and Duration Capture to help users capture the perfect shot. HindSight allows users to capture and save up to 30 seconds of video before the shutter button is pressed. Scheduled Capture allows users to set up their cameras to automatically capture photos or videos up to 24 hours in advance and Duration Capture allows users to set their HERO9 Black to record for a specified length of time. In addition, we introduced a Max Lens Mod accessory that brings Max HyperSmooth video stabilization and Max SuperView’s ultra wide-angle photo and video to the HERO9 Black camera. Our HERO9 Black, HERO8 Black, HERO7 Black, HERO7 Silver and MAX cameras are compatible with our ecosystem of mountable and wearable accessories. The GoPro subscription includes unlimited cloud storage supporting source video and photo quality, camera replacement and damage protection, access to a high-quality live streaming service on GoPro.com as well as discounts on GoPro gear, mounts and accessories. In March 2021, we launched a refresh of our mobile app, Quik, which makes it easy for users to get the most out of their favorite photos and videos no matter which phone or camera is used to capture the footage. We believe the launch of Quik and the new Quik subscription is an important step in expanding our total addressable market to those who value organizing the visual moments of their lives. Quik users can conveniently share their favorite photos or videos to the Quik app where those special “keeper” photos or videos will be added to a private “Mural” feed within the app. Quik also features a suite of powerful yet simple editing tools which allows users to edit photos or videos themselves. In June 2021, we announced Open GoPro, an open API initiative that makes it easy for third-party developers to integrate HERO9 Black into their own development efforts.

In December 2019, reports of a potentially deadly virus began to surface and in March 2020, the World Health Organization (the WHO) characterized the COVID-19 virus as a pandemic. The pandemic is having widespread, rapidly evolving, and unpredictable impacts on global societies, economies, financial markets and business practices. During the six months ended June 30, 2021, sales improved as retail began to recover as store traffic accelerated. In the first quarter of 2020, we temporarily closed all of our offices and required most of our employees to work remotely. These changes remained largely in effect in the second quarter of 2021 and in most locations, we plan on maintaining closed offices at least through end of 2021. See Item 1A Risk Factors for further discussion of the possible impact of the COVID-19 pandemic on our business.

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

(units and dollars in thousands, except per share amounts)	Q2 2021	Q1 2021	Q2 2020	% Change Q2 2021 vs. Q1 2021	% Change Q2 2021 vs. Q2 2020
Revenue	$ 249,586	$ 203,680	$ 134,246	23 %	86 %
Camera units shipped [1]	724	556	448	30 %	62 %
Gross margin [2]	39.8 %	38.6 %	30.3 %	120 bps	950 bps
Operating expenses	$ 89,780	$ 82,208	$ 85,606	9 %	5 %
Net income (loss)	$ 16,952	$ (10,168)	$ (50,975)	(267) %	(133) %
Diluted net income (loss) per share	$ 0.10	$ (0.07)	$ (0.34)	(243) %	(129) %
Cash provided by (used in) operations	$ 23,174	$ (25,492)	$ (43,744)	(191) %	(153) %
Other financial information:					
Adjusted EBITDA [3]	$ 25,065	$ 10,720	$ (22,367)	134 %	(212) %
Non-GAAP net income (loss) [4]	$ 19,862	$ 4,835	$ (29,721)	311 %	(167) %
Non-GAAP diluted net income (loss) per share	$ 0.12	$ 0.03	$ (0.20)	300 %	(160) %

(1) Represents the number of camera units that are shipped during a reporting period, net of any returns.

(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, intangible asset impairment charges, loss on extinguishment of debt, and restructuring and other costs, including right-of-use asset impairment charges.

(4) We define non-GAAP net income (loss) as net income (loss) adjusted to exclude stock-based compensation, acquisition-related costs, restructuring and other costs, including right-of-use asset impairment charges, non-cash interest expense, loss on extinguishment of debt and income tax adjustments. Acquisition-related costs include the amortization of acquired intangible assets and impairment charges (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.

Second quarter 2021 financial performance

Revenue in the second quarter of 2021 was $249.6 million, or an 86% increase from $134.2 million in the same period of 2020, and the gross margin percentage in the second quarter of 2021 was 39.8%, or a 950 bps increase from 30.3% in the same period of 2020. The year-over-year improvement in revenue was driven by strong sales through our retail channel as stores began to reopen, primarily in North America and EMEA, which increased 116% year-over-year. As a result of increased sell-through by our retail channel partners, channel inventory decreased approximately 15% and 35% sequentially and year-over-year, respectively, to below 500,000 camera units at the end of the second quarter of 2021. The year-over-year improvement in revenue was also driven by our continued focus on direct-to-consumer sales through GoPro.com, which increased 48% year-over-year to $87.8 million in the second quarter of 2021. Gross margin was positively impacted by 950 bps year-over-year, primarily driven by improved pricing, growth in high margin subscription revenue, and better leverage on overhead costs due to higher camera unit sales. Gross margin and net income per share were also positively impacted by foreign currency rate fluctuations primarily related to sales from GoPro.com, which improved gross margin and net income per share by approximately 20 bps and $0.01, respectively, in the second quarter of 2021. In addition, net income per share was positively impacted by approximately $0.08 due to a current quarter tax benefit primarily associated with the release of a portion of our uncertain tax positions reserve. We shipped 724,000 camera units in the second quarter of 2021, compared to 448,000 camera units in the same period of 2020. Our average selling price, which is defined as total revenue divided by camera units shipped, in the second quarter of 2021 increased 15% year-over-year to $345, primarily due to 94% of our camera revenue mix from cameras with a suggested retail price equal to or greater than $300 and growth in GoPro subscribers. We had 1.16 million GoPro subscribers at the end of the second quarter of 2021. Subscription revenue in the second quarter of 2021 was $11.6 million, or a 143% increase from $4.7 million in the same period of 2020.

Net income in the second quarter of 2021 was $17.0 million, an improvement of $68.0 million, when compared to a net loss of $51.0 million in the same period of 2020. Adjusted EBITDA for the second quarter of 2021 was $25.1 million, compared to negative $22.4 million in the same period of 2020.

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 operate our business and improve our results of operations.

Driving profitability through improved efficiency, lower costs and better execution. While we generated operating income during the second quarter of 2021, we continue to make strategic decisions to create sustainable growth and profitability in our business. Prior to the second quarter of 2021, we had incurred operating losses in the first quarter of 2021, as well as fiscal years 2020, 2019 and 2018. Our restructuring actions have significantly reduced our on-going operating expenses, resulting in a flatter, more efficient global organization that has allowed for improved communication and better alignment among our functional teams. Primarily as a result of the impact of the COVID-19 pandemic, we took additional restructuring actions in April 2020 to further reduce our operating expenses in marketing, sales, and general and administrative functions, and to reduce our global facility footprint. Operating expense reductions related to research and development were minor in order to protect our product roadmap and innovation. Additionally, in response to the COVID-19 pandemic, we accelerated a shift in our sales channel strategy to reduce the number of distributors and retailers that we work with to focus more on direct-to-consumer sales through GoPro.com. Revenue from GoPro.com in the three months ended June 30, 2021 and 2020 was $87.8 million and $59.5 million, respectively, and represented 35.2% and 44.3% of total revenue, respectively. Revenue from GoPro.com in the six months ended June 30, 2021 and 2020 was $169.8 million and $84.8 million, respectively, and represented 37.5% and 33.4% of total revenue, respectively. For the three months ended June 30, 2021 and 2020, revenue from retailers and distribution partners represented 64.8% and 55.7% of total revenue, respectively. For the six months ended June 30, 2021 and 2020, revenue from retailers and distribution partners represented 62.5% and 66.6% of total revenue, respectively. The revenue growth year-over-year was also impacted by temporarily depressed sales in the second quarter of 2020, due to the start of the COVID-19 pandemic.

If we are unable to generate adequate revenue growth, particularly in light of the impact of the COVID-19 pandemic, successfully sustain our direct-to-consumer sales model and current revenue growth rate, or continue to manage our expenses, we may incur significant losses in the future and may not be able to achieve 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 those for marketing and advertising, may not successfully drive increased revenue and our customers may not accept 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.

Improving Profitability. We believe that shifting the way we sell, and focusing on growing our direct-to-consumer sales and subscription services will accelerate our ability to achieve profitability due to an improved margin structure and lower operating expenses to support this shift in channel, particularly in light of the impact of the COVID-19 pandemic. As a result of this shift toward direct sales, we believe we can reach profitability with lower overall unit sales. We continue to believe that international markets represent a significant opportunity to achieve profitability. 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 support our business from many of the negative trends facing this market. However, we expect that the markets in which we conduct our business will remain highly competitive as we face new product introductions from competitors. We will continue to leverage the brand recognition of our Company to increase our global presence through GoPro.com with the active promotion of our brand, the expansion of localized products in international markets with region-specific marketing, and an investment focus on the biggest opportunities.

Our profitability also depends on expanding our subscription service offerings. If we are not successful in our shift to a direct-to-consumer sales model, expanding our product and subscription offerings and increasing our paid subscriber base, we might not be able to become consistently profitable and we may not recognize benefits from our investment in new areas.

Marketing the improved GoPro experience. We intend to focus our marketing resources to increase traffic, improve the consumer experience on GoPro.com, and further improve brand recognition. 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 goal of achieving profitability depends on continuing to reach, expand and re-engage with this core user base in alignment with our strategic priorities. Sales and marketing investments will often occur in advance of any sales benefits from these activities, and it may be difficult for us to determine if we are efficiently allocating our resources in this area.

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

Results of Operations

The following table sets forth the components of our Condensed Consolidated Statements of Operations for each of the periods presented, and each component as a percentage of revenue:

	Three months ended June 30,				Six months ended June 30,			
(dollars in thousands)	**2021**		**2020**		**2021**		**2020**	
Revenue	$ 249,586	100 %	$ 134,246	100 %	$ 453,266	100 %	$ 253,646	100 %
Cost of revenue	150,304	60	93,554	70	275,288	61	174,527	69
Gross profit	99,282	40	40,692	30	177,978	39	79,119	31
Operating expenses:								
Research and development	37,800	15	34,558	26	70,230	15	66,839	26
Sales and marketing	35,670	14	34,965	26	71,460	16	78,467	31
General and administrative	16,310	7	16,083	12	30,298	7	34,841	14
Total operating expenses	89,780	36	85,606	64	171,988	38	180,147	71
Operating income (loss)	9,502	4	(44,914)	(34)	5,990	1	(101,028)	(40)
Other income (expense):								
Interest expense	(5,532)	(2)	(4,671)	(3)	(11,412)	(3)	(9,514)	(4)
Other income (expense), net	1,312	—	(321)	—	1,755	—	(493)	—
Total other expense, net	(4,220)	(2)	(4,992)	(3)	(9,657)	(3)	(10,007)	(4)
Income (loss) before income taxes	5,282	2	(49,906)	(37)	(3,667)	(2)	(111,035)	(44)
Income tax expense (benefit)	(11,670)	(5)	1,069	1	(10,451)	(3)	3,468	1
Net income (loss)	$ 16,952	7 %	$ (50,975)	(38)%	$ 6,784	1 %	$ (114,503)	(45)%

Revenue

(camera units and dollars in thousands, except average selling price)	Three months ended June 30,			Six months ended June 30,		
	2021	2020	% Change	2021	2020	% Change
Camera units shipped	724	448	62 %	1,280	789	62 %
Average selling price	$ 345	$ 300	15	$ 354	$ 322	10
GoPro.com	$ 87,776	$ 59,505	48	$ 169,834	$ 84,794	100
Percentage of revenue	*35.2 %*	*44.3 %*		*37.5 %*	*33.4 %*	
Retail	$ 161,810	$ 74,741	116	$ 283,432	$ 168,852	68
Percentage of revenue	*64.8 %*	*55.7 %*		*62.5 %*	*66.6 %*	
Total revenue	$ 249,586	$ 134,246	86 %	$ 453,266	$ 253,646	79 %
Americas	$ 146,600	$ 82,640	77 %	$ 253,238	$ 139,887	81 %
Percentage of revenue	*58.8 %*	*61.6 %*		*55.9 %*	*55.1 %*	
Europe, Middle East and Africa (EMEA)	$ 61,190	$ 34,909	75	$ 110,993	$ 64,628	72
Percentage of revenue	*24.5 %*	*26.0 %*		*24.5 %*	*25.5 %*	
Asia and Pacific (APAC)	$ 41,796	$ 16,697	150	$ 89,035	$ 49,131	81
Percentage of revenue	*16.7 %*	*12.4 %*		*19.6 %*	*19.4 %*	
Total revenue	$ 249,586	$ 134,246	86 %	$ 453,266	$ 253,646	79 %

Revenue in the second quarter of 2021 was $249.6 million, or an 86% increase from the same period in 2020. Revenue in the first half of 2021 was $453.3 million, or a 79% increase from the same period of 2020. The year-over-year increase in revenue was driven by strong sales through our retail channel as stores began to reopen, primarily in North America and EMEA, which increased 116% year-over-year compared to the second quarter of 2020 and 68% year-over-year compared to the first half of 2020. As a result of increased sell-through by our retail channel partners, channel inventory decreased approximately 15% and 35% sequentially and year-over-year, respectively, to below 500,000 camera units in the second quarter of 2021. In addition, we continued to focus on direct-to-consumer sales through GoPro.com, which increased 48% year-over-year compared to the second quarter of 2020 and 100% year-over-year compared to the first half of 2020. Camera units shipped in the second quarter and first half of 2021 were 724,000 and 1.3 million units, respectively, compared to 448,000 and 789,000 units in the same periods of 2020. The average selling price, which is defined as total revenue divided by camera units shipped, in the second quarter and first half of 2021 was $345 and $354, respectively, or an increase of 15% and 10%, respectively. The increase in our average selling price was primarily driven by cameras sold with a suggested retail price equal to or greater than $300, which represented 94% of our camera revenue mix in the second quarter and the first half of 2021. In addition, the increase in our average selling price was also positively impacted by the growth in GoPro subscribers. We had 1.16 million GoPro subscribers at the end of the second quarter of 2021. Subscription revenue in the second quarter and first half of 2021 was $11.6 million and $22.3 million, respectively, or an increase of 143% and 131%, respectively, from the same periods of 2020.

Cost of revenue and gross margin

(dollars in thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	% Change	Six months ended June 30, 2021	Six months ended June 30, 2020	% Change
Cost of revenue	$ 149,491	$ 91,862	63 %	$ 273,307	$ 170,449	60 %
Stock-based compensation	508	332	53	937	835	12
Acquisition-related costs	288	1,024	(72)	1,011	2,911	(65)
Restructuring costs	17	336	(95)	33	332	(90)
Total cost of revenue	$ 150,304	$ 93,554	61 %	$ 275,288	$ 174,527	58 %
Gross margin	*39.8 %*	*30.3 %*		*39.3 %*	*31.2 %*	

Gross margin of 39.8% in the second quarter of 2021 increased from 30.3% in the same period of 2020, or 950 bps, primarily due to improved pricing, 460 bps, better leverage on overhead costs due to higher unit sales, 425 bps, a decrease in amortization of intangibles, 65 bps, and foreign currency rate fluctuations primarily related to sales from GoPro.com, 20 bps. Subscription services provided 166 bps and 168 bps to gross margin in the second quarter of 2021 and 2020, respectively.

Gross margin of 39.3% in the first half of 2021 increased from 31.2% in the same period of 2020, or 810 bps, primarily due to improved pricing, 450 bps, better leverage on overhead costs due to higher unit sales, 300 bps, and a decrease in amortization of intangibles, 92 bps. Subscription services provided 193 bps and 186 bps to gross margin in the first half of 2021 and 2020, respectively.

Research and development

(dollars in thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	% Change	Six months ended June 30, 2021	Six months ended June 30, 2020	% Change
Research and development	$ 33,045	$ 28,971	14 %	$ 61,192	$ 58,254	5 %
Stock-based compensation	4,615	3,063	51	8,751	6,085	44
Restructuring costs	140	2,524	(94)	287	2,500	(89)
Total research and development	$ 37,800	$ 34,558	9 %	$ 70,230	$ 66,839	5 %
Percentage of revenue	*15.1 %*	*25.7 %*		*15.5 %*	*26.4 %*	

The year-over-year increase of $3.2 million, or 9%, in total research and development expenses in the second quarter of 2021 compared to 2020 reflected a $4.9 million increase in cash-based personnel-related costs primarily attributable to accrued bonus, and a $1.6 million increase in stock-based compensation, partially offset by a $2.4 million decrease in restructuring costs and a $1.2 million decrease in consulting and professional services costs.

The year-over-year increase of $3.4 million, or 5%, in total research and development expenses in the first half of 2021 compared to 2020 reflected a $5.8 million increase in cash-based personnel-related costs primarily attributable to accrued bonus, and a $2.7 million increase in stock-based compensation, partially offset by a $3.6 million decrease in consulting and professional services costs and a $2.2 million decrease in restructuring costs.

Sales and marketing

(dollars in thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	% Change	Six months ended June 30, 2021	Six months ended June 30, 2020	% Change
Sales and marketing	$ 33,378	$ 26,942	24 %	$ 67,241	$ 68,746	(2) %
Stock-based compensation	2,153	789	173	4,018	2,506	60
Restructuring costs	139	7,234	(98)	201	7,215	(97)
Total sales and marketing	$ 35,670	$ 34,965	2 %	$ 71,460	$ 78,467	(9) %
Percentage of revenue	*14.3 %*	*26.0 %*		*15.8 %*	*30.9 %*	

The year-over-year increase of $0.7 million, or 2%, in total sales and marketing expenses in the second quarter of

2021 compared to 2020 reflected a $4.5 million increase in overall advertising and marketing expenses, a $1.7 million increase in payment processing fees related to sales on GoPro.com and customer mobile purchases, a $1.4 million increase in stock-based compensation, and a $1.1 million increase in cash-based personnel-related costs primarily attributable to accrued bonus, partially offset by a $7.1 million decrease in restructuring costs and a $0.8 million decrease in allocated facilities, depreciation and other supporting overhead expenses.

The year-over-year decrease of $7.0 million, or 9%, in total sales and marketing expenses in the first half of 2021 compared to 2020 reflected a $7.0 million decrease in restructuring costs, a $5.0 million decrease in overall advertising and marketing expenses attributable to reduced online campaigns and POP displays, and a $2.3 million decrease in allocated facilities, depreciation and other supporting overhead expenses, partially offset by a $8.0 million increase in payment processing fees related to sales on GoPro.com and customer mobile purchases.

General and administrative

	Three months ended June 30,			Six months ended June 30,		
(dollars in thousands)	2021	2020	% Change	2021	2020	% Change
General and administrative	$ 13,505	$ 13,134	3 %	$ 24,997	$ 29,514	(15) %
Stock-based compensation	2,753	1,692	63	5,192	4,087	27
Restructuring costs	52	1,257	(96)	109	1,240	(91)
Total general and administrative	$ 16,310	$ 16,083	1 %	$ 30,298	$ 34,841	(13) %
Percentage of revenue	*6.5 %*	*12.0 %*		*6.7 %*	*13.7 %*	

The year-over-year increase of $0.2 million, or 1%, in total general and administrative expenses in the second quarter of 2021 compared to 2020 reflected a $1.7 million increase in cash-based personnel-related costs primarily attributable to accrued bonus, a $1.1 million increase in stock-based compensation, and a $0.2 million increase in bad debt expense, partially offset by a $1.2 million decrease in restructuring costs, a $0.8 million decrease in litigation expenses, and a $0.7 million decrease in allocated facilities and other supporting overhead expenses.

The year-over-year decrease of $4.5 million, or 13%, in total general and administrative expenses in the first half of 2021 compared to 2020 reflected a $3.8 million decrease in litigation expenses, a $1.7 million decrease in allocated facilities and other supporting overhead expenses, and a $1.1 million decrease in restructuring costs, partially offset by a $2.1 million increase in cash-based personnel-related costs primarily attributable to accrued bonus.

Other income (expense)

	Three months ended June 30,			Six months ended June 30,		
(dollars in thousands)	2021	2020	% Change	2021	2020	% Change
Interest expense	$ (5,532)	$ (4,671)	18 %	$ (11,412)	$ (9,514)	20 %
Other income (expense), net	1,312	(321)	(509)	1,755	(493)	(456)
Total other expense, net	$ (4,220)	$ (4,992)	(15) %	$ (9,657)	$ (10,007)	(3) %

Total other expense, net, decreased $0.8 million in the second quarter of 2021 compared to 2020, primarily driven by a $1.5 million increase in net foreign exchange rate-based gains, partially offset by a $1.0 million increase in the amortization of our debt discount primarily due to the issuance of our 1.25% Convertible Senior Notes due 2025 (2025 Notes).

Total other expense, net, decreased $0.4 million in the first half of 2021 compared to 2020, primarily driven by a $2.2 million increase in net foreign exchange rate-based gains, partially offset by a $2.1 million increase in the amortization of our debt discount primarily due to the issuance of our 1.25% Convertible Senior Notes due 2025 (2025 Notes).

Income taxes

	Three months ended June 30,			Six months ended June 30,		
(dollars in thousands)	2021	2020	% Change	2021	2020	% Change
Income tax expense (benefit)	$ (11,670)	$ 1,069	(1,192)%	$ (10,451)	$ 3,468	(401) %

We recorded an income tax benefit of $11.7 million in the second quarter of 2021 on a pre-tax net income of $5.3 million, which resulted in a negative effective tax rate of 220.9%. Our income tax benefit was primarily related to $1.0 million of tax expense incurred on pre-tax income, and discrete items that primarily included $12.6 million tax benefit due to the release of a portion of our uncertain tax positions as a result of a lapse in the statute of limitations in certain jurisdictions, $1.0 million of net excess tax benefit for employee stock-based compensation, $0.2 million of tax benefit relating to restructuring charges and $0.2 million of tax benefit relating to the foreign provision to income tax return adjustments, partially offset by a net increase in the valuation allowance of $1.3 million.

We recorded an income tax benefit of $10.5 million for the six months ended June 30, 2021 on a pre-tax net loss of $3.7 million, which resulted in an effective tax rate of 285.0%. Our income tax benefit was primarily related to $2.3 million of tax expense incurred on pre-tax income, and discrete items that primarily included $12.6 million tax benefit due to the release of a portion of our uncertain tax positions as a result of a lapse in the statute of limitations in certain jurisdictions, $2.8 million of net excess tax benefit for employee stock-based compensation, $0.4 million of tax benefit relating to restructuring charges and $0.4 million of tax benefit relating to the foreign provision to income tax return adjustments, partially offset by a net increase in the valuation allowance of $3.3 million.

See Note 7 Income taxes, to the Notes to Condensed Consolidated Financial Statements for additional information.

Liquidity and Capital Resources

The following table presents selected financial information as of June 30, 2021 and December 31, 2020:

(dollars in thousands)	June 30, 2021	December 31, 2020
Cash and cash equivalents	$ 285,806	$ 325,654
Marketable securities	32,889	—
Total cash, cash equivalents and marketable securities	$ 318,695	$ 325,654
Percentage of total assets	*42 %*	*42 %*

Our primary source of cash is receipts from sales of our products and services. Other sources of cash are from proceeds from the issuance of convertible notes, employee participation in the employee stock purchase plan, the exercise of employee stock options, tax refunds and facility subleases. 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, other costs of revenue and repurchases of convertible notes.

As of June 30, 2021, our cash, cash equivalents and marketable securities totaled $318.7 million. The overall cash used in operations of $2.3 million in the six months ended June 30, 2021 was primarily due to changes in working capital of $42.7 million, partially offset by non-cash expenses of $33.4 million and net income of $6.8 million. Working capital changes in the six months ended June 30, 2021 were the result of a decrease in accounts payable and other liabilities of $46.8 million and an increase in inventory of $8.8 million, partially offset by a decrease in accounts receivable of $10.1 million. As of June 30, 2021, $15.4 million of cash was held by our foreign subsidiaries.

Convertible Notes

In April 2017, we issued $175.0 million aggregate principal amount of the 2022 Notes in a private placement to purchasers for resale to qualified institutional buyers. The 2022 Notes mature on April 15, 2022, unless earlier repurchased or converted into shares of Class A common stock subject to certain conditions. The 2022 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 2022 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 2022 Notes semi-annually in arrears on April 15 and October 15 of each year. Proceeds received from the issuance of the 2022 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 2022 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 2022 Notes to pay the prepayment amount. The aggregate number of shares of our Class A common stock underlying the Prepaid Forward is approximately 9.2 million shares. The expiration date for the Prepaid Forward is April 15, 2022, although it may be settled earlier in whole or in part. Upon settlement of the Prepaid Forward, at expiration or upon any early settlement, the forward counterparty will deliver to us the number of shares of Class A common stock underlying the Prepaid Forward or the portion thereof being settled early. The shares purchased under the Prepaid Forward were treated as treasury stock on the Condensed Consolidated Balance Sheets (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 2022 Convertible Senior Notes offering of approximately $91 million were used for general corporate purposes.

In the fourth quarter of 2020, 8.8 million shares out of the 9.2 million shares of Class A common stock underlying the Prepaid Forward entered into as part of our 2022 Notes were early settled and delivered to us. In April 2021, the remaining 0.4 million shares of Class A common stock underlying the Prepaid Forward were early settled and delivered to us. There was no financial statement impact due to the return of shares; however, shares outstanding for corporate law purposes were reduced by the early settlement.

In November 2020, we issued $143.8 million aggregate principal amount of 2025 Notes in a private placement to purchasers for resale to qualified institutional buyers. The 2025 Notes mature on November 15, 2025, unless earlier repurchased or converted into shares of Class A common stock subject to certain conditions. The 2025 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 107.1984 shares of common stock per $1,000 principal amount of the 2025 Notes, which is equivalent to an initial conversion price of approximately $9.3285 per share of common stock, subject to adjustment. We pay interest on the 2025 Notes semi-annually in arrears on May 15 and November 15 of each year. Proceeds received from the issuance of the 2025 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 offering of the 2025 Notes, we entered into privately negotiated capped call transactions with certain financial institutions (Capped Calls). We used $10.2 million of the net proceeds from the sale of the 2025 Notes to purchase the Capped Calls and $56.2 million of the net proceeds to repurchase $50.0 million of aggregate principal amount of the 2022 Notes. The remaining net proceeds were used for general corporate purposes.

Liquidity

Based on our most current projections, we believe that our cash, cash equivalents, 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 one year from the issuance of these financial statements.

- 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 January 2021, we entered into a Credit Agreement with a certain bank which provides for a revolving credit facility under which we may borrow up to an aggregate amount of $50.0 million. Our credit facility will terminate and any outstanding borrowings become due and payable on the earlier of (i) January 2024 and (ii) unless we have cash in a specified deposit account in an amount equal to or greater than the amount required to repay our convertible notes due April 2022, 91 days prior to the maturity date of such convertible notes. No borrowings have been made from the credit facility to date. (See Note 4 Financing arrangements, in the Notes to Condensed Consolidated Financial Statements for additional information.)

In the future, we may require additional financing to respond to business opportunities, challenges or unforeseen circumstances. If we are unable to obtain adequate debt or equity financing when we require it or on terms acceptable to us, especially in light of the market volatility and uncertainty as a result of the COVID-19 pandemic, our ability to grow or support our business, repay debt and respond to business challenges could be significantly limited. Although we believe we have adequate sources of liquidity over the long term, the success of our operations and the global economic outlook, in each case, in light of the market volatility and uncertainty as a result of the COVID-19 pandemic, among other factors, could impact our business and liquidity.

Summary of Cash Flow

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

	Six months ended June 30,		
(in thousands)	**2021**	**2020**	**% Change**
Net cash provided by (used in):			
Operating activities	$ (2,318)	$ (112,028)	(98) %
Investing activities	$ (34,908)	$ 12,229	(385) %
Financing activities	$ (3,775)	$ 29,555	(113) %

Cash flows from operating activities

Cash used in operating activities of $2.3 million for the six months ended June 30, 2021 was primarily attributable to a net cash outflow of $42.7 million from changes in operating assets and liabilities, partially offset by non-cash expenses of $33.4 million and net income of $6.8 million. Cash outflows related to operating assets and liabilities consisted primarily of a decrease in accounts payable and other liabilities of $46.8 million and an increase in inventory of $8.8 million, partially offset by a decrease in accounts receivable of $10.1 million.

Cash flows from investing activities

Cash used in investing activities of $34.9 million for the six months ended June 30, 2021 was primarily attributable to purchases of marketable securities of $32.9 million and net purchases of property and equipment of $2.0 million.

Cash flows from financing activities

Cash used in financing activities of $3.8 million for the six months ended June 30, 2021 was primarily attributable to $8.0 million in tax payments for net RSU settlements, partially offset by $4.2 million received from stock purchases made through our employee stock purchase plan and employee stock option exercises.

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.

Contractual Obligations

See Note 4 Financing arrangements, for a discussion regarding our 2022 Notes and 2025 Notes, and Note 8 Commitments, contingencies and guarantees, for a discussion regarding facility leases and other contractual commitments in the Notes to Condensed Consolidated Financial Statements.

There have been no material changes to our contract obligations and commitments disclosed in our 2020 Annual Report.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from those disclosed in our 2020 Annual Report.

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 point of purchase (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 restructuring and other related costs which primarily include severance-related costs, stock-based compensation expenses, facilities consolidation charges recorded in connection with restructuring actions announced in the fourth quarter of 2016, first quarter of 2017, first quarter of 2018 and second quarter of 2020, including right-of-use asset impairment charges, and the related ongoing operating lease cost of those facilities recorded under ASC 842, *Leases*. 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;

- adjusted EBITDA and non-GAAP net income (loss) exclude the loss on extinguishment of debt because it is not reflective of ongoing operating results in the period, and such losses vary in the frequency and amount;
- 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 vary significantly based on the timing and magnitude of our acquisition transactions and the maturities of the businesses being acquired. Although we exclude the amortization of acquired intangible assets from our non-GAAP net income (loss), management believes that it is important for investors to understand that such intangible assets were recorded as part of purchase accounting and contribute to revenue generation;
- non-GAAP net income (loss) excludes non-cash interest expense. In connection with the issuance of the Convertible Senior Notes in April 2017 and November 2020, we are required to recognize non-cash interest expense, such as the amortization of debt discounts, in accordance with the authoritative accounting guidance for convertible debt that may be settled in cash;
- non-GAAP net income (loss) includes income tax adjustments. We utilize 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.

The following table presents a reconciliation of net income (loss) to adjusted EBITDA:

	Three months ended		
(in thousands)	**June 30, 2021**	**March 31, 2021**	**June 30, 2020**
Net income (loss)	$ 16,952	$ (10,168)	$ (50,975)
Income tax expense (benefit)	(11,670)	1,219	1,069
Interest expense, net	5,484	5,796	4,629
Depreciation and amortization	2,694	3,534	4,711
POP display amortization	671	637	972
Stock-based compensation	10,029	8,869	5,876
Restructuring and other costs	905	833	11,351
Adjusted EBITDA	$ 25,065	$ 10,720	$ (22,367)

The following table presents a reconciliation of net income (loss) to non-GAAP net income (loss):

(in thousands, except per share data)	Three months ended June 30, 2021	Three months ended March 31, 2021	Three months ended June 30, 2020
Net income (loss)	$ 16,952	$ (10,168)	$ (50,975)
Stock-based compensation	10,029	8,869	5,876
Acquisition-related costs	288	723	1,024
Restructuring and other costs	905	833	11,351
Non-cash interest expense	3,512	3,433	2,477
Income tax adjustments	(11,824)	1,145	526
Non-GAAP net income (loss)	$ 19,862	$ 4,835	$ (29,721)
GAAP diluted net income (loss) per share	$ 0.10	$ (0.07)	$ (0.34)
Non-GAAP diluted net income (loss) per share	$ 0.12	$ 0.03	$ (0.20)
GAAP shares for diluted net income (loss) per share	164,857	152,181	148,497
Add: effect of potentially dilutive shares	—	7,671	—
Non-GAAP shares for diluted net income (loss) per share	164,857	159,852	148,497

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In addition to market risk that is created by the uncertainties and the global market disruptions resulting from the COVID-19 pandemic, 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. Revenue generated from GoPro.com, which has increased as a result of our focus on our direct-to-consumer sales strategy, is denominated in U.S. dollars and various foreign currencies. However, to date, the majority of our product sales and inventory purchases have been denominated in U.S. dollars. We therefore have had limited 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, British pound, Romanian leu, Singaporean dollar and Australian dollar. 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 continue to focus on the growth of our direct-to-consumer business and 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 of money market funds, commercial paper 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 nature of our investment portfolio, we do not believe that an immediate 10% shift in interest rates would have a material effect on the fair value of our investment portfolio.

The fair value of our 2022 Convertible Senior Notes (2022 Notes) and 2025 Convertible Senior Notes (2025 Notes) are subject to interest rate risk, market risk and other factors due to the conversion feature. The capped call that was entered into concurrently with the issuance of our 2025 Notes were completed to reduce the potential dilution from the conversion of the 2025 Notes. The fair value of the 2022 Notes and 2025 Notes will generally increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of the 2022 Notes and 2025 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 2022 Notes and 2025 Notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company’s management, with the participation of the Company’s principal executive officer and principal financial officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures based on the criteria established in “Internal Control – Integrated Framework” (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (Exchange Act)), as of June 30, 2021. Based on such evaluation, the Company’s principal executive officer and principal financial officer have concluded that, as of June 30, 2021, the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed in the Company’s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended June 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We are continually monitoring and assessing the COVID-19 related considerations and any impact on the design and operating effectiveness of our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

Refer to Legal proceedings and investigations included in Part I, Item 1, Note 8 Commitments, contingencies and guarantees, to the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for the three months ended June 30, 2021.

Item 1A. Risk Factors

The risks described in Risk Factors in our 2020 Annual Report, and as supplemented below, could materially and adversely affect our business, financial condition and results of operations. 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.

Risk Factor Summary

- We may not be able to achieve revenue growth or profitability in the future, and if revenue growth or profitability is achieved, we may not be able to sustain it.
- Our goal to grow revenue and be profitable is dependent upon our ability to grow our direct-to-consumer and subscription business. If we do not effectively grow our direct-to-consumer and subscription business while simultaneously reducing our reliance on our other sales channels, our business, financial condition, results of operations and path to profitability could be harmed.
- 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.

- The COVID-19 outbreak has had a material impact on the United States and global economies and could have a material adverse impact on our employees, suppliers, customers and end consumers, which could adversely and materially impact our business, financial condition and results of operations.
- If our sales fall below our forecasts, especially during the holiday season, our overall financial condition and results of operations could be adversely affected.
- If the e-commerce technology systems that give our consumers the ability to shop with us online do not function effectively, our operating results, as well as our ability to grow our direct-to-consumer and subscription business and improve profitability, could be materially adversely affected.
- Our future growth depends in part on further penetrating our total addressable market, and we may not be successful in doing so.
- To remain competitive and stimulate consumer demand, we must effectively manage product introductions, product transitions, product pricing and marketing.
- 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 could harm our business.
- Security and 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.
- 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 the digital imaging market 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.
- Our gross margins can vary significantly depending on multiple factors, which can result in unanticipated fluctuations in our operating results.
- We depend on key personnel to operate and grow our business. If we are unable to attract, engage and retain qualified personnel, our ability to develop, transform and successfully grow and operate our business could be harmed.
- Changes to trade agreements, trade policies, tariffs and import/export regulations may have an adverse effect on our business and results of operations.
- 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.
- If we fail to manage our operating expenses effectively, our financial performance may suffer.
- 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.
- 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.
- Our international business operations account for a significant portion of our revenue and operating expenses and are subject to challenges and risks.
- 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.
- 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.

- Our success depends on our ability to maintain the value and reputation of our brand.
- 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.
- If we encounter issues with our manufacturers or suppliers, our business, brand, and results of operations could be harmed and we could lose sales.
- 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.
- 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.
- 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.
- There are also risks associated with the ownership of our Class A common stock, including that our stock price has been and will likely continue to be volatile, and our convertible senior notes.

Risks related to our business and industry

We may not be able to achieve revenue growth or profitability in the future, and if revenue growth or profitability is achieved, we may not be able to sustain it.

Our historical results should not be considered as indicative of our future performance. For example, our annual revenue showed moderate growth from 2018 to 2019 from $1.148 billion to $1.195 billion, respectively. In 2020, annual revenue of $891.9 million was negatively impacted by COVID-19. In future periods, we could experience declines in revenue, or revenue could remain flat or grow more slowly than we expect, which could have a material negative effect on our future operating results.

In addition, the net operating income for the first half of 2021 was $6.0 million, however, we incurred operating losses of $101.0 million for the first half of 2020. We also incurred operating losses of $36.8 million, $2.3 million and $94.0 million for the full year 2020, 2019 and 2018, respectively. Lower levels of revenue or higher levels of operating expense in future periods may result in additional losses or limited profitability. Since the fourth quarter of 2016, we implemented four company-wide restructurings 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 cameras, accessories, software and subscription services. We may not realize further or sustain cost savings from these previous actions. We may continue to incur significant losses in the future for a number of reasons, including other risks described in this Quarterly Report on Form10-Q and in our 2020 Annual Report, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors.

Our goal to grow revenue and be profitable is dependent upon our ability to grow our direct-to-consumer and subscription business. If we do not effectively grow our direct-to-consumer and subscription business while simultaneously reducing our reliance on our other sales channels, our business, financial condition, results of operations and path to profitability could be harmed.

Our ability to grow revenue and become profitable is dependent upon our ability to successfully implement certain strategic go to market initiatives. For example, some of our key strategic initiatives is to expand our direct-to-consumer presence through GoPro.com, expand our software and subscription services, and continue to work with key retail partners and distributors globally.

We depend upon effective sales channels, including our direct-to-consumer business through GoPro.com, to reach the consumers who are the ultimate purchasers of our products. We have converted portions of our distributors' business into direct sales, and believe growing sales directly to our consumers will allow us to provide a best in class experience for online purchases. As we continue to convert distribution to direct sales, we might not be successful in that transition. Additionally, any reduction in sales or decreases in revenue by our current distributors and retailers or loss of key distributors or retailers could adversely affect our revenue, operating results and financial condition.

We depend on retailers to provide adequate and attractive space for our products and point of purchase 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. Based on our strategic initiative to increase our direct-to-consumer sales through GoPro.com, our retailers may decide not to adequately display our products, choose to reduce the space for our products and POP displays in their stores, or choose not to carry some or all of our products or promote competitors' products over ours and as a result, our sales could decrease and impact our plan to become more profitable.

We may not be able to transition away from some distributor agreements as quickly as we would like as a result of contractual, regulatory or other restrictions and may encounter difficulties in the transition to a more focused direct-to-consumer model. Further, our distributors build inventory in anticipation of future sales, and if such sales do not occur as rapidly as they anticipate, our distributors may decrease the size of their future product orders.

We are also subject to the risks of our distributors and large retail customers 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 and we may not be able to collect our receivables, which would materially and adversely affect our profitability and cash flows from operations. This could cause our cash collections to decrease and bad debt expense to increase. While we may resort to alternative methods to pursue claims or collect receivables, these methods are expensive and time consuming, and successful collection is not guaranteed.

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 and could increase as a result of COVID-19. We have in the past experienced and may in the future experience component shortages, and the availability of these components may be unpredictable, including as a result of the COVID-19 pandemic.

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.

Our reliance on single source, or a small number of suppliers involves a number of additional risks, including risks related to supplier capacity constraints, component availability, 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, pandemics, including the COVID-19 pandemic, or other catastrophic events.

In particular, for our camera designs, we incorporate system on chips, 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 system on chip from Socionext, Inc. in MAX as well as our HERO9, HERO8 and HERO7 Black cameras and rely on Socionext as the primary supplier of our system on chips. Developing next generation system on chips is a resource intensive process requiring increased investment to meet development schedules, which may impact future product schedules and overall margin expectations. If other suppliers of systems on chips become more advanced in performance or more competitive in cost, we may be placed at a disadvantage and not be able to continue improving our product performance as quickly or as competitively as planned or be able to achieve the product margins needed to be successful. 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 may experience 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.

The COVID-19 outbreak has had a material impact on the United States and global economies and could have a material adverse impact on our employees, suppliers, customers and end consumers, which could adversely and materially impact our business, financial condition and results of operations.

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus, COVID-19, a pandemic and public health emergency of international concern. Many federal, state and local governments, and private entities have mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories, and quarantining of people who may have been exposed to the virus. At this point, we cannot reasonably estimate the duration and severity of this pandemic, including multiple waves of increased infections or variants of the coronavirus, which in 2020 had a material adverse impact on our business, results of operations, financial position and cash flows. Our 2020 annual revenue of $891.9 million was negatively impacted by COVID-19.

As a result of the COVID-19 pandemic, we accelerated a shift in our sales channel strategy to focus more on direct-to-consumer sales through GoPro.com, and implemented a restructuring plan in April 2020 (the “2020 Restructuring Plan”) to realign our workforce to areas of growth combined with certain cost saving measures. The 2020 Restructuring Plan reduced our operating expenses in 2020 as a result of a 20% reduction of our global workforce and the consolidation of certain leased office facilities. Continued execution of the 2020 Restructuring Plan may not achieve continued savings into 2021 and beyond and may negatively affect future recruiting efforts.

We may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers and business partners. The extent of the impact will depend on the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable. A prolonged disruption or any further unforeseen delay in our operations or within any of our business activities could result in increased costs and reduced revenue.

The pandemic may adversely affect our customers, our employees and our employee productivity. It may also impact the ability of our contract manufacturers, vendors and suppliers to operate and fulfill their contractual obligations, and result in an increase in costs, tariffs, delays or disruptions in performance. These supply chain effects, the direct effect of the virus and the disruption on our employees and operations, may negatively impact both our ability to meet customer demand and our revenue and profit margins.

We might experience changes in consumer demand, particularly if GoPro product owners are restricted from participating in travel, adventure and sports activities that are often the subject of their use of our products and services and, as a result of the impacts on consumer discretionary spending resulting from the effect of the COVID-19 pandemic on the global economy. Both the health and economic aspects of the COVID-19 virus are highly fluid, and the future course of each is uncertain and subject to change.

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 2020, greater demand associated with the launch of new products heading into the holiday season. Fourth quarter revenue comprised 40%, 44% and 33% of our 2020, 2019 and 2018 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, any impact on consumer spending due to COVID-19, 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, including the fact that some retail locations may not be open for consumers due to COVID-19 restrictions, could cause our annual results of operations to suffer significantly. For example, due to a late stage production delay, our launch timing shifted for our HERO8 Black camera from Q3 2019 to Q4 2019 resulting in a material shift of revenue between Q3 2019 to Q4 2019. This product delay shortened the timeframe for holiday season sales and resulted in overall lower 2019 financial performance compared to our expectations.

In addition, we typically experience lower revenue in the first half of the year. For example, revenue of $453.3 million for the first half of 2021 decreased by $185.0 million, or 29%, compared to revenue of $638.3 million in the last half of 2020. First half revenue comprised 28%, 45% and 42% of our annual 2020, 2019 and 2018 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. Furthermore, our customers may adjust their purchasing habits as a result of external events such as tariff avoidance or tariff impact that could result in a lower predictability of revenue. Accordingly, in the event of revenue shortfalls, we are generally unable to mitigate a negative impact on operating margins in the short term.

If the e-commerce technology systems that give our consumers the ability to shop with us online do not function effectively, our operating results, as well as our ability to grow our direct-to-consumer and subscription business and improve profitability, could be materially adversely affected.

Our sales through GoPro.com represent an increasing percentage of our revenue and we are focused on continuing to accelerate the growth of our e-commerce sales. Revenue from GoPro.com represented 35% of revenue in the second quarter of 2021.

Any failure to provide effective, reliable, user-friendly e-commerce platforms that offer a wide assortment of merchandise with rapid delivery options and that continually meet the changing expectations of online shoppers in many jurisdictions could place us at a competitive disadvantage, result in the loss of e-commerce and other sales, harm our reputation with consumers, have a material adverse impact on the growth of our e-commerce business globally and could have a material adverse impact on our business and results of operations.

Any system interruptions or delays to our e-commerce business 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 our ability to maintain an 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 technology systems that operate GoPro.com and related support systems, such as system failures, viruses, cyberattacks, computer hackers and similar disruptions, including disruptions resulting from the COVID-19 pandemic, or the technology systems' ability to accurately aggregate our total subscribers from different systems and the related revenue, or the information technology related to aggregating our subscribers. If we or our designated third-party contractors and service providers are unable to maintain and upgrade GoPro.com, or if we encounter system interruptions or delays, our operating results could be adversely affected.

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

Historically, the majority of our growth has 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 easy-to-use software tools and services that enable effortless editing and sharing of content, with the smartphone central to the GoPro experience. While we believe our software and subscription products will increase our total addressable market, we may not be able to acquire and retain subscribers and cannot be certain that these efforts will be successful, and as a result, we may not be able to increase our total addressable market. 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.

If we are not successful in broadening our user base to reach more of our core customers with integrated solutions with our products, software and subscription services, 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 associated with promoting these solutions. Additionally, for our subscription products, we may not obtain the expected acquisition and retention benefits and our business may be adversely affected.

Our growth also depends on expanding the market with new capture perspectives with our 360-degree camera, MAX, which is a resource-intensive initiative in a highly competitive market, and by adding versatility to our products with expansion mods for HERO8 Black and HERO9 Black. While we are investing resources, including 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, including having adequate inventory to meet consumer demand. 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 consumer demand for new and upgraded products and services to maintain or increase our revenue. The markets for our products and services are characterized by intense competition, evolving distribution models, disruptive technology developments, short product life cycles, customer price sensitivity and frequent product introductions.

The success of new product introductions depends on a number of factors including, but not limited to, timely and successful research and development, pricing, market and consumer acceptance, the ability to successfully identify and originate product trends, 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 including testing of new parts and features. Additionally, as a result of the COVID-19 pandemic and subsequent economic recovery, we may not be able to accurately forecast consumer demand and inventory requirements and appropriately manage inventory to meet demand. 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 could harm our business.

We expect to derive the majority of our revenue from sales of cameras, mounts and accessories for the foreseeable future and an increasing amount of revenue attributable from our subscription products. A decline in the price or unit demand for these products, whether due to a strategic shift in sales channel strategy and macroeconomic conditions, including variable tariff rates, competition or otherwise, or our inability to increase sales of higher price point 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 MAX 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. For example, due to a late stage production delay, we shifted the launch of the GoPro HERO8 Black camera from Q3 2019 to Q4 2019 resulting in a material shift of revenue from Q3 2019 to Q4 2019. This product delay shortened the timeframe for holiday season sales and resulted in overall lower 2019 financial performance compared to our expectations.

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 products and services. Our research and development expenses were $131.6 million, $142.9 million and $167.3 million for 2020, 2019 and 2018, respectively. We expect that our research and development expenses will continue to be substantial in 2021 as we develop innovative technologies. 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.

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 our GoPro subscription in connection with our HERO camera lineup and MAX camera, to allow consumers to auto upload content to the cloud and make edits within the GoPro app, which was re-launched in March 2021 as Quik. 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 have been and will continue to expend resources to further innovate and deliver editing and sharing software solutions. If the software does not function as expected or users do not adopt our solution, sales of our cameras and GoPro subscriptions 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 result.

Security and 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, services and operating systems 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 through our GoPro subscription, which can be paired with our cameras. If malicious actors compromise the GoPro subscription, or if customer confidential information stored in the subscription or on the Quik app is accessed without authorization, our business will be harmed.

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 personally identifiable information of our customers and employees in our facilities and on our networks. Through the GoPro subscription and the Quik app, 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, including web hosting services, billing and payment processing, 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.

While we maintain cybersecurity insurance, our insurance may be insufficient or may not cover all liabilities incurred by such attacks. We also cannot be certain that our insurance coverage will be adequate for data handling or data security liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, litigation to pursue claims under our insurance policies or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, or denials of coverage, could have a material adverse effect on our business, reputation, operating results and financial condition.

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 the digital imaging market 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 digital imaging market is highly competitive. Further, competition has intensified in digital imaging as new market entrants and existing competitors have introduced new products and more competitive offerings into our markets. Increased competition, tariffs, 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., Shenzhen Arashi Vision Co., Ltd. and SZ DJI Technology 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. We continue to focus on the value proposition of the GoPro mobile application, re-launched in March 2021 as Quik, by introducing new features and benefits that we believe will enable customers to edit and share their content easily. Our software application, and GoPro and Quik subscription products may not be as compelling as those offered by other companies, such as Apple, Adobe or Google, although the Quik 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.

Our gross margins can vary significantly depending on multiple factors, which can result in unanticipated fluctuations in our operating results.

Our gross margins can vary due to consumer demand, competition, product pricing, product lifecycle, product mix, new product introductions, GoPro.com mix, subscription activation, renewals, and cancellations, commodity costs, supply chain and logistics costs, currency exchange rates, trade policy and tariffs, and the complexity and functionality of new product innovations and other factors. For example, our gross margin was 35.3%, 34.6% and 31.5% for 2020, 2019 and 2018, respectively. In particular, if we are not able to introduce new products in a timely manner at the product cost we expect, or if consumer demand for our products is less than we anticipate, or if there are product pricing, marketing and other initiatives by our competitors to which we need to react or that are initiated by us to drive sales that lower our margins, then our overall gross margin will be less than we project. For example, due to a late stage production delay, we shifted the launch of the GoPro HERO8 Black camera from Q3 2019 to Q4 2019, resulting in a material shift of revenue from Q3 2019 to Q4 2019 and a corresponding impact on our gross margin.

As we innovate with new products, we may have lower gross margins that do not deliver a sufficient return on investment. In addition, depending on competition or consumer preferences, we may face higher up-front investments in development to compete or market our products, and increased inventory write-offs. If we are unable to offset these potentially lower margins by enhancing the margins in our product categories, our profitability may be adversely affected.

The impact of these factors on gross margins can create unanticipated fluctuations in our operating results, which may cause volatility in the price of our shares.

We depend on key personnel to operate and grow our business. If we are unable to attract, engage and retain qualified personnel, our ability to develop, transform and successfully grow and operate 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, 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 the fourth quarter of 2016, we implemented four global reductions-in-force and 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 as a result.

Qualified individuals are in high demand, and we may incur significant costs to attract and retain them including increased wages due to inflation. 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. Additionally, the shift to a work from home environment may impact our ability to retain our highly skilled employees. Further, 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 2020, our closing stock price ranged from a high of $8.86 in the fourth quarter to a low of $2.01 in the first quarter, and in the first half of 2021, our closing stock price ranged from a high of $13.54 to a low of $7.45. 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.

Changes to trade agreements, 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, tariff levels, or export or other licensing requirements. 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, including components and materials, 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, including component vendors, located in China and in other countries to manufacture our products. Our contract manufacturer locations expose us to risks associated with doing business globally, including risks related to changes in tariffs or other export and import restrictions, and increased security costs. Additionally, the current United States administration continues to signal that it may continue to alter global trade agreements and terms. For example, the United States imposed additional tariffs on imports from China and continues to potentially impose other restrictions on exports from China to the United States. In 2018, the Office of the United States Trade Representative (USTR) identified certain Chinese imported goods for additional tariffs to address China’s trade policies and practices. 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, or we may choose to pay for these tariffs without raising prices which may negatively impact our results of operations and profitability. Sales of our products in China are material to our business and represent a significant portion of our revenue. This revenue stream from China is at risk in the event China imposes retaliatory tariffs impacting in-bound sales of our products or imposes any other export restrictions on our products.

We continue to monitor manufacturing capabilities outside of China and may choose to pursue those capabilities to mitigate risks of additional tariffs, duties or other restrictions on our products and may decide to transition more manufacturing outside of China.

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 business, but still had inventory of our Karma drone, which we sold throughout 2018.

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 forecasted 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 and 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 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 2020 and 2019 and, as of June 30, 2021, we had an accumulated deficit of $643.7 million. Beginning in the fourth quarter of 2016 through the second quarter of 2020, we implemented four 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.

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.

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 the Quik app, the GoPro subscription, the Quik subscription, GoPro Awards, our website account sign up and login and firmware upgrades for our cameras 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 and Quik subscription services. A prolonged AWS service disruption affecting our GoPro and Quik subscriptions 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 the GoPro or Quik subscriptions 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 the GoPro or Quik subscriptions 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.

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 GoPro.com 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. 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. The increase in remote working due to the COVID-19 pandemic may also result in heightened risks related to consumer privacy, network security and fraud. 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. Third parties may increasingly seek to compromise our security controls or gain unauthorized access to our sensitive data, intellectual property and proprietary data. In addition, the increasing use of the internet and telecommunications technologies to conduct business, and the increased sophistication and activities or organized crime, hackers, terrorists, and other external parties, as well as nation-state and nation-supported actors may increase the risks associated with future attacks. 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.

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.

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 52%, 64% and 65% of our revenue in 2020, 2019 and 2018, 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, Japan, 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, including any fluctuations caused by uncertainties relating to Brexit or the strengthening of the U.S. dollar;
- political, economic instability, or social unrest in a specific country or region in which we operate, including, for example, the effects of Brexit, which could have an adverse impact on our operations in that location;
- organized crime activity;
- terrorist activities, acts of war, natural disasters, and pandemics, including the COVID-19 pandemic;
- quarantines or other disruptions to our operations resulting from pandemics or other widespread public health problems;
- 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.

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 third-party customers, measured by the revenue we derive from them, accounted for 44%, 42% and 48% of our revenue in 2020, 2019 and 2018, respectively. One retailer accounted for 10%, 11% and 13% of our revenue for 2020, 2019 and 2018, respectively. The loss of a small number of our large customers, or the reduction in business with one or more of our large customers, could have a significant adverse effect on our operating results. In addition, we may choose to temporarily or permanently stop shipping product to customers who do not follow the policies and guidelines in our sales agreements, which could have a material negative effect on our revenues and operating results. Our sales agreements with these large customers do not require them to purchase any meaningful amount of our products annually and we grant limited rights to return product to some of these large customers.

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

We rely on third-party distribution facilities and logistics operators for substantially all of our product distribution to distributors, directly to retailers, and directly to consumers. 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, pandemics, such as the continued spread of COVID-19, terrorism, political unrest, cyber-attacks, floods, fires or other natural disasters or events beyond our control near our distribution centers, or port shutdowns or other transportation-related interruptions, including security breaches along our distribution routes. Additionally, we use one primary supplier for the third-party distribution and if this supplier were to experience financial difficulties, cyber-attacks, or other types of interruption it could adversely affect our business.

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,” 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

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 cameras, except in the European Union, or EU, where we provide a two-year warranty on all of our cameras. For certain mounts and accessories, where permitted, we provide a lifetime warranty. 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.

We offer the GoPro subscription, which has a camera replacement benefit as part of the monthly or yearly subscription, which is available in the United States and internationally. Accidental damage coverage, extended warranties and other camera replacement benefits are regulated in the United States on a state level and are treated differently by each state. Additionally, outside the United States, regulations for camera replacement benefits vary from country to country. Changes in interpretation of the insurance regulations or other laws and regulations concerning extended warranties, accidental damage coverage or camera replacement benefits 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 the GoPro subscription 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, 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. 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.

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

We do not have internal manufacturing capabilities and rely on several contract manufacturers, located primarily in China to manufacture our products. We cannot be certain that we will not experience operational difficulties with our manufacturers, including reductions in the availability of production capacity, errors in complying with product specifications, insufficient quality control, failures to meet production deadlines, increases in manufacturing costs and increased lead times. We also rely on a number of supply chain partners to whom we outsource activities related to inventory warehousing, order fulfillment, distribution and other direct sales logistics. Our supply chain partners are located in China, Thailand, 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, transportation security vulnerabilities, natural disasters, component or material shortages, cyber-attacks, 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.

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

We may grow our business in part through acquisitions, joint ventures, investments and partnerships, 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. We also may enter into relationships with other businesses in order to expand the distribution of our product offerings, which could involve joint ventures, strategic alliances and partnerships. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to third-party or government approvals, which are beyond our control. Consequently, we can make no assurance that these transactions, once undertaken and announced, will close.

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 encounter difficulties assimilating or integrating the businesses, technologies, products, personnel, or operations of acquired companies, particularly if the key personnel of the acquired business choose not to work for us, or we have difficulty retaining the customers of any acquired business, 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. In addition, our original estimates and assumptions used in assessing any transaction may be inaccurate, including estimates of 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 enter into any such acquisition, joint venture, strategic alliances or partnership, which could affect our financial condition or the value of our capital stock. 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. We cannot assure investors that the anticipated benefits of any acquisition or investment will be realized.

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.

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, threat of fire, act of terrorism, public health issues 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 China, Thailand, Hong Kong, Japan, Mexico, Netherlands, Singapore, Taiwan and the United States. Political instability, public health issues or other catastrophic events in any of those countries could adversely affect our business in the future, our financial condition and operating results.

Risks related to our intellectual property and technology licenses

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, applied to register, and/or used certain of our trademarks in several jurisdictions worldwide. In some of those jurisdictions, third-party registrations, filings, or common law use exist for the same, similar or otherwise related products or services, which could block the registration of or ability to use 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, including the matter described in Note 8 Commitments, contingencies and guarantees to the

Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q. 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 materially and adversely affect our business, financial condition, operating results or cash flows.

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.

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 products and services. From time to time, companies that incorporate open source software into their products or services 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.

Risks related to regulatory compliance

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. Our agreements with certain customers and business partners may also subject us to certain requirements related to our processing of personal information, including obligations to use industry-standard or reasonable security measures to safeguard personal information.

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, processing, storage, deletion and dissemination of data. Further, all states have enacted laws requiring companies to notify individuals, regulatory authorities and others of security breaches involving personal information.

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. We expect that existing laws, regulations and standards may be interpreted differently in the future. For example, in November 2020, the California ballot initiative known as the Consumer Privacy Rights Act (CPRA) was passed. CPRA will come into effect in January 2023 (except for the CPRA's right of access which will come into effect in January 2022), and will supersede the California Consumer Privacy Act (CCPA) which went into effect in January 2020. When it goes into effect, CPRA will provide for a new privacy enforcement authority, additional data privacy rights for consumers in California and new operational requirements for companies doing business in California. Compliance with the new obligations imposed by the CPRA depends in part on how particular regulators interpret and apply them. The CCPA provides for civil penalties for violations and a private right of action for data breaches. Provisions of the CCPA and CPRA may require us to modify our data collection or processing practices and policies to incur substantial costs and expenses in an effort to comply. If we fail to comply with the CCPA or CPRA or if regulators assert that we have failed to comply with the CCPA or CPRA, we may be subject to certain fines, sanctions, or other penalties, as well as litigation.

Further, some observers have noted that the CCPA and CPRA could mark the beginning of a trend toward more stringent privacy legislation in the U.S. and prompt a number of proposals for new federal and state-level privacy legislation. For example, in 2021, Virginia passed the Virginia Data Protection Act, or CDPA (enacted March 2021, effective January 1, 2023) and Colorado passed the Colorado Privacy Act, or CPA (enacted July 2021, effective July 1, 2023). We cannot fully predict the impact of the CCPA, CPRA, CDPA, CPA, or other similar laws or regulations on our business or operations, but they may require us to modify our data processing practices and policies and to incur substantial costs and expense in an effort to comply. Further, to the extent multiple state-level laws are introduced with inconsistent or conflicting standards, and there is no federal laws to preempt such state laws, compliance with such laws could be difficult and costly to achieve and we could be subject to fines and penalties in the event of non-compliance.

Additionally, many foreign countries and governmental bodies, including Australia, the European Union (EU), India, Japan and numerous other jurisdictions in which we operate or conduct our business, have laws and regulations concerning the collection, use, processing, storage and deletion 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 collect and/or use personal information for certain purposes.

In the EU, the General Data Protection Regulation (GDPR) imposes more stringent EU data protection requirements, provides an enforcement authority, and imposes large penalties for noncompliance. Compliance with the obligations imposed by the GDPR depends in part on how particular regulators interpret and apply them, which may require us to comply with varying, and at times conflicting, standards across the EU jurisdictions where we operate. If we fail to comply with the GDPR or if regulators assert that we have failed to comply with the GDPR, we may be subject to fines of up to 4% of our worldwide annual revenue.

Among other requirements, the GDPR regulates transfers of personal data outside of the EU to countries that have not been found to provide adequate protection to personal data, including the United States, requiring that certain steps are taken to legitimize those transfers. We have undertaken certain efforts to conform transfers of personal data from the EU to the United States and other jurisdictions based on our understanding of current regulatory obligations and the guidance of data protection authorities. Despite this, we may be unsuccessful in establishing or maintaining conforming means of transferring such data from the European Economic Area, or EEA, particularly as a result of continued legal and legislative activity within the EU that that has challenged or called into question the legal basis for existing means of data transfers to countries that have not been found to provide adequate protection for personal data. On July 16, 2020, the Court of Justice of the European Union (CJEU) invalidated the EU-U.S. Privacy Shield framework that had been in place since 2016, which allowed companies to meet certain European legal requirements for the transfer of personal data from the European Economic Area (EEA) to the U.S., on the grounds that the EU-U.S. Privacy Shield failed to offer adequate protections to EU personal data transferred to the United States. The CJEU also advised that Standard Contractual Clauses (another transfer mechanism) were not alone sufficient to protect data transferred to the United States. The use of Standard Contractual Clauses for the transfer of personal data, specifically to the United States also remains under review by a number of European data protection supervisory authorities. For example, German and Irish supervisory authorities have indicated that the use of Standard Contractual Clauses alone provide inadequate protection for EU-U.S. data transfers and imposed additional obligations on companies when relying on certain model clauses approved by the European Commission. Use of data transfer mechanisms must now be assessed on a case-by-case bases taking into account the legal regime applicable in the destination country, in particular, applicable surveillance laws and rights of individuals. The full impact of the CJEU decision and the related EU regulatory activity is uncertain at this time, but among other things, it may require companies to take additional steps to legitimize impacted personal data transfers, including in connection with the use of model clauses approved by the European Commission. The CJEU decision and related developments could result in increased costs of compliance and limitations on us. More generally, as a result of the CJEU decision or related developments, we may find it necessary or desirable to modify our data handling practices, and our practices relating to cross-border transfers of data or other data handling practices, or those of our business partners, may be challenged, and our business, financial condition and operating results may be adversely impacted.

Further, the United Kingdom (U.K.) exited the EU on January 31, 2020 (“Brexit”), which has created additional uncertainty with regard to the regulation of data protection in the U.K. and could lead to further legislative and regulatory changes. The UK has implemented the Data Protection Act that contains provisions, including its own derogations for how GDPR is applied in the U.K. legislation that substantially implements the GDPR, with penalties for noncompliance of up to the greater of £17.5 million (€20 million) or four percent of worldwide revenues. Brexit was subject to a transition period that expired December 31, 2020, and from that time we have had to continue to comply with the GDPR and also the Data Protection Act, with each regime having the ability to fine up to the maximum amount. The relationship between the U.K. and EU remains uncertain, for example, how data transfers between the U.K. and the EU and other jurisdictions will be treated and the role of the U.K.’s supervisory authority. The EU has issued a draft adequacy decision for personal information transfers from the EEA to the U.K. on February 19, 2021. Although the European Data Protection Board (EDPB) issued an Opinion generally supportive of the draft adequacy decision, the EDPB urged further assessment of certain issues and continued monitoring of developments in U.K. law. If this adequacy decision is not passed by the EU, it would require that companies implement protection measures such as the Standard Contractual Clauses for data transfers between the EU and the UK. These changes will lead to additional costs as we try to ensure compliance with new privacy legislation and will increase our overall risk exposure.

In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that may apply to us. One example of such a self-regulatory standard is the Payment Card Industry Data Security Standard, or PCI DSS, which relates to the processing of payment card information. In the event we are required to comply with the PCI DSS but fail to do so, fines and other penalties could result, and we may suffer reputational harm and damage to our business.

Future laws, regulations, standards and other obligations, 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.

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.

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

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

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

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

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

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.

Risks related to our need for additional capital

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 facilities contain 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.

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 $2.01 to $93.85 per share through June 30, 2021. 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 our 2022 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 have been subject to past 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 Note 8 Commitments, contingencies and guarantees, in the Notes to Condensed Consolidated Financial Statements for a discussion on 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 68.8% of the voting power of our outstanding capital stock as of June 30, 2021 with Mr. Woodman, our Chairman and CEO, holding approximately 68.8% 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 indebtedness and capped call transactions

We have indebtedness in the form of convertible senior notes.

In November 2020, we completed an offering of $143.8 million aggregate principal amount of 1.25% convertible senior notes due 2025 (2025 Notes). As a result of the 2025 Notes, we incurred an additional $143.8 million principal amount of indebtedness, the principal amount of which we may be required to pay at maturity in 2025.

In April 2017, we completed an offering of $175.0 million aggregate principal amount of 3.50% convertible senior notes due 2022 (2022 Notes, together with the 2025 Notes, the Notes). We repurchased $50.0 million aggregate principal amount of the 2022 Notes in November 2020, and expect to repay the remaining principal amount of $125.0 million 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 indentures for the Notes provides that we are required to repay amounts due under such 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 our indebtedness when due, or that we will be able to refinance our indebtedness, all or in part, on acceptable terms. In addition, our 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, we do not meet certain financial criteria set forth in the credit facility.

Any of our future indebtedness may contain similar restrictions. Our failure to repurchase the Notes at a time when the repurchase is required by the indentures (whether upon a fundamental change or otherwise under the indentures) or pay cash payable on future conversions of the Notes as required by the indentures would constitute a default under the indentures. A default under the indentures 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. 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 indentures governing the Notes or the lenders under our credit facility accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings.

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

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

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

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

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

Under GAAP, an entity must separately account for the debt component and the embedded conversion option of convertible debt instruments that may be settled entirely or partially in cash upon conversion, such as the Notes we are offering, in a manner that reflects the issuer’s economic interest cost. The effect of the accounting treatment for such instruments is that the value of such embedded conversion option would be treated as original issue discount for purposes of accounting for the debt component of the Notes, and that original issue discount is amortized into interest expense over the term of the Notes using an effective yield method. As a result, we will 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, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently permitted to be accounted for utilizing the treasury stock method for earnings per share purposes. The effect of this is that the shares issuable upon conversion of the Notes are excluded from the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of Class A common stock that would be necessary to settle such excess are assumed to be issued. The FASB recently issued an accounting standards update to amend these accounting standards to eliminate the treasury stock method for convertible instruments and instead require application of the “if-converted” method. Under that method, diluted earnings per share would generally be calculated assuming that all the Notes were converted solely into shares of Class A common stock at the beginning of the reporting period, unless the result would be anti-dilutive, which would negatively affect diluted earnings per share.

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 Capped Call transactions may affect the value of the 2025 Notes and our Class A Common Stock.

In connection with the pricing of the 2025 Notes, we entered into privately negotiated capped call transactions, or Capped Calls, with one or more financial institutions. The Capped Calls are expected generally to reduce the potential economic dilution to holders of our Class A common stock upon any conversion of the 2025 Notes, with such reduction and/or offset subject to a cap.

The capped call counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives 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 prior to the maturity of the 2025 Notes (and are likely to do so during any observation period related to a conversion of the 2025 Notes or following an repurchase of the 2025 Notes by the Company on any fundamental change repurchase date or otherwise). This activity could also cause or avoid an increase or a decrease in the market price of our Class A common stock or the 2025 Notes.

The potential effect, if any, of these transactions and activities on the trading price of our Class A common stock or the 2025 Notes will depend in part on market conditions. Any of these activities could adversely affect the trading price of our Class A common stock or the 2025 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 indentures 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 indentures may have the effect of delaying or preventing a takeover of our company.

We are subject to counterparty risk with respect to the Capped Calls.

We will be subject to the risk that the capped call counterparties might default under the Capped Calls. Our exposure to the credit risk of the capped call counterparties is not 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 capped call counterparties become 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 capped call counterparties. 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 Class A common stock. In addition, upon a default by the capped call counterparties, 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 capped call counterparties to the Capped Calls.

General Risk Factors

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, inflation, fluctuations in foreign exchange rates and interest rates, and other factors such as consumer confidence, the availability and cost of consumer credit, levels of unemployment and a reduction in consumer spending or disposable income resulting from the COVID-19 pandemic and the impact of whether the United States government provides economic stimulus that may affect us more significantly than companies in other industries and companies with more diversified products. Additionally, the withdrawal of the United Kingdom from the European Union (Brexit) has created economic and political uncertainty, including volatility in global financial markets and the value of foreign currencies. The impact of Brexit may not be fully realized for several years. The 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. We do not believe that inflation has had a material effect on our business, financial condition, or results of operations. However, if our costs become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases and our inability or failure to do so could harm our business, financial condition, and operating results. 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 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.

Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. Our future effective tax rate 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 amounts of jurisdictional earnings, 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 additional tax expense and 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 June 30, 2021, 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.

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 condensed consolidated financial statements.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed 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 the 2020 Annual Report 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 estimates and assumptions made by management include those related to revenue recognition (including sales incentives, sales returns and implied post contract support), inventory valuation, product warranty liabilities, the valuation, impairment and useful lives of long-lived assets (property and equipment, operating lease right-of-use assets, intangible assets and goodwill), the fair value of our convertible senior notes, and income taxes.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Listing

Exhibit Number	Exhibit Title	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
31.01	Certification of Principal Executive Officer Required Under Rule 13(a)-14(a) and 15(d)-14(a) of the Securities Exchange Act of 1934, as amended.					X
31.02	Certification of Principal Financial Officer Required Under Rule 13(a)-14(a) and 15(d)-14(a) of the Securities Exchange Act of 1934, as amended.					X
32.01‡	Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.					X
101.INS	Inline XBRL Instance Document					X
101.SCH	Inline XBRL Taxonomy Extension Schema					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase					X
104	Inline XBRL For the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set					X

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

SIGNATURES

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

GoPro, Inc.
(Registrant)

Dated:	August 5, 2021	By: /s/ Nicholas Woodman Nicholas Woodman Chief Executive Officer (Principal Executive Officer)
Dated:	August 5, 2021	By: /s/ Brian McGee Brian McGee Chief Financial Officer and Chief Operating Officer (Principal Financial Officer)
Dated:	August 5, 2021	By: /s/ Charles Lafrades Charles Lafrades Chief Accounting Officer (Principal Accounting Officer)

EXHIBIT 31.01

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER REQUIRED UNDER RULE 13(a)-14(a) AND 15(d)-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Nicholas Woodman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of GoPro, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **August 5, 2021**

/s/ Nicholas Woodman

Nicholas Woodman
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.02

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER REQUIRED UNDER RULE 13(a)-14(a) AND 15(d)-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Brian McGee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of GoPro, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **August 5, 2021**

/s/ Brian McGee

Brian McGee
Chief Financial Officer and Chief Operating Officer
(Principal Financial Officer)

EXHIBIT 32.01

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Nicholas Woodman, Chief Executive Officer of GoPro, Inc., do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge, the quarterly report on Form 10-Q of GoPro, Inc. for the quarter ended June 30, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of GoPro, Inc. for the periods presented herein.

By: /s/ Nicholas Woodman

Nicholas Woodman
Chief Executive Officer
(Principal Executive Officer)
August 5, 2021

I, Brian McGee, Chief Financial Officer of GoPro, Inc., do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge, the quarterly report on Form 10-Q of GoPro, Inc. for the quarter ended June 30, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of GoPro, Inc. for the periods presented herein.

By: /s/ Brian McGee

Brian McGee
Chief Financial Officer and Chief Operating Officer
(Principal Financial Officer)
August 5, 2021

A signed original of this written statement required by Section 906 has been provided to GoPro, Inc. and will be retained by GoPro, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.