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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)  
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2018

or  
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-38017

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**SNAP INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organizations)

**45-5452795**  
(I.R.S. Employer  
Identification Number)

**2772 Donald Douglas Loop North, Santa Monica, California 90405**  
(Address of principal executive offices, including zip code)

**(310) 399-3339**  
(Registrant's telephone, including area code)

**63 Market Street, Venice, California 90291**  
(Former address of principal executive offices, including zip code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

|                                                                                                         |                                                    |
|---------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| <input type="checkbox"/> Large accelerated filer                                                        | <input type="checkbox"/> Accelerated filer         |
| <input checked="" type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company) | <input type="checkbox"/> Smaller reporting company |
| <input checked="" type="checkbox"/> Emerging growth company                                             |                                                    |

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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                                     | Number of Shares Outstanding                       |
|-------------------------------------------|----------------------------------------------------|
| Class A common stock, \$0.00001 par value | 962,983,090 shares outstanding as of July 31, 2018 |
| Class B common stock, \$0.00001 par value | 94,479,066 shares outstanding as of July 31, 2018  |
| Class C common stock, \$0.00001 par value | 219,890,702 shares outstanding as of July 31, 2018 |

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**SNAP INC.**  
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Snap Inc., “Snapchat,” and our other registered and common-law trade names, trademarks, and service marks appearing in this Quarterly Report on Form 10-Q are the property of Snap Inc. or our subsidiaries.

## NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding guidance, our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will,” or “would” or the negative of these words or other similar terms or expressions. We caution you that the foregoing may not include all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. These forward-looking statements are subject to risks, uncertainties, and other factors described in “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q, including among other things:

- our financial performance, including our revenues, cost of revenues, operating expenses, and our ability to attain and sustain profitability;
- our ability to generate and sustain positive cash flow;
- our ability to attract and retain users and publishers;
- our ability to attract and retain advertisers;
- our ability to compete effectively with existing competitors and new market entrants;
- our ability to successfully expand in our existing markets and penetrate new markets;
- our ability to effectively manage our growth and future expenses;
- our ability to maintain, protect, and enhance our intellectual property;
- our ability to comply with modified or new laws and regulations applying to our business;
- our ability to attract and retain qualified employees and key personnel; and
- future acquisitions of or investments in complementary companies, products, services, or technologies.

Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q. And while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments.

Investors and others should note that we may announce material business and financial information to our investors using our investor relations website (investor.snap.com), filings with the Securities and Exchange Commission, or the SEC, webcasts, press releases, and conference calls. We use these mediums, including Snapchat and our website, to communicate with our members and the public about our company, our products, and other issues. It is possible that the information that we make available may be deemed to be material information. We therefore encourage investors and others interested in our company to review the information that we make available on our website.

## NOTE REGARDING USER METRICS AND OTHER DATA

We define a Daily Active User, or DAU, as a registered Snapchat user who opens the Snapchat application at least once during a defined 24-hour period. We calculate average Daily Active Users for a particular quarter by adding the number of DAUs on each day of that quarter and dividing that sum by the number of days in that quarter. We also break out Daily Active Users by geography because certain markets have a greater revenue opportunity and lower bandwidth costs. We define average revenue per user, or ARPU, as quarterly revenue divided by the average Daily Active Users. For purposes of calculating ARPU, revenue by user geography is apportioned to each region based on our determination of the geographic location in which advertising impressions are delivered, as this approximates revenue based on user activity. This allocation differs from our components of revenue disclosure in the notes to our consolidated financial statements, where revenue is based on the billing address of the advertising customer. For information concerning these metrics as measured by us, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Unless otherwise stated, statistical information regarding our users and their activities is determined by calculating the daily average of the selected activity for the most recently completed quarter included in this report.

While these metrics are determined based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring how our products are used across large populations globally. For example, there may be individuals who have multiple Snapchat accounts, even though we forbid that in our Terms of Service and implement measures to detect and suppress that behavior. We have not determined the number of such multiple accounts. Our user metrics are also affected by technology on certain mobile devices that automatically runs in the background of our Snapchat application when another phone function is used, and this activity can cause our system to miscount the user metrics associated with such account. Changes in our products, infrastructure, mobile operating systems, or metric tracking system, or the introduction of new products, may impact our ability to accurately determine active users or other metrics and we may not determine such inaccuracies promptly. We believe that we don’t capture all data regarding all our active users. For example, technical issues may result in data not being recorded from every user’s application. While we believe this underreporting is generally immaterial, we are unable to precisely determine the level of underreporting and for some periods the underreporting may be material. We continually seek to address these technical issues and improve our accuracy, but given the complexity of the systems involved and the rapidly changing nature of mobile devices and systems, we expect underreporting to continue. We do not adjust our reported metrics to reflect this underreporting.

Some of our demographic data may be incomplete or inaccurate. For example, because users self-report their dates of birth, our age-demographic data may differ from our users’ actual ages. And because users who signed up for Snapchat before June 2013 were not asked to supply their date of birth, we exclude those users and estimate their ages based on a sample of the self-reported ages we do have. If our active users provide us with incorrect or incomplete information regarding their age or other attributes, then our estimates may prove inaccurate and fail to meet investor expectations.

In the past we have relied on third-party analytics providers to calculate our metrics, but today we rely primarily on our analytics platform that we developed and operate. For example, before June 2015, we used a third party that counted a Daily Active User when the application was opened or a notification was received via the application on any device. We now use an analytics platform that we developed and operate and we count a Daily Active User only when a user opens the application and only once per user per day. We believe this methodology more accurately measures our user engagement. We have multiple pipelines of user data that we use to determine whether a user has opened the application during a particular day, and thus is a Daily Active User. This provides redundancy in the event one pipeline of data were to become unavailable for technical reasons, and also gives us redundant data to help measure how users interact with our application.

Additionally, to align our pre-June 2015 Daily Active Users with this new methodology, we reduced our pre-June 2015 Daily Active Users by 4.8%, the amount by which we estimated the data generated by the third party was overstated. As a result, our metrics may not be comparable to prior periods.

If we fail to maintain an effective analytics platform, our metrics calculations may be inaccurate. We regularly review, have adjusted in the past, and are likely in the future to adjust our processes for calculating our internal metrics to improve their accuracy. As a result of such adjustments, our Daily Active Users or other metrics may not be comparable to those in prior periods. Our measures of Daily Active Users may differ from estimates published by third parties or from similarly titled metrics of our competitors due to differences in methodology or data used.

**PART I - FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**Snap Inc.**  
**Consolidated Statements of Cash Flows**  
*(In thousands)*  
*(Unaudited)*

|                                                                                                                               | <b>Three Months Ended June 30,</b> |              | <b>Six Months Ended June 30,</b> |                |
|-------------------------------------------------------------------------------------------------------------------------------|------------------------------------|--------------|----------------------------------|----------------|
|                                                                                                                               | <b>2018</b>                        | <b>2017</b>  | <b>2018</b>                      | <b>2017</b>    |
| <b>Cash flows from operating activities</b>                                                                                   |                                    |              |                                  |                |
| Net loss                                                                                                                      | \$ (353,310)                       | \$ (443,093) | \$ (739,095)                     | \$ (2,651,930) |
| Adjustments to reconcile net loss to net cash used in operating activities:                                                   |                                    |              |                                  |                |
| Depreciation and amortization                                                                                                 | 22,514                             | 12,585       | 44,068                           | 25,035         |
| Stock-based compensation                                                                                                      | 156,371                            | 245,028      | 289,630                          | 2,237,149      |
| Deferred income taxes                                                                                                         | 17                                 | (277)        | 253                              | (1,765)        |
| Other                                                                                                                         | (5,893)                            | (3,564)      | (9,287)                          | (1,672)        |
| Change in operating assets and liabilities, net of effect of acquisitions:                                                    |                                    |              |                                  |                |
| Accounts receivable, net of allowance                                                                                         | (13,926)                           | (21,653)     | 34,771                           | (8,209)        |
| Prepaid expenses and other current assets                                                                                     | 7,815                              | (4,399)      | (2,624)                          | (47,835)       |
| Other assets                                                                                                                  | 9,021                              | (12,823)     | 13,225                           | (10,108)       |
| Accounts payable                                                                                                              | (9,653)                            | 3,698        | (46,722)                         | 9,317          |
| Accrued expenses and other current liabilities                                                                                | (19,356)                           | 12,986       | (29,505)                         | 82,190         |
| Other liabilities                                                                                                             | 7,054                              | 1,938        | 13,959                           | 3,257          |
| Net cash used in operating activities                                                                                         | (199,346)                          | (209,574)    | (431,327)                        | (364,571)      |
| <b>Cash flows from investing activities</b>                                                                                   |                                    |              |                                  |                |
| Purchases of property and equipment                                                                                           | (34,901)                           | (19,365)     | (71,216)                         | (37,358)       |
| Purchases of intangible assets                                                                                                | (2,505)                            | (7,720)      | (2,565)                          | (7,720)        |
| Non-marketable investments                                                                                                    | (21,010)                           | (6,905)      | (21,010)                         | (7,530)        |
| Cash paid for acquisitions, net of cash acquired                                                                              | —                                  | (206,163)    | —                                | (224,176)      |
| Purchases of marketable securities                                                                                            | (396,885)                          | (1,319,156)  | (874,098)                        | (2,742,370)    |
| Sales of marketable securities                                                                                                | —                                  | 237,095      | 45,007                           | 237,095        |
| Maturities of marketable securities                                                                                           | 578,509                            | 602,432      | 1,366,337                        | 1,047,479      |
| Net cash provided by (used in) investing activities                                                                           | 123,208                            | (719,782)    | 442,455                          | (1,734,580)    |
| <b>Cash flows from financing activities</b>                                                                                   |                                    |              |                                  |                |
| Proceeds from the exercise of stock options                                                                                   | 1,914                              | 189          | 47,723                           | 783            |
| Stock repurchases from employees for tax withholdings                                                                         | —                                  | (1,828)      | (551)                            | (208,407)      |
| Proceeds from issuance of Class A common stock in initial public offering, net of underwriting commissions                    | —                                  | —            | —                                | 2,657,797      |
| Payments of initial public offering issuance costs                                                                            | —                                  | (4,341)      | —                                | (9,365)        |
| Net cash provided by (used in) financing activities                                                                           | 1,914                              | (5,980)      | 47,172                           | 2,440,808      |
| Change in cash, cash equivalents, and restricted cash                                                                         | (74,224)                           | (935,336)    | 58,300                           | 341,657        |
| Cash, cash equivalents, and restricted cash, beginning of period                                                              | 469,531                            | 1,440,329    | 337,007                          | 163,336        |
| Cash, cash equivalents, and restricted cash, end of period                                                                    | \$ 395,307                         | \$ 504,993   | \$ 395,307                       | \$ 504,993     |
| <b>Supplemental disclosures</b>                                                                                               |                                    |              |                                  |                |
| Cash paid for income taxes                                                                                                    | \$ 1,406                           | \$ 1,945     | \$ 2,397                         | \$ 5,490       |
| <b>Supplemental disclosures of non-cash activities</b>                                                                        |                                    |              |                                  |                |
| Purchase consideration liabilities related to acquisitions                                                                    | \$ —                               | \$ 9,341     | \$ —                             | \$ 11,242      |
| Construction in progress related to financing lease obligations                                                               | \$ 431                             | \$ 426       | \$ 856                           | \$ 683         |
| Net change in accounts payable and accrued expenses and other current liabilities related to property and equipment additions | \$ 143                             | \$ 612       | \$ 588                           | \$ (3,743)     |

See Notes to Consolidated Financial Statements.

**Snap Inc.**  
**Consolidated Statements of Operations**  
*(In thousands, except per share amounts)*  
*(Unaudited)*

|                                                                                                | <b>Three Months Ended June 30,</b> |              | <b>Six Months Ended June 30,</b> |                |
|------------------------------------------------------------------------------------------------|------------------------------------|--------------|----------------------------------|----------------|
|                                                                                                | <b>2018</b>                        | <b>2017</b>  | <b>2018</b>                      | <b>2017</b>    |
| Revenue                                                                                        | \$ 262,263                         | \$ 181,671   | \$ 492,929                       | \$ 331,319     |
| Costs and expenses:                                                                            |                                    |              |                                  |                |
| Cost of revenue                                                                                | 191,565                            | 152,148      | 388,363                          | 315,506        |
| Research and development                                                                       | 203,246                            | 255,735      | 404,232                          | 1,061,583      |
| Sales and marketing                                                                            | 101,685                            | 90,903       | 203,798                          | 310,636        |
| General and administrative                                                                     | 123,609                            | 131,903      | 246,908                          | 1,306,379      |
| Total costs and expenses                                                                       | 620,105                            | 630,689      | 1,243,301                        | 2,994,104      |
| Loss from operations                                                                           | (357,842)                          | (449,018)    | (750,372)                        | (2,662,785)    |
| Interest income                                                                                | 6,600                              | 6,349        | 12,704                           | 8,773          |
| Interest expense                                                                               | (930)                              | (998)        | (1,864)                          | (1,693)        |
| Other income (expense), net                                                                    | (61)                               | 786          | 3,092                            | 973            |
| Loss before income taxes                                                                       | (352,233)                          | (442,881)    | (736,440)                        | (2,654,732)    |
| Income tax benefit (expense)                                                                   | (1,077)                            | (212)        | (2,655)                          | 2,802          |
| Net loss                                                                                       | \$ (353,310)                       | \$ (443,093) | \$ (739,095)                     | \$ (2,651,930) |
| Net loss per share attributable to Class A, Class B, and Class C common stockholders (Note 3): |                                    |              |                                  |                |
| Basic                                                                                          | \$ (0.27)                          | \$ (0.36)    | \$ (0.58)                        | \$ (2.43)      |
| Diluted                                                                                        | \$ (0.27)                          | \$ (0.36)    | \$ (0.58)                        | \$ (2.43)      |

See Notes to Consolidated Financial Statements.

**Snap Inc.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
*(In thousands)*  
*(Unaudited)*

|                                                             | <u>Three Months Ended June 30,</u> |                     | <u>Six Months Ended June 30,</u> |                       |
|-------------------------------------------------------------|------------------------------------|---------------------|----------------------------------|-----------------------|
|                                                             | <u>2018</u>                        | <u>2017</u>         | <u>2018</u>                      | <u>2017</u>           |
| Net loss                                                    | \$ (353,310)                       | \$ (443,093)        | \$ (739,095)                     | \$ (2,651,930)        |
| Other comprehensive income (loss), net of tax               |                                    |                     |                                  |                       |
| Unrealized gain (loss) on marketable securities, net of tax | 450                                | (772)               | 493                              | (896)                 |
| Foreign currency translation                                | (13,206)                           | 5,997               | (6,443)                          | 6,543                 |
| Total other comprehensive income (loss), net of tax         | (12,756)                           | 5,225               | (5,950)                          | 5,647                 |
| Total comprehensive income (loss)                           | <u>\$ (366,066)</u>                | <u>\$ (437,868)</u> | <u>\$ (745,045)</u>              | <u>\$ (2,646,283)</u> |

See Notes to Consolidated Financial Statements.

**Snap Inc.**  
**Consolidated Balance Sheets**  
*(In thousands, except per share amounts)*

|                                                                                                                                                                                                                                         | June 30,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                                                                           |                                 |                      |
| Current assets                                                                                                                                                                                                                          |                                 |                      |
| Cash and cash equivalents                                                                                                                                                                                                               | \$ 393,183                      | \$ 334,063           |
| Marketable securities                                                                                                                                                                                                                   | 1,176,820                       | 1,708,976            |
| Accounts receivable, net of allowance                                                                                                                                                                                                   | 244,815                         | 279,473              |
| Prepaid expenses and other current assets                                                                                                                                                                                               | 54,032                          | 44,282               |
| Total current assets                                                                                                                                                                                                                    | 1,868,850                       | 2,366,794            |
| Property and equipment, net                                                                                                                                                                                                             | 214,230                         | 166,762              |
| Intangible assets, net                                                                                                                                                                                                                  | 147,197                         | 166,473              |
| Goodwill                                                                                                                                                                                                                                | 635,482                         | 639,882              |
| Other assets                                                                                                                                                                                                                            | 84,954                          | 81,655               |
| Total assets                                                                                                                                                                                                                            | \$ 2,950,713                    | \$ 3,421,566         |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                                                                                                             |                                 |                      |
| Current liabilities                                                                                                                                                                                                                     |                                 |                      |
| Accounts payable                                                                                                                                                                                                                        | \$ 22,644                       | \$ 71,194            |
| Accrued expenses and other current liabilities                                                                                                                                                                                          | 256,698                         | 275,062              |
| Total current liabilities                                                                                                                                                                                                               | 279,342                         | 346,256              |
| Other liabilities                                                                                                                                                                                                                       | 87,303                          | 82,983               |
| Total liabilities                                                                                                                                                                                                                       | 366,645                         | 429,239              |
| Commitments and contingencies (Note 6)                                                                                                                                                                                                  |                                 |                      |
| Stockholders' equity                                                                                                                                                                                                                    |                                 |                      |
| Class A non-voting common stock, \$0.00001 par value. 3,000,000 shares authorized, 958,801 shares issued and outstanding at June 30, 2018, and 3,000,000 shares authorized, 883,022 shares issued and outstanding at December 31, 2017. | 10                              | 9                    |
| Class B voting common stock, \$0.00001 par value. 700,000 shares authorized, 94,471 shares issued and outstanding at June 30, 2018, and 700,000 shares authorized, 122,564 shares issued and outstanding at December 31, 2017.          | 1                               | 1                    |
| Class C voting common stock, \$0.00001 par value. 260,888 shares authorized, 219,891 shares issued and outstanding at June 30, 2018, and 260,888 shares authorized and 216,616 shares issued and outstanding at December 31, 2017.      | 2                               | 2                    |
| Additional paid-in capital                                                                                                                                                                                                              | 7,971,610                       | 7,634,825            |
| Accumulated other comprehensive income (loss)                                                                                                                                                                                           | 8,207                           | 14,157               |
| Accumulated deficit                                                                                                                                                                                                                     | (5,395,762)                     | (4,656,667)          |
| Total stockholders' equity                                                                                                                                                                                                              | 2,584,068                       | 2,992,327            |
| Total liabilities and stockholders' equity                                                                                                                                                                                              | \$ 2,950,713                    | \$ 3,421,566         |

See Notes to Consolidated Financial Statements.

**Snap Inc.**  
**Notes to Consolidated Financial Statements**

**1. Summary of Significant Accounting Policies**

Snap Inc. is a camera company.

Snap Inc. (“we,” “our,” or “us”) was formed as Future Freshman, LLC, a California limited liability company, in 2010. We changed our name to Toyopa Group, LLC in 2011, incorporated as Snapchat, Inc., a Delaware corporation, in 2012, and changed our name to Snap Inc. in 2016. Snap Inc. is headquartered in Santa Monica, California. Our flagship product, Snapchat, is a camera application that was created to help people communicate through short videos and images called “Snaps.”

**Basis of Presentation**

The accompanying unaudited consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Our consolidated financial statements include the accounts of Snap Inc. and our wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Our fiscal year ends on December 31. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC on February 22, 2018 (the “Annual Report”).

In our opinion, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of our financial position, results of operations, and cash flows. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018.

Other than described below, there have been no changes to our significant accounting policies described in our Annual Report that have had a material impact on our consolidated financial statements and related notes.

**Use of Estimates**

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements. Management’s estimates are based on historical information available as of the date of the consolidated financial statements and various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from those estimates.

Key estimates relate primarily to determining the fair value of assets and liabilities assumed in business combinations, evaluation of contingencies, uncertain tax positions, excess inventory reserves, and the fair value of stock-based awards. On an ongoing basis, management evaluates our estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities.

**Recent Accounting Pronouncements**

In January 2017, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The amendments in this update clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for interim and annual periods beginning after December 15, 2017 and should be applied prospectively on or after the effective date, with early adoption permitted. We adopted ASU 2017-01 effective January 1, 2018.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires restricted cash to be presented with cash and cash equivalents on the statement of cash flows and disclosure of how the statement of cash flows reconciles to the balance sheet if restricted cash is shown separately from cash and cash equivalents on the balance sheet. ASU 2016-18 is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. We adopted ASU 2016-18 effective January 1, 2018. The adoption did not have a material impact on our consolidated financial statements. Our restricted cash balance in any period presented is not material.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance for targeted changes with respect to how cash receipts and cash payments are classified in the statements of cash flows, with the objective of reducing diversity in practice. ASU 2016-15 is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. We adopted ASU 2016-15 effective January 1, 2018. The adoption did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet and requires expanded disclosures about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted. We are in the process of evaluating the impact of this accounting standards update on our consolidated financial statements, which will consist primarily of including lease assets and lease liabilities on our consolidated balance sheet. We will adopt ASU 2016-02 effective January 1, 2019.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 amends various aspects of the recognition, measurement, presentation, and disclosure of financial instruments. We adopted ASU 2016-01 effective January 1, 2018. The adoption did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Topic 606 supersedes the revenue recognition requirements in ASU Topic 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted for annual reporting periods beginning after December 15, 2016. The standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. Effective January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. As a result of adopting Topic 606, we recorded no adjustment to the opening retained earnings as of January 1, 2018. The impact to revenues and related deferred revenue balances as a result of applying Topic 606 was not material as of and for the three and six months ended June 30, 2018. See Note 2 for additional information. The most significant aspect of our evaluation of Topic 606 related to ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. This implementation guidance discusses principal versus agent considerations and gross versus net revenue reporting, including specific indicators to assist in the determination of whether we control a specified good or service before it is transferred to the customer. Through our evaluation, we concluded Snap-sold revenue will be reported on a gross basis and partner-sold revenue will be reported on a net basis, which is consistent with our current revenue recognition policies. We concluded that we control the Snap-sold advertising campaign before it is transferred to the customer because we provide the advertising campaign on Snapchat and have discretion in establishing the price of the advertisements. We concluded that the partner controls significant aspects of the partner-sold advertising campaign before it is transferred to the customer and the partner has discretion in establishing price with the advertiser.

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 aligns the accounting for share-based payment awards issued to employees and nonemployees. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. We early adopted ASU 2018-07. The adoption did not have a material impact on our consolidated financial statements.

## 2. Revenue

Revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to receive in exchange for those goods or services. We determine collectability by performing ongoing credit evaluations and monitoring customer accounts receivable balances. Sales tax is excluded from reported revenue.

## Advertising Revenues

We generate substantially all of our revenues by offering various advertising products on Snapchat, including Snap Ads, Sponsored Creative Tools, and measurement services, referred to as advertising revenue. Sponsored Creative Tools include Sponsored Geofilters and Sponsored Lenses. Sponsored Geofilters allow users to interact with an advertiser's brand by enabling stylized brand artwork to be overlaid on a Snap. Sponsored Lenses allow users to interact with an advertiser's brand by enabling branded interactive experiences.

The majority of advertising revenue is generated from the display of advertisements on Snapchat through contractual agreements that are either on a fixed fee basis over a period of time or based on the number of advertising impressions delivered. Revenue related to agreements based on the number of impressions delivered is recognized when the advertisement is displayed. Revenue related to fixed fee arrangements is recognized ratably over the service period, typically less than 30 days in duration, and such arrangements do not contain minimum impression guarantees. In determining whether an arrangement exists, we ensure that an agreement, such as an insertion order, has been fully executed.

We sell advertising directly to advertisers ("Snap-sold" revenue) and certain partners that provide content on Snapchat ("content partners") also sell directly to advertisers ("partner-sold" revenue). Snap Ads may be subject to revenue sharing agreements between us and our content partners. Our Sponsored Creative Tools and measurement services are only Snap-sold and are not subject to revenue sharing arrangements. Snap-sold revenue is recognized based on the gross amount that we charge the advertiser. Partner-sold revenue is recognized based on the net amount of revenue to be received from the content partners.

We report Snap-sold revenue on a gross basis predominately because we are the primary obligor responsible for fulfilling advertisement delivery, including the acceptability of the services delivered. For Snap-sold advertising, we enter into contractual arrangements directly with advertisers. We are directly responsible for the fulfillment of the contractual terms and any remedy for issues with such fulfillment. For Snap-sold revenue, we also have latitude in establishing the selling price with the advertiser, as we sell advertisements at a rate determined at our sole discretion.

We report revenue related to transactions sold by our content partners on a net basis predominately because the content partner, and not Snap, is the primary obligor responsible for fulfillment, including the acceptability of the services delivered. In partner-sold advertising arrangements, the content partner has a direct contractual relationship with the advertiser. There is no contractual relationship between us and the advertiser for partner-sold transactions. When a content partner sells advertisements, the content partner is responsible for fulfilling the advertisements, and accordingly, we have determined the content partner is the primary obligor. Additionally, we do not have any latitude in establishing the price with the advertiser for partner-sold advertising. The content partner may sell advertisements at a rate determined at its sole discretion.

## Other Revenue

Other revenue primarily consists of revenue from sales of our hardware product, Spectacles. For the periods presented, revenue from the sales of Spectacles was not material.

## Components of Revenue

The following table presents our revenue disaggregated by revenue source:

|                     | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|---------------------|-----------------------------|------------|---------------------------|------------|
|                     | 2018                        | 2017       | 2018                      | 2017       |
|                     | (in thousands)              |            |                           |            |
| Snap-sold (1)       | \$ 254,084                  | \$ 164,957 | \$ 476,619                | \$ 293,926 |
| Partner-sold        | 6,378                       | 11,320     | 13,005                    | 23,580     |
| Advertising revenue | 260,462                     | 176,277    | 489,624                   | 317,506    |
| Other revenue       | 1,801                       | 5,394      | 3,305                     | 13,813     |
| Total revenue       | \$ 262,263                  | \$ 181,671 | \$ 492,929                | \$ 331,319 |

- (1) Snap-sold revenue includes advertisements displayed on both our content and content contributed by our users and partners, Sponsored Creative Tools, and measurement services.

The following table represents our revenue disaggregated by geography based on the billing address of the advertising customer:

|                       | Three Months Ended June 30, |                   | Six Months Ended June 30, |                   |
|-----------------------|-----------------------------|-------------------|---------------------------|-------------------|
|                       | 2018                        | 2017              | 2018                      | 2017              |
|                       | (in thousands)              |                   |                           |                   |
| Revenue:              |                             |                   |                           |                   |
| North America (1) (2) | \$ 171,619                  | \$ 162,461        | \$ 338,558                | \$ 288,747        |
| Europe (3)            | 40,506                      | 12,021            | 71,331                    | 29,036            |
| Rest of world         | 50,138                      | 7,189             | 83,040                    | 13,536            |
| Total revenue         | <u>\$ 262,263</u>           | <u>\$ 181,671</u> | <u>\$ 492,929</u>         | <u>\$ 331,319</u> |

(1) North America includes Mexico and the Caribbean.

(2) United States revenue was \$165.9 million and \$145.7 million for the three months ended June 30, 2018 and 2017, respectively, and \$326.9 million and \$269.4 million for the six months ended June 30, 2018 and 2017, respectively.

(3) Europe includes Russia and Turkey.

### 3. Net Loss per Share

We compute net loss per share using the two-class method required for multiple classes of common stock and participating securities. Our participating securities include any shares issued on the early exercise of stock options subject to repurchase because holders of such shares have non-forfeitable dividend rights in the event a dividend is paid on common stock.

In March 2017, we completed our initial public offering (“IPO”) in which we issued and sold 160.3 million shares of Class A common stock, inclusive of the over-allotment, at an initial public offering price of \$17.00 per share and excluding shares sold in the IPO by certain of our existing stockholders. We received net proceeds of \$2.6 billion after deducting underwriting discounts and commissions of \$68.1 million and other offering expenses of \$14.7 million. On the closing of the IPO, all shares of our then-outstanding convertible preferred stock other than Series FP preferred stock automatically converted into an aggregate of 246.8 million shares of Class B common stock and all outstanding shares of Series FP preferred stock automatically converted into 215.9 million shares of Class C common stock. Following the IPO, we have three classes of authorized common stock – Class A common stock, Class B common stock, and Class C common stock.

Before the IPO, our participating securities also included Series D, E, F, and FP preferred stock and Series A, A-1, B, and C convertible preferred stock. The rights, including the liquidation and dividend rights, of the Class A common stock and Class B common stock, and the Series D, E, F, and FP preferred stock were substantially identical, other than voting rights. Accordingly, the Class A common stock, Class B common stock, and the Series D, E, F, and FP preferred stock shared equally in our net losses. The holders of early exercised shares subject to repurchase and the holders of Series A, A-1, B, and C convertible preferred stock did not have a contractual obligation to share in our losses, and as a result our net losses were not allocated to these participating securities.

In connection with our IPO, our Series D, E, and F preferred stock converted on a one-to-one basis into Class B common stock, and our Series FP preferred stock converted on a one-to-one basis into Class C common stock. The liquidation and dividend rights of the aforementioned preferred series are substantially identical to the rights of the common classes into which they converted. Accordingly, we have presented the Series D, E, and F preferred stock outstanding before the IPO together with the Class B common stock, and the Series FP preferred stock outstanding before the IPO together with the Class C common stock for purposes of calculating net loss per share. The prior period presentation has been adjusted to conform to our current period presentation.

Also in connection with our IPO, our Series A, A-1, B, and C preferred stock converted on a one-to-one basis into Class B common stock. The shares of Class B common stock that resulted from the conversion of the Series A, A-1, B, and C preferred stock are weighted in the denominator of net loss per share for Class B common stock for the portion of the time outstanding subsequent to our IPO.

Basic net loss per share is computed by dividing net loss attributable to each class of stockholders by the weighted-average number of shares of such class of stock outstanding during the period. Vested restricted stock units (“RSUs”) that have not been settled, including the vested equity award granted to our CEO (“CEO award”), have been included in the appropriate common share class used to calculate basic net loss per share.

For the calculation of diluted net loss per share, net loss per share attributable to common stockholders for basic net loss per share is adjusted by the effect of dilutive securities, including awards under our equity compensation plans. Diluted net loss per share attributable to common stockholders is computed by dividing the resulting net loss attributable to common stockholders by the weighted-average number of fully diluted common shares outstanding. For the three and six months ended June 30, 2018 and 2017, our potentially dilutive shares relating to stock options, RSUs, and common stock subject to repurchase, and, for the prior year period, shares of Series A, A-1, B, and C convertible preferred stock were not included in the computation of diluted net loss per share as the effect of including these shares in the calculation would have been anti-dilutive.

The numerators and denominators of the basic and diluted net loss per share computations for our common stock are calculated as follows for the three and six months ended June 30, 2018 and 2017:

|                                                         | Three Months Ended June 30,           |                   |                   |                   |                   |                   | Six Months Ended June 30, |                          |                          |                   |                          |                          |
|---------------------------------------------------------|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------------|--------------------------|--------------------------|-------------------|--------------------------|--------------------------|
|                                                         | 2018                                  |                   |                   | 2017              |                   |                   | 2018                      |                          |                          | 2017              |                          |                          |
|                                                         | (in thousands, except per share data) |                   |                   |                   |                   |                   |                           |                          |                          |                   |                          |                          |
|                                                         | Class A<br>Common                     | Class B<br>Common | Class C<br>Common | Class A<br>Common | Class B<br>Common | Class C<br>Common | Class A<br>Common<br>(1)  | Class B<br>Common<br>(2) | Class C<br>Common<br>(3) | Class A<br>Common | Class B<br>Common<br>(2) | Class C<br>Common<br>(3) |
| Numerator:                                              |                                       |                   |                   |                   |                   |                   |                           |                          |                          |                   |                          |                          |
| Net loss                                                | \$ (259,320)                          | \$ (26,064)       | \$ (67,926)       | \$ (248,613)      | \$ (102,730)      | \$ (91,750)       | \$ (536,579)              | \$ (58,763)              | \$ (143,753)             | \$ (1,524,926)    | \$ (543,768)             | \$ (583,236)             |
| Net loss attributable to common stockholders            | \$ (259,320)                          | \$ (26,064)       | \$ (67,926)       | \$ (248,613)      | \$ (102,730)      | \$ (91,750)       | \$ (536,579)              | \$ (58,763)              | \$ (143,753)             | \$ (1,524,926)    | \$ (543,768)             | \$ (583,236)             |
| Denominator:                                            |                                       |                   |                   |                   |                   |                   |                           |                          |                          |                   |                          |                          |
| Basic shares:                                           |                                       |                   |                   |                   |                   |                   |                           |                          |                          |                   |                          |                          |
| Weighted-average common shares - Basic                  | 950,383                               | 95,520            | 248,943           | 686,456           | 283,651           | 253,336           | 931,936                   | 102,060                  | 249,672                  | 627,209           | 223,654                  | 239,888                  |
| Diluted shares:                                         |                                       |                   |                   |                   |                   |                   |                           |                          |                          |                   |                          |                          |
| Weighted-average common shares - Diluted                | 950,383                               | 95,520            | 248,943           | 686,456           | 283,651           | 253,336           | 931,936                   | 102,060                  | 249,672                  | 627,209           | 223,654                  | 239,888                  |
| Net loss per share attributable to common stockholders: |                                       |                   |                   |                   |                   |                   |                           |                          |                          |                   |                          |                          |
| Basic                                                   | \$ (0.27)                             | \$ (0.27)         | \$ (0.27)         | \$ (0.36)         | \$ (0.36)         | \$ (0.36)         | \$ (0.58)                 | \$ (0.58)                | \$ (0.58)                | \$ (2.43)         | \$ (2.43)                | \$ (2.43)                |
| Diluted                                                 | \$ (0.27)                             | \$ (0.27)         | \$ (0.27)         | \$ (0.36)         | \$ (0.36)         | \$ (0.36)         | \$ (0.58)                 | \$ (0.58)                | \$ (0.58)                | \$ (2.43)         | \$ (2.43)                | \$ (2.43)                |

The following potentially dilutive shares were excluded from the calculation of diluted net loss per share because their effect would have been anti-dilutive for the periods presented:

|               | Three and Six Months Ended June 30, |         |
|---------------|-------------------------------------|---------|
|               | 2018                                | 2017    |
|               | (in thousands)                      |         |
| Stock options | 16,963                              | 39,496  |
| Unvested RSUs | 158,259                             | 177,400 |

#### 4. Stockholders' Equity

We maintain three share-based employee compensation plans: the 2017 Equity Incentive Plan ("2017 Plan"), the 2014 Equity Incentive Plan ("2014 Plan"), and the 2012 Equity Incentive Plan ("2012 Plan", and collectively with the 2017 Plan and the 2014 Plan, the "Stock Plans"). In January 2017, our board of directors adopted the 2017 Plan, and in February 2017 our stockholders approved the 2017 Plan, effective on March 1, 2017, which serves as the successor to the 2014 Plan and 2012 Plan and provides for the grant of incentive stock options to employees, including employees of any parent or subsidiary, and for the grant of nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards, and other forms of stock awards to employees, directors, and consultants, including employees and consultants of our affiliates.

The following table summarizes the restricted stock activity during the six months ended June 30, 2018:

|                               | Class A<br>Outstanding<br>Restricted Stock | Class B<br>Outstanding<br>Restricted Stock | Weighted-<br>Average<br>Grant Date<br>Fair Value<br>per Restricted Stock |
|-------------------------------|--------------------------------------------|--------------------------------------------|--------------------------------------------------------------------------|
|                               | (in thousands, except per share data)      |                                            |                                                                          |
| Unvested at December 31, 2017 | 156,005                                    | 7,791                                      | \$ 15.89                                                                 |
| Granted                       | 45,036                                     | —                                          | \$ 14.60                                                                 |
| Vested                        | (25,016)                                   | (3,941)                                    | \$ 15.77                                                                 |
| Forfeited                     | (21,041)                                   | (575)                                      | \$ 16.56                                                                 |
| Unvested at June 30, 2018     | 154,984                                    | 3,275                                      | \$ 15.45                                                                 |

RSUs granted to employees before January 1, 2017 (“Pre-2017 RSUs”) included both service-based and performance conditions to vest in the underlying common stock. The performance condition related to these awards was satisfied on the effectiveness of the registration statement for our IPO, which occurred in March 2017. Total unrecognized compensation cost related to Pre-2017 RSUs was \$380.0 million as of June 30, 2018 and is expected to be recognized over a weighted-average period of 2.0 years.

All RSUs granted after December 31, 2016 vest on the satisfaction of only a service-based condition (“Post-2017 RSUs”). Total unrecognized compensation cost related to Post-2017 RSUs was \$1.2 billion as of June 30, 2018 and is expected to be recognized over a weighted-average period of 3.8 years. The service condition for RSUs granted prior to February 2018 is generally satisfied over four years, 10% after the first year of service, 20% over the second year, 30% over the third year, and 40% over the fourth year. In limited instances, we have issued Post-2017 RSUs with vesting periods in excess of four years. The service condition for RSUs granted after February 2018 is generally satisfied in equal monthly installments over four years.

Additionally, we have 30.4 million and 34.4 million of RSUs that are vested but have not yet settled as of June 30, 2018 and December 31, 2017, respectively. These RSUs are primarily related to the CEO award.

The following table summarizes the stock option award activity under the Stock Plans during the six months ended June 30, 2018:

|                                  | Class A<br>Number<br>of Shares        | Class B<br>Number<br>of Shares | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value <sup>(1)</sup> |
|----------------------------------|---------------------------------------|--------------------------------|-------------------------------------------|------------------------------------------------------------------------|------------------------------------------------|
|                                  | (in thousands, except per share data) |                                |                                           |                                                                        |                                                |
| Outstanding at December 31, 2017 | 20,807                                | 11,790                         | \$ 4.10                                   | 4.99                                                                   | \$ 343,110                                     |
| Granted                          | 3,752                                 | —                              | \$ 14.40                                  | —                                                                      | \$ —                                           |
| Exercised                        | (10,131)                              | (8,095)                        | \$ 2.62                                   | —                                                                      | \$ —                                           |
| Forfeited                        | (1,001)                               | (159)                          | \$ 15.68                                  | —                                                                      | \$ —                                           |
| Outstanding at June 30, 2018     | <u>13,427</u>                         | <u>3,536</u>                   | \$ 7.42                                   | 6.56                                                                   | \$ 106,714                                     |

- (1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the closing market price of our Class A common stock as of December 31, 2017 and June 30, 2018, respectively.

Total unrecognized compensation cost related to stock options granted and assumed was \$48.1 million as of June 30, 2018 and is expected to be recognized over a weighted-average period of 2.9 years.

### Stock-Based Compensation Expense by Function

Total stock-based compensation expense by function was as follows:

|                            | Three Months Ended<br>June 30, |                   | Six Months Ended June 30, |                     |
|----------------------------|--------------------------------|-------------------|---------------------------|---------------------|
|                            | 2018                           | 2017              | 2018                      | 2017                |
|                            | (in thousands)                 |                   |                           |                     |
| Cost of revenue            | \$ 1,467                       | \$ 2,223          | \$ 1,743                  | \$ 21,931           |
| Research and development   | 92,303                         | 163,848           | 170,118                   | 881,928             |
| Sales and marketing        | 21,996                         | 20,558            | 38,182                    | 180,284             |
| General and administrative | 40,605                         | 58,399            | 79,587                    | 1,153,006           |
| Total                      | <u>\$ 156,371</u>              | <u>\$ 245,028</u> | <u>\$ 289,630</u>         | <u>\$ 2,237,149</u> |

## 5. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2018 were as follows:

|                                 | <b>Goodwill</b><br><b>(in thousands)</b> |
|---------------------------------|------------------------------------------|
| Balance as of December 31, 2017 | \$ 639,882                               |
| Foreign currency translation    | (4,400)                                  |
| Balance as of June 30, 2018     | <u>\$ 635,482</u>                        |

Intangible assets consisted of the following:

|                               | <b>June 30, 2018</b>                                              |                                      |                                     |                   |
|-------------------------------|-------------------------------------------------------------------|--------------------------------------|-------------------------------------|-------------------|
|                               | <b>Weighted-Average<br/>Remaining<br/>Useful Life -<br/>Years</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net</b>        |
|                               |                                                                   | <b>(in thousands except years)</b>   |                                     |                   |
| Domain names                  | 1.9                                                               | \$ 5,414                             | \$ 3,742                            | \$ 1,672          |
| Trademarks                    | 1.9                                                               | 5,772                                | 3,386                               | 2,386             |
| Acquired developed technology | 4.2                                                               | 180,000                              | 62,107                              | 117,893           |
| Customer relationships        | 2.3                                                               | 15,573                               | 6,040                               | 9,533             |
| Patents                       | 7.4                                                               | 19,710                               | 3,997                               | 15,713            |
|                               |                                                                   | <u>\$ 226,469</u>                    | <u>\$ 79,272</u>                    | <u>\$ 147,197</u> |

|                               | <b>December 31, 2017</b>                                          |                                      |                                     |                   |
|-------------------------------|-------------------------------------------------------------------|--------------------------------------|-------------------------------------|-------------------|
|                               | <b>Weighted-Average<br/>Remaining<br/>Useful Life -<br/>Years</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net</b>        |
|                               |                                                                   | <b>(in thousands except years)</b>   |                                     |                   |
| Domain names                  | 2.1                                                               | \$ 5,418                             | \$ 3,210                            | \$ 2,208          |
| Trademarks                    | 2.3                                                               | 5,772                                | 2,701                               | 3,071             |
| Acquired developed technology | 4.7                                                               | 180,396                              | 45,435                              | 134,961           |
| Customer relationships        | 2.6                                                               | 15,558                               | 3,506                               | 12,052            |
| Patents                       | 7.8                                                               | 17,150                               | 2,969                               | 14,181            |
|                               |                                                                   | <u>\$ 224,294</u>                    | <u>\$ 57,821</u>                    | <u>\$ 166,473</u> |

Amortization of intangible assets was \$10.8 million and \$5.8 million for the three months ended June 30, 2018 and 2017, respectively, and \$21.6 million and \$11.2 million for the six months ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, the estimated intangible asset amortization expense for the next five years and thereafter is as follows:

|                   | <b>Estimated<br/>Amortization</b><br><b>(in thousands)</b> |
|-------------------|------------------------------------------------------------|
| Remainder of 2018 | \$ 21,344                                                  |
| 2019              | 38,717                                                     |
| 2020              | 32,247                                                     |
| 2021              | 25,185                                                     |
| 2022              | 15,170                                                     |
| Thereafter        | 14,534                                                     |
| Total             | <u>\$ 147,197</u>                                          |

## 6. Commitments and Contingencies

### Commitments

#### Leases

We entered into various non-cancelable lease agreements for certain of our offices with original lease periods expiring between 2018 and 2027. Certain of the arrangements have free rent periods or escalating rent payment provisions. We recognize rent expense under such arrangements on a straight-line basis.

Our future minimum lease payments required under these non-cancelable operating lease obligations as of June 30, 2018, are as follows:

|                              | <b>Operating Leases</b> |
|------------------------------|-------------------------|
|                              | <b>(in thousands)</b>   |
| Remainder of 2018            | \$ 29,010               |
| 2019                         | 60,519                  |
| 2020                         | 60,187                  |
| 2021                         | 58,576                  |
| 2022                         | 47,482                  |
| Thereafter                   | 145,557                 |
| Total minimum lease payments | <u>\$ 401,331</u>       |

Operating lease expenses for the three months ended June 30, 2018 and 2017 were \$15.5 million and \$11.8 million, respectively, and \$31.3 million and \$24.7 million for the six months ended June 30, 2018 and 2017, respectively.

In 2018, we will exit various operating leases prior to the end of the contractual lease term, primarily as a result of moving to a centralized corporate office located in Santa Monica, California. As of June 30, 2018, these leases have a remaining contractual obligation of approximately \$82.0 million. In the three months ended June 30, 2018, we recorded a lease exit charge of \$3.9 million. The charge, recorded as general and administrative expense, reflects the present value of our remaining lease obligation on the cease use dates that occurred during the quarter, net of sublease income. We expect to incur total lease exit charges of approximately \$25 million to \$45 million in 2018, primarily in the third quarter, based on current exit plans.

We have several lease agreements where we are deemed the owner under build-to-suit lease accounting. The fair value of the leased property and corresponding financing obligations are included in property and equipment, net and other liabilities, respectively, on our consolidated balance sheets as of June 30, 2018. Our future minimum lease payments required under non-cancelable financing lease obligations, which exclusively relate to our build-to-suit leases, as of June 30, 2018, are as follows:

|                              | <b>Financing Leases</b> |
|------------------------------|-------------------------|
|                              | <b>(in thousands)</b>   |
| Remainder of 2018            | \$ 2,374                |
| 2019                         | 4,796                   |
| 2020                         | 4,947                   |
| 2021                         | 5,092                   |
| 2022                         | 5,167                   |
| Thereafter                   | 20,785                  |
| Total minimum lease payments | <u>\$ 43,161</u>        |

We recognize an increase in the fair value of the asset as additional building costs are incurred during the construction period and a corresponding increase in the lease financing obligation for any construction costs to be reimbursed by the landlord. As of June 30, 2018, \$16.4 million of lease financing obligations are included in other liabilities on our consolidated balance sheets.

### *Contractual Commitments*

We have non-cancelable contractual agreements related to the hosting of our data storage processing, storage, and other computing services.

In January 2017, we entered into the Google Cloud Platform License Agreement, which was amended in September 2017, December 2017, and again in January 2018. Under the agreement, we were granted a license to access and use certain cloud services. The agreement has an initial term of five years and we are required to purchase at least \$400.0 million of cloud services in each year of the agreement. For each of the first four years, up to 15% of this amount may be moved to a subsequent year. If we fail to meet the minimum purchase commitment during any year, we are required to pay the difference.

In March 2016, we entered into the AWS Enterprise Agreement for the use of cloud services from Amazon Web Services, Inc. (“AWS”) which was amended in March 2016, and again in February 2017. The agreement will continue indefinitely until terminated by either party. Under the February 2017 addendum to the agreement, we committed to spend \$1.0 billion between January 2017 and December 2021 on AWS services (\$50.0 million in 2017, \$125.0 million in 2018, \$200.0 million in 2019, \$275.0 million in 2020, and \$350.0 million in 2021). If we fail to meet the minimum purchase commitment during any year, we are required to pay the difference. Any such payment may be applied to future use of AWS services during the addendum term, although it will not count towards meeting the future minimum purchase commitments under the addendum.

The future minimum contractual commitment including commitments less than one year, as of June 30, 2018 for each of the next five years are as follows:

|                           | <b>Minimum Commitment</b><br><b>(in thousands)</b> |
|---------------------------|----------------------------------------------------|
| Remainder of 2018         | \$ 309,666                                         |
| 2019                      | 602,540                                            |
| 2020                      | 678,805                                            |
| 2021                      | 750,080                                            |
| 2022                      | 33,333                                             |
| Thereafter                | —                                                  |
| Total minimum commitments | <u>\$ 2,374,424</u>                                |

### **Contingencies**

We record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We also disclose material contingencies when we believe a loss is not probable but reasonably possible. Accounting for contingencies requires us to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. Many legal and tax contingencies can take years to be resolved.

#### *Pending Matters*

Beginning in May 2017, we, certain of our officers and directors, and the underwriters for our IPO were named as defendants in securities class actions purportedly brought on behalf of purchasers of our Class A common stock, alleging violation of securities laws in connection with our IPO. Management believes these lawsuits are without merit and intend to vigorously defend them. Based on the preliminary nature of the proceedings in this case, the outcome of this matter remains uncertain.

On April 3, 2018, BlackBerry Limited filed a lawsuit against us alleging that we infringe six of its patents. We are currently investigating BlackBerry’s allegations, and management believes we have meritorious defenses. Based on the preliminary nature of the proceedings, the outcome of this matter remains uncertain.

In 2017, Vaporstream, Inc. filed a lawsuit against us alleging that we infringe a number of its patents. We filed a motion to dismiss, which the court denied without prejudice to re-file after further factual development. Later in 2017, we filed a motion for summary judgment. On February 27, 2018, the court issued an order denying our motion for summary judgment. On June 13, 2018, the court stayed the lawsuit pending the outcome of several challenges to the validity of the patents, filed by us at the U.S. Patent Office. While management believes we have meritorious defenses to Vaporstream's claims, the outcome of this matter remains uncertain.

The outcomes of our legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to our financial condition, results of operations, and cash flows for a particular period. For the pending matters described above, it is not possible to estimate the reasonably possible loss or range of loss.

We are subject to various other legal proceedings and claims in the ordinary course of business, including certain patent, trademark, privacy, and employment matters. Although occasional adverse decisions or settlements may occur, we do not believe that the final disposition of any of our other pending matters will seriously harm our business, financial condition, results of operations, and cash flows.

## Indemnifications

In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, investors, directors, officers, employees, and other parties with respect to certain matters. Indemnification may include losses from our breach of such agreements, services we provide, or third party intellectual property infringement claims. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future indemnification payments may not be subject to a cap. We have not incurred material costs to defend lawsuits or settle claims related to these indemnifications as of June 30, 2018. We believe the fair value of these liabilities is immaterial and accordingly have no liabilities recorded for these agreements at June 30, 2018.

## 7. Fair Value Measurements

We classify our marketable securities within Level 1 because we use quoted market prices to determine their fair value. The following table sets forth our financial assets as of June 30, 2018 and December 31, 2017 that are measured at fair value on a recurring basis during the period:

|                                   | Fair Value          |                      |
|-----------------------------------|---------------------|----------------------|
|                                   | June 30,<br>2018    | December 31,<br>2017 |
|                                   | (in thousands)      |                      |
| <b>Cash and cash equivalents</b>  |                     |                      |
| Cash                              | \$ 360,035          | \$ 267,715           |
| U.S. government securities        | 14,985              | 25,861               |
| U.S. government agency securities | 18,163              | 40,487               |
| Total cash and cash equivalents   | <u>\$ 393,183</u>   | <u>\$ 334,063</u>    |
| <b>Marketable securities</b>      |                     |                      |
| U.S. government securities        | \$ 950,807          | \$ 1,350,581         |
| U.S. government agency securities | 226,013             | 358,395              |
| Total marketable securities       | <u>\$ 1,176,820</u> | <u>\$ 1,708,976</u>  |

The amortized cost of U.S. government securities with maturities less than one year was \$951.2 million and \$1.4 billion as of June 30, 2018 and December 31, 2017, respectively. The amortized cost of U.S. government agency securities with maturities of less than a year was \$226.1 million and \$358.6 million as of June 30, 2018 and December 31, 2017, respectively.

## 8. Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items arising in that quarter. Our effective tax rate differs from the U.S. statutory tax rate primarily due to valuation allowances on our deferred tax assets as it is more likely than not that some or all of our deferred tax assets will not be realized.

Income tax expense was \$1.1 million and \$2.7 million for the three and six months ended June 30, 2018, respectively, compared to an expense of \$0.2 million and a benefit of \$2.8 million for the three and six months ended June 30, 2017, respectively. The income tax benefit for the six months ended June 30, 2017 was primarily from the partial release of a valuation allowance against our net deferred tax assets that was not in the six-months ended June 30, 2018. The valuation allowance release was the result of net deferred tax liabilities originating from acquisitions that were an available source of income to realize a portion of our deferred tax assets.

The Tax Cuts and Jobs Act introduced the global intangible low-taxed income (“GILTI”) provisions that impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. We recognize the tax on GILTI as an expense in the period the tax is incurred. We have not provided deferred taxes related to temporary differences that on their reversal will affect the amount of income subject to GILTI in the period.

## 9. Accumulated Other Comprehensive Income (Loss)

The table below presents the changes in accumulated other comprehensive income (loss) (“AOCI”) by component and the reclassifications out of AOCI:

|                                    | Changes in Accumulated Other Comprehensive Income (Loss) by Component |                              |                 |
|------------------------------------|-----------------------------------------------------------------------|------------------------------|-----------------|
|                                    | Marketable Securities                                                 | Foreign Currency Translation | Total           |
|                                    | (in thousands)                                                        |                              |                 |
| Balance at December 31, 2017       | \$ (1,078)                                                            | \$ 15,235                    | \$ 14,157       |
| OCI before reclassifications (1)   | 494                                                                   | (6,443)                      | (5,949)         |
| Amounts reclassified from AOCI (2) | (1)                                                                   | —                            | (1)             |
| Net current period OCI             | 493                                                                   | (6,443)                      | (5,950)         |
| Balance at June 30, 2018           | <u>\$ (585)</u>                                                       | <u>\$ 8,792</u>              | <u>\$ 8,207</u> |

(1) Net of tax expense of \$0.1 million for gains / losses on marketable securities.

(2) Realized gains and losses on marketable securities are reclassified from AOCI into other income (expense), net in the consolidated statements of operations.

## 10. Property and Equipment, Net

The following table lists property and equipment, net by geographic area:

|                                   | As of<br>June 30, 2018 | As of<br>December 31, 2017 |
|-----------------------------------|------------------------|----------------------------|
|                                   | (in thousands)         |                            |
| Property and equipment, net:      |                        |                            |
| United States                     | \$ 188,913             | \$ 146,862                 |
| Rest of world (1)                 | 25,317                 | 19,900                     |
| Total property and equipment, net | <u>\$ 214,230</u>      | <u>\$ 166,762</u>          |

(1) No individual country exceeded 10% of our total property and equipment, net for any period presented.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report.*

### Executive Overview of Second Quarter Results

Our key user metrics and financial results for the second quarter of 2018 are as follows:

#### *User Metrics*

- Daily Active Users, or DAUs, increased 8% to 188 million in Q2 2018, compared to 173 million in Q2 2017.
- Average revenue per user, or ARPU, increased 34% to \$1.40 in Q2 2018, compared to \$1.05 in Q2 2017.

#### *Financial Results*

- Cash used in operating activities was \$199.3 million in Q2 2018, compared to \$209.6 million in Q2 2017.
- Free Cash Flow was \$(234.2) million in Q2 2018, compared to \$(228.9) million in Q2 2017.
- Common shares outstanding plus shares underlying stock-based awards, including restricted stock units and outstanding stock options, totaled 1.5 billion at June 30, 2018, compared with 1.4 billion one year ago.
- Capital expenditures were \$34.9 million in Q2 2018, compared to \$19.4 million in Q2 2017.
- Cash, cash equivalents, and marketable securities were \$1.6 billion as of June 30, 2018.
- Revenue increased 44% to \$262.3 million in Q2 2018, compared to \$181.7 million in Q2 2017.
- Total costs and expenses excluding stock-based compensation and related payroll tax expense increased 18% to \$457.7 million in Q2 2018, compared to \$388.2 million in Q2 2017.
- Loss from operations decreased 20% to \$357.8 million in Q2 2018, compared to \$449.0 million in Q2 2017.
- Net loss decreased 20% to \$353.3 million in Q2 2018, compared to \$443.1 million in Q2 2017.
- Diluted net loss per share decreased 25% to \$(0.27) in Q2 2018, compared to \$(0.36) in Q2 2017.
- Adjusted EBITDA loss decreased 13% to \$(169.0) million in Q2 2018, compared to \$(194.0) million in Q2 2017.

### Overview

Snap Inc. is a camera company.

We believe that reinventing the camera represents our greatest opportunity to improve the way that people live and communicate. We contribute to human progress by empowering people to express themselves, live in the moment, learn about the world, and have fun together.

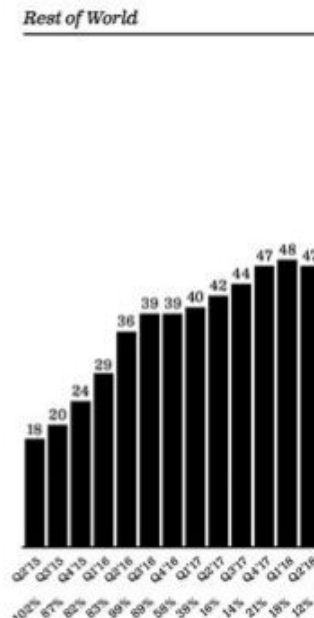
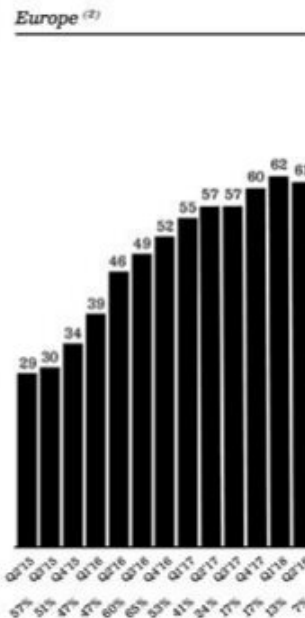
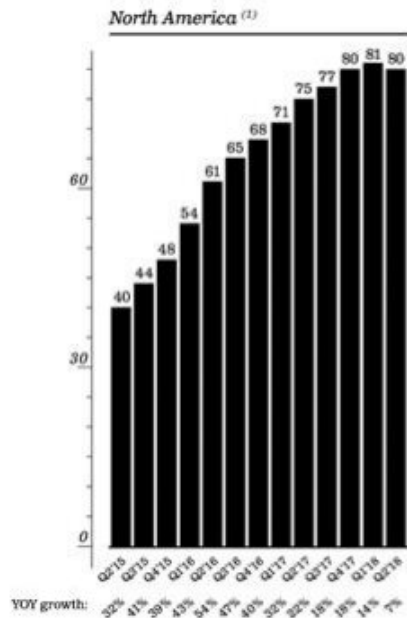
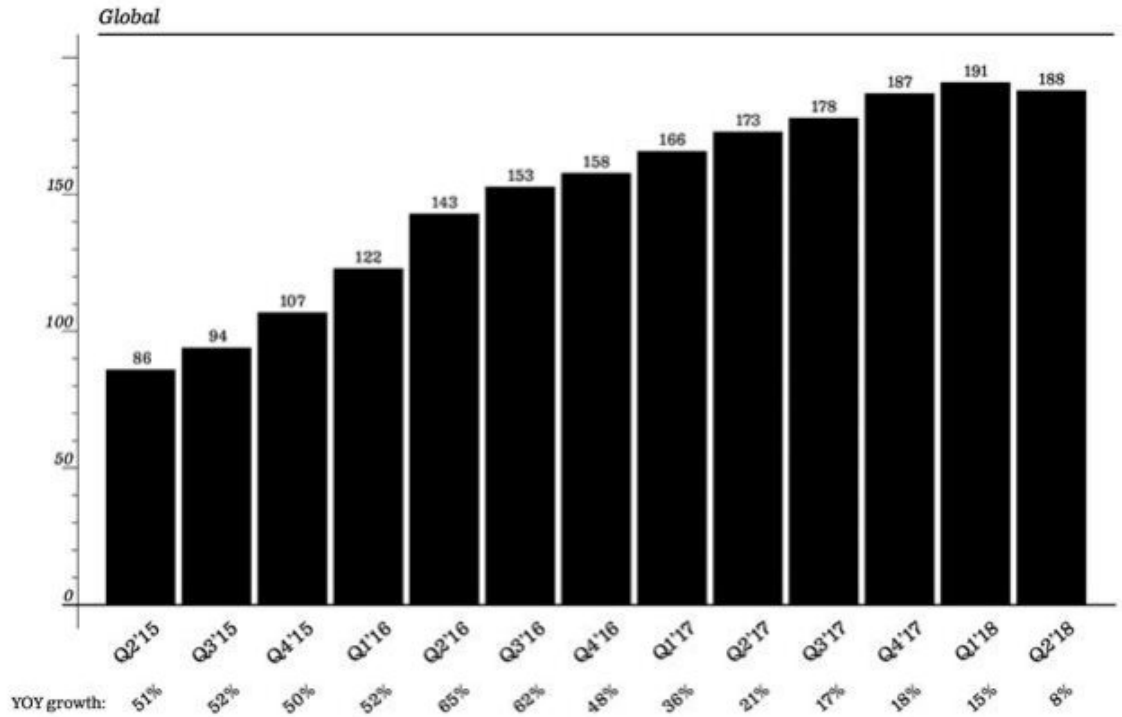
Our flagship product, Snapchat, is a camera application that helps people communicate visually with friends and family through short videos and images called Snaps. On average, 188 million people use Snapchat daily.

### Trends in User Metrics

#### *User Engagement*

We define a Daily Active User as a registered Snapchat user who opens the Snapchat application at least once during a defined 24-hour period. We calculate average Daily Active Users for a particular quarter by adding the number of DAUs on each day of that quarter and dividing that sum by the number of days in that quarter. We also break out Daily Active Users by geography because certain markets have a greater revenue opportunity and lower bandwidth costs. We had 188 million DAUs on average in the second quarter of 2018, compared to 173 million in the second quarter of 2017, an increase of 8%. In February 2018, we rolled out a redesign of the Snapchat application, which negatively impacted our DAUs. Our DAUs declined 2% in the second quarter of 2018 compared to the first quarter of 2018. During the second quarter, we launched an update to the redesign and we will continue to make changes and optimizations to the Snapchat application. The short- and long-term impacts of changes and optimizations on DAUs and other user metrics are difficult to predict.

Quarterly Average Daily Active Users  
(in millions)



(1) North America includes Mexico and the Caribbean.

(2) Europe includes Russia and Turkey.

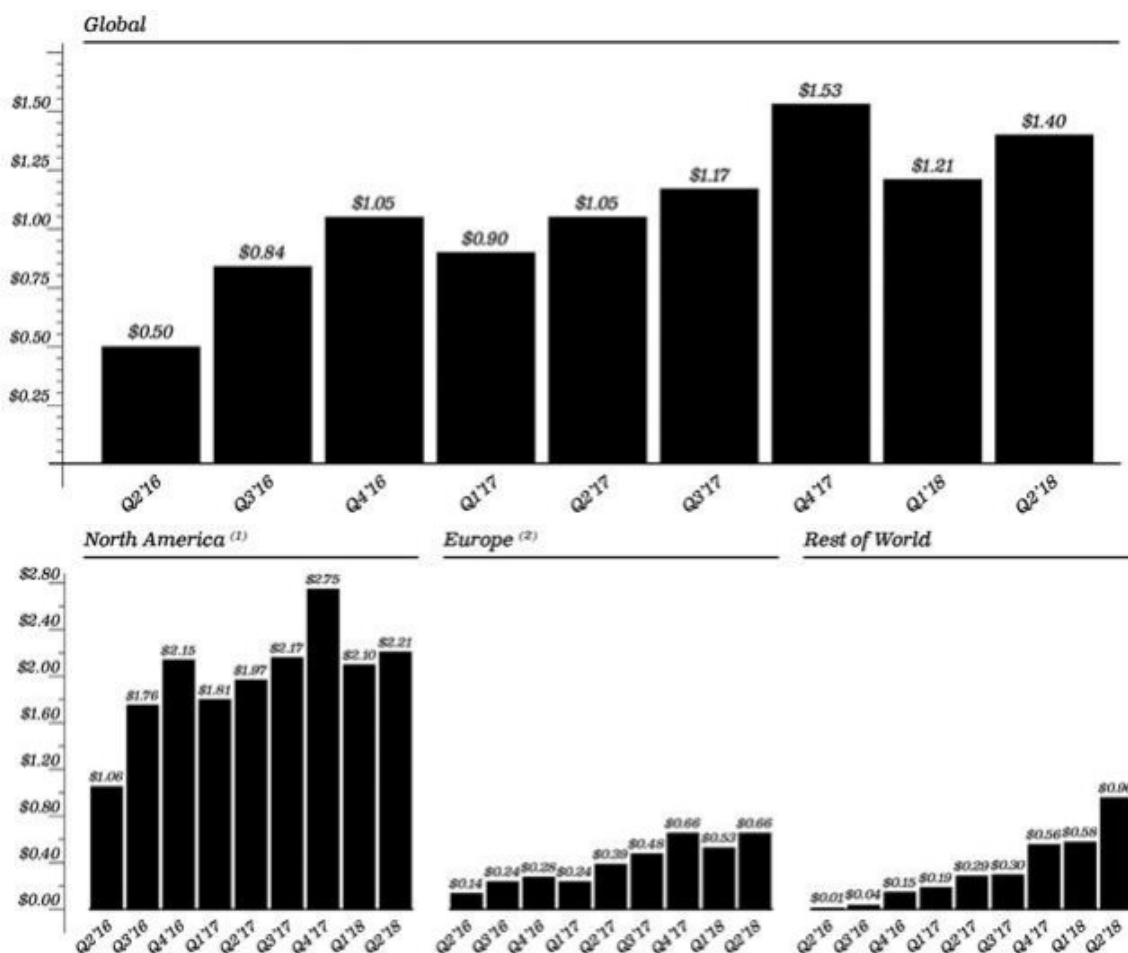
## Monetization

In the three months ended June 30, 2018, we recorded revenue of \$262.3 million compared to revenue of \$181.7 million for the same period in 2017, a 44% year-over-year increase. In the six months ended June 30, 2018, we recorded revenue of \$492.9 million compared to revenue of \$331.3 million for the same period in 2017, a 49% year-over-year increase. We monetize our business primarily through advertising. Our advertising products include Snap Ads and Sponsored Creative Tools like Sponsored Lenses and Sponsored Geofilters, and measurement services. While our advertising business is still in its early stages, it has grown rapidly.

We measure progress in our advertising business using ARPU because it helps us understand the rate at which we're monetizing our daily user base. We define ARPU as quarterly revenue divided by the average Daily Active Users.

For purposes of calculating ARPU, revenue by user geography is apportioned to each region based on a determination of the geographic location in which advertising impressions are delivered, as this approximates revenue based on user activity. This differs from the presentation of our revenue by geography in the notes to our consolidated financial statements, where revenue is based on the billing address of the advertising customer.

Quarterly Average Revenue per User



(1) North America includes Mexico and the Caribbean.

(2) Europe includes Russia and Turkey.

ARPU was \$1.40 in the second quarter of 2018, up from \$1.05 a year ago and up from \$1.21 in the first quarter of 2018.

## Results of Operations

The following table summarizes certain selected historical financial results:

|                                | Three Months Ended June 30, |            | Six Months Ended June 30, |             |
|--------------------------------|-----------------------------|------------|---------------------------|-------------|
|                                | 2018                        | 2017       | 2018                      | 2017        |
|                                | (in thousands)              |            |                           |             |
| Revenue                        | \$ 262,263                  | \$ 181,671 | \$ 492,929                | \$ 331,319  |
| Loss from operations           | (357,842)                   | (449,018)  | (750,372)                 | (2,662,785) |
| Net loss                       | (353,310)                   | (443,093)  | (739,095)                 | (2,651,930) |
| Adjusted EBITDA <sup>(1)</sup> | (169,032)                   | (193,990)  | (386,897)                 | (382,233)   |

(1) For information on how we define and calculate Adjusted EBITDA, and a reconciliation of net loss to Adjusted EBITDA, see “Non-GAAP Financial Measures.”

### Components of Results of Operations

#### Revenue

We generate substantially all of our revenue through the sale of our advertising products, which include Snap Ads and Sponsored Creative Tools, and measurement services, referred to as advertising revenue. We sell advertising directly to advertisers, referred to as Snap-sold revenue. Certain partners that provide content on Snapchat, or content partners, also sell directly to advertisers, referred to as partner-sold revenue. We report Snap-sold revenue on a gross basis and partner-sold revenue on a net basis. Currently, our Sponsored Creative Tools, which include Sponsored Lenses and Sponsored Geofilters, and our measurement services are only Snap-sold. For the three months ended June 30, 2018 and 2017, approximately 98% and 94% of our advertising revenue was Snap-sold, respectively, and approximately 2% and 6% of our advertising revenue was partner-sold, respectively. For the six months ended June 30, 2018 and 2017, approximately 97% and 93% of our advertising revenue was Snap-sold, respectively, and approximately 3% and 7% of our advertising revenue was partner-sold, respectively. Snap Ads, whether Snap-sold or partner-sold, may be subject to revenue sharing arrangements between us and the content partner.

We also generate revenue from sales of our hardware product, Spectacles. This revenue is reported net of allowances for returns.

#### Cost of Revenue

Cost of revenue consists primarily of payments to third-party infrastructure partners for hosting our products. Infrastructure costs primarily include expenses related to storage, computing, and bandwidth costs. Cost of revenue also includes revenue share payments to our content partners, advertising measurement services, and content creation costs. Content creation costs include personnel-related costs, including salaries, benefits, and stock-based compensation expenses. In addition, cost of revenue includes inventory costs for Spectacles and facilities and other supporting overhead costs, including depreciation and amortization.

#### Research and Development Expenses

Research and development expenses consist primarily of personnel-related costs, including salaries, benefits, and stock-based compensation expenses for our engineers and other employees engaged in the research and development of our products. In addition, research and development expenses include facilities and other supporting overhead costs, including depreciation and amortization. Research and development costs are expensed as incurred.

#### Sales and Marketing Expenses

Sales and marketing expenses consist primarily of personnel-related costs, including salaries, benefits, commissions, and stock-based compensation expense for our employees engaged in sales and sales support, business development, media, marketing, corporate partnerships, communications, and customer service functions. Sales and marketing expenses also include costs incurred for advertising, market research, tradeshows, branding, marketing, promotional expense, and public relations, as well as facilities and other supporting overhead costs, including depreciation and amortization.

### *General and Administrative Expenses*

General and administrative expenses consist primarily of personnel-related costs, including salaries, benefits, and stock-based compensation expense for our executives, finance, legal, information technology, human resources, and other administrative teams, including facilities and supporting overhead costs, and depreciation and amortization. General and administrative expenses also include external professional services and employee event costs.

### *Interest Income*

Interest income consists primarily of interest earned on our cash, cash equivalents, and marketable securities.

### *Interest Expense*

Interest expense consists primarily of interest on build-to-suit lease financing obligations and commitment fees and amortization of financing costs related to our revolving credit facility.

### *Other Income (Expense), Net*

Other income (expense), net consists of realized gains and losses on sales of marketable securities, our portion of cost and equity method investment income and losses, and foreign currency transaction gains and losses.

### *Income Tax Benefit (Expense)*

We are subject to income taxes in the United States and numerous foreign jurisdictions. These foreign jurisdictions have different statutory tax rates than the United States. Additionally, certain of our foreign earnings may also be taxable in the United States. Accordingly, our effective tax rates will vary depending on the relative proportion of foreign to domestic income, use of foreign tax credits, changes in the valuation of our deferred tax assets and liabilities, and changes in tax laws.

### *Adjusted EBITDA*

We define Adjusted EBITDA as net income (loss), excluding interest income; interest expense; other income (expense), net; income tax benefit (expense); depreciation and amortization; stock-based compensation expense and related payroll tax expense; and certain other non-cash or non-recurring items impacting net income (loss) from time to time. We consider the exclusion of certain non-cash or non-recurring expenses in calculating Adjusted EBITDA to provide a useful measure for period-to-period comparisons of our business and for investors and others to evaluate our operating results in the same manner as does our management. Additionally, we believe that Adjusted EBITDA is an important measure since we use third-party infrastructure partners to host our services and therefore we do not incur significant capital expenditures to support revenue-generating activities. See “Non-GAAP Financial Measures” for additional information and a reconciliation of net loss to Adjusted EBITDA.

## Discussion of Results of Operations

The following table sets forth our consolidated statements of operations data:

|                                                    | <u>Three Months Ended June 30,</u> |                     | <u>Six Months Ended June 30,</u> |                       |
|----------------------------------------------------|------------------------------------|---------------------|----------------------------------|-----------------------|
|                                                    | <u>2018</u>                        | <u>2017</u>         | <u>2018</u>                      | <u>2017</u>           |
|                                                    | <u>(in thousands)</u>              |                     |                                  |                       |
| <b>Consolidated Statements of Operations Data:</b> |                                    |                     |                                  |                       |
| Revenue                                            | \$ 262,263                         | \$ 181,671          | \$ 492,929                       | \$ 331,319            |
| Costs and expenses (1) (2) :                       |                                    |                     |                                  |                       |
| Cost of revenue                                    | 191,565                            | 152,148             | 388,363                          | 315,506               |
| Research and development                           | 203,246                            | 255,735             | 404,232                          | 1,061,583             |
| Sales and marketing                                | 101,685                            | 90,903              | 203,798                          | 310,636               |
| General and administrative                         | 123,609                            | 131,903             | 246,908                          | 1,306,379             |
| Total costs and expenses                           | 620,105                            | 630,689             | 1,243,301                        | 2,994,104             |
| Loss from operations                               | (357,842)                          | (449,018)           | (750,372)                        | (2,662,785)           |
| Interest income                                    | 6,600                              | 6,349               | 12,704                           | 8,773                 |
| Interest expense                                   | (930)                              | (998)               | (1,864)                          | (1,693)               |
| Other income (expense), net                        | (61)                               | 786                 | 3,092                            | 973                   |
| Loss before income taxes                           | (352,233)                          | (442,881)           | (736,440)                        | (2,654,732)           |
| Income tax benefit (expense)                       | (1,077)                            | (212)               | (2,655)                          | 2,802                 |
| Net loss                                           | <u>\$ (353,310)</u>                | <u>\$ (443,093)</u> | <u>\$ (739,095)</u>              | <u>\$ (2,651,930)</u> |
| Adjusted EBITDA (3)                                | \$ (169,032)                       | \$ (193,990)        | \$ (386,897)                     | \$ (382,233)          |

(1) Stock-based compensation expense included in the above line items:

|                                          | <u>Three Months Ended June 30,</u> |             | <u>Six Months Ended June 30,</u> |              |
|------------------------------------------|------------------------------------|-------------|----------------------------------|--------------|
|                                          | <u>2018</u>                        | <u>2017</u> | <u>2018</u>                      | <u>2017</u>  |
|                                          | <u>(in thousands)</u>              |             |                                  |              |
| <b>Stock-based compensation expense:</b> |                                    |             |                                  |              |
| Cost of revenue                          | \$ 1,467                           | \$ 2,223    | \$ 1,743                         | \$ 21,931    |
| Research and development                 | 92,303                             | 163,848     | 170,118                          | 881,928      |
| Sales and marketing                      | 21,996                             | 20,558      | 38,182                           | 180,284      |
| General and administrative               | 40,605                             | 58,399      | 79,587                           | 1,153,006    |
| Total                                    | \$ 156,371                         | \$ 245,028  | \$ 289,630                       | \$ 2,237,149 |

(2) Depreciation and amortization expense included in the above line items:

|                                               | <u>Three Months Ended June 30,</u> |             | <u>Six Months Ended June 30,</u> |             |
|-----------------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                               | <u>2018</u>                        | <u>2017</u> | <u>2018</u>                      | <u>2017</u> |
|                                               | <u>(in thousands)</u>              |             |                                  |             |
| <b>Depreciation and amortization expense:</b> |                                    |             |                                  |             |
| Cost of revenue                               | \$ 5,610                           | \$ 2,970    | \$ 10,812                        | \$ 4,639    |
| Research and development                      | 9,489                              | 5,983       | 18,280                           | 11,738      |
| Sales and marketing                           | 3,991                              | 1,589       | 7,560                            | 4,189       |
| General and administrative                    | 3,424                              | 2,043       | 7,416                            | 4,469       |
| Total                                         | \$ 22,514                          | \$ 12,585   | \$ 44,068                        | \$ 25,035   |

(3) See “Non-GAAP Financial Measures” for more information and for a reconciliation of Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

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

|                                                    | Three Months Ended June 30, |      | Six Months Ended June 30, |      |
|----------------------------------------------------|-----------------------------|------|---------------------------|------|
|                                                    | 2018                        | 2017 | 2018                      | 2017 |
| <b>Consolidated Statements of Operations Data:</b> |                             |      |                           |      |
| Revenue                                            | 100%                        | 100% | 100%                      | 100% |
| Costs and expenses:                                |                             |      |                           |      |
| Cost of revenue                                    | 73                          | 84   | 79                        | 95   |
| Research and development                           | 77                          | 141  | 82                        | 320  |
| Sales and marketing                                | 39                          | 50   | 41                        | 94   |
| General and administrative                         | 47                          | 73   | 50                        | 394  |
| Total costs and expenses                           | 236                         | 347  | 252                       | 904  |
| Loss from operations                               | 136                         | 247  | 152                       | 804  |
| Interest income                                    | 3                           | 3    | 3                         | 3    |
| Interest expense                                   | —                           | 1    | —                         | 1    |
| Other income (expense), net                        | —                           | —    | 1                         | —    |
| Loss before income taxes                           | 134                         | 244  | 149                       | 801  |
| Income tax benefit (expense)                       | —                           | —    | 1                         | 1    |
| Net loss                                           | 135%                        | 244% | 150%                      | 800% |

### *Three and Six Months Ended June 30, 2018 and 2017*

#### *Revenue*

|                                | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--------------------------------|-----------------------------|------------|---------------------------|------------|
|                                | 2018                        | 2017       | 2018                      | 2017       |
|                                | (dollars in thousands)      |            |                           |            |
| Revenue                        | \$ 262,263                  | \$ 181,671 | \$ 492,929                | \$ 331,319 |
| Revenue as a dollar change     |                             | \$ 80,592  |                           | \$ 161,610 |
| Revenue as a percentage change |                             | 44%        |                           | 49%        |

Revenue for the three months ended June 30, 2018 increased \$80.6 million compared to the same period in 2017. Revenue was \$492.9 million for the six months ended June 30, 2018, compared to \$331.3 million for the same period in 2017. The increase in revenue was primarily due to an increase in the number of advertisements delivered. The number of advertisements delivered increased between the periods primarily due to increased advertiser demand for Snap Ads and increased user engagement as measured by an increase in DAUs. For Snap Ads, incremental spend was primarily through our advertising API, which allows advertisers access to inventory at a lower price than our direct sales channels. In 2018, we also began selling Sponsored Creative Tools through our advertising API. ARPU increased due to the growth in revenue as a result of the number of advertisements delivered, which outpaced DAU growth during the period.

Snap-sold revenue was \$254.1 million and partner-sold revenue was \$6.4 million during the three months ended June 30, 2018 compared to \$165.0 million for Snap-sold revenue and \$11.3 million for partner-sold revenue during the three months ended June 30, 2017. Snap-sold revenue was \$476.6 million and partner-sold revenue was \$13.0 million during the six months ended June 30, 2018 compared to \$293.9 million for Snap-sold revenue and \$23.6 million for partner-sold revenue during the six months ended June 30, 2017.

#### *Cost of Revenue*

|                                        | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|----------------------------------------|-----------------------------|------------|---------------------------|------------|
|                                        | 2018                        | 2017       | 2018                      | 2017       |
|                                        | (dollars in thousands)      |            |                           |            |
| Cost of Revenue                        | \$ 191,565                  | \$ 152,148 | \$ 388,363                | \$ 315,506 |
| Cost of Revenue as a dollar change     |                             | \$ 39,417  |                           | \$ 72,857  |
| Cost of Revenue as a percentage change |                             | 26%        |                           | 23%        |

Cost of revenue for the three months ended June 30, 2018 increased \$39.4 million, or 26%, compared to the same period in 2017. The increase in cost of revenue primarily consisted of \$29.4 million related to increased infrastructure costs, in part attributable to DAU growth between the periods.

Cost of revenue for the six months ended June 30, 2018 increased \$72.9 million, or 23%, compared to the same period in 2017. The increase in cost of revenue primarily consisted of \$68.8 million related to increased infrastructure costs, in part attributable to DAU growth between the periods, as well as increased revenue share payments to our partners consistent with our overall increase in revenue and increased measurement costs as we continue to launch new tools to measure advertising effectiveness. The increase was partially offset by a decrease in product costs for Spectacles and a decrease in personnel-related costs, including a decrease in stock-based compensation expense primarily due to the recognition of expense related to restricted stock units, or RSUs, with a performance condition satisfied on the effectiveness of the registration statement for our initial public offering, or IPO, in March 2017.

#### *Research and Development Expenses*

|                                                          | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |              |
|----------------------------------------------------------|------------------------------------|-------------|----------------------------------|--------------|
|                                                          | <b>2018</b>                        | <b>2017</b> | <b>2018</b>                      | <b>2017</b>  |
|                                                          | <b>(dollars in thousands)</b>      |             |                                  |              |
| Research and Development Expenses                        | \$ 203,246                         | \$ 255,735  | \$ 404,232                       | \$ 1,061,583 |
| Research and Development Expenses as a dollar change     |                                    | \$ (52,489) |                                  | \$ (657,351) |
| Research and Development Expenses as a percentage change |                                    | (21)%       |                                  | (62)%        |

Research and development expenses for the three months ended June 30, 2018 decreased \$52.5 million compared to the same period in 2017. The decrease was driven by a decrease in stock-based compensation expense of \$71.5 million. The decrease in stock-based compensation expense was due to recognition of expense utilizing the accelerated attribution method on RSUs with a performance condition, which resulted in a higher expense in prior periods. The decrease was partially offset by an increase in personnel costs, driven by an increase in research and development headcount.

Research and development expenses for the six months ended June 30, 2018 decreased \$657.4 million compared to the same period in 2017. The decrease was driven by a decrease in stock-based compensation expense of \$711.8 million. Stock-based compensation expense in the six months ended June 30, 2017 was primarily due to the recognition of expense related to RSUs with a performance condition satisfied on the effectiveness of the registration statement for our IPO in March 2017. Additionally, the decrease in stock-based compensation expense was due to recognition of expense utilizing the accelerated attribution method on RSUs with a performance condition, which resulted in a higher expense in prior periods. The decrease was partially offset by an increase in personnel costs, driven by an increase in research and development headcount.

#### *Sales and Marketing Expenses*

|                                                     | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |              |
|-----------------------------------------------------|------------------------------------|-------------|----------------------------------|--------------|
|                                                     | <b>2018</b>                        | <b>2017</b> | <b>2018</b>                      | <b>2017</b>  |
|                                                     | <b>(dollars in thousands)</b>      |             |                                  |              |
| Sales and Marketing Expenses                        | \$ 101,685                         | \$ 90,903   | \$ 203,798                       | \$ 310,636   |
| Sales and Marketing Expenses as a dollar change     |                                    | \$ 10,782   |                                  | \$ (106,838) |
| Sales and Marketing Expenses as a percentage change |                                    | 12%         |                                  | (34)%        |

Sales and marketing expenses for the three months ended June 30, 2018 increased \$10.8 million compared to the same period in 2017. The increase in sales and marketing expenses primarily consisted of an increase in personnel costs, driven by an increase in sales and marketing headcount.

Sales and marketing expenses for the six months ended June 30, 2018 decreased \$106.8 million, compared to the same period in 2017. The decrease for the six months ended June 30, 2018 was due to a \$142.1 million decrease in stock-based compensation expense. Stock-based compensation expense in the six months ended June 30, 2017 was primarily due to the recognition of expense related to RSUs with a performance condition satisfied on the effectiveness of the registration statement for our IPO in March 2017. Additionally, the decrease in stock-based compensation expense was due to recognition of expense utilizing the accelerated attribution method on RSUs with a performance condition, which resulted in

a higher expense in prior periods. The decrease was partially offset by an increase in personnel costs, driven by an increase in sales and marketing headcount.

#### *General and Administrative Expenses*

|                                                            | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |                |
|------------------------------------------------------------|------------------------------------|-------------|----------------------------------|----------------|
|                                                            | <b>2018</b>                        | <b>2017</b> | <b>2018</b>                      | <b>2017</b>    |
|                                                            | <b>(dollars in thousands)</b>      |             |                                  |                |
| General and Administrative Expenses                        | \$ 123,609                         | \$ 131,903  | \$ 246,908                       | \$ 1,306,379   |
| General and Administrative Expenses as a dollar change     |                                    | \$ (8,294)  |                                  | \$ (1,059,471) |
| General and Administrative Expenses as a percentage change |                                    | (6)%        |                                  | (81)%          |

General and administrative expenses for the three months ended June 30, 2018 decreased \$8.3 million compared to the same period in 2017. The decrease was driven by a \$17.8 million decrease in stock-based compensation expense. The decrease in stock-based compensation expense was due to recognition of expense utilizing the accelerated attribution method on RSUs with a performance condition, which resulted in a higher expense in prior periods. The decrease was partially offset by an increase in facilities costs, driven by lease exit charges.

General and administrative expenses for the six months ended June 30, 2018 decreased \$1.1 billion compared to the same period in 2017. The decrease was driven by a \$1.1 billion decrease in stock-based compensation expense. Stock-based compensation expense in the six months ended June 30, 2017 was primarily due to the recognition of expense related to RSUs with a performance condition satisfied on the effectiveness of the registration statement for our IPO in March 2017, including \$636.6 million attributable to a restricted stock unit grant to our CEO. Additionally, the decrease in stock-based compensation expense was due to recognition of expense utilizing the accelerated attribution method on RSUs with a performance condition, which resulted in a higher expense in prior periods.

#### *Interest Income*

|                                        | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|----------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                        | <b>2018</b>                        | <b>2017</b> | <b>2018</b>                      | <b>2017</b> |
|                                        | <b>(dollars in thousands)</b>      |             |                                  |             |
| Interest Income                        | \$ 6,600                           | \$ 6,349    | \$ 12,704                        | \$ 8,773    |
| Interest Income as a dollar change     |                                    | \$ 251      |                                  | \$ 3,931    |
| Interest Income as a percentage change |                                    | 4%          |                                  | 45%         |

Interest income for the three and six months ended June 30, 2018 increased \$0.3 million and \$3.9 million, respectively, compared to the same periods in 2017. The increase was primarily a result of higher interest rates on U.S. government-backed securities.

#### *Interest Expense*

|                                         | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|-----------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                         | <b>2018</b>                        | <b>2017</b> | <b>2018</b>                      | <b>2017</b> |
|                                         | <b>(dollars in thousands)</b>      |             |                                  |             |
| Interest Expense                        | \$ (930)                           | \$ (998)    | \$ (1,864)                       | \$ (1,693)  |
| Interest Expense as a dollar change     |                                    | \$ 68       |                                  | \$ (171)    |
| Interest Expense as a percentage change |                                    | (7)%        |                                  | 10%         |

Interest expense for the three and six months ended June 30, 2018 decreased \$0.1 million and increased \$0.2 million, respectively, compared to the same periods in 2017. Interest expense was composed primarily of interest on financing obligations related to a build-to-suit lease and commitment fees and amortization of costs related to our revolving credit facility.

*Other Income (Expense), Net*

|                                                    | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|----------------------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                                    | <b>2018</b>                        | <b>2017</b> | <b>2018</b>                      | <b>2017</b> |
|                                                    | <b>(dollars in thousands)</b>      |             |                                  |             |
| Other Income (Expense), Net                        | \$ (61)                            | \$ 786      | \$ 3,092                         | \$ 973      |
| Other Income (Expense), Net as a dollar change     |                                    | \$ (847)    |                                  | \$ 2,119    |
| Other Income (Expense), Net as a percentage change |                                    | (108)%      |                                  | 218%        |

Other income (expense), net for the three months ended June 30, 2018 was \$(0.1) million compared to \$0.8 million the same period in 2017. Other income, net for the six months ended June 30, 2018 increased \$2.1 million compared to the same period in 2017. The change from the comparative period was primarily a result of an increase in gains on cost and equity method investments, partially offset by an increase in foreign currency transaction losses.

*Income Tax Benefit (Expense)*

|                                                     | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|-----------------------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                                     | <b>2018</b>                        | <b>2017</b> | <b>2018</b>                      | <b>2017</b> |
|                                                     | <b>(dollars in thousands)</b>      |             |                                  |             |
| Income Tax Benefit (Expense)                        | \$ (1,077)                         | \$ (212)    | \$ (2,655)                       | \$ 2,802    |
| Income Tax Benefit (Expense) as a dollar change     |                                    | \$ (865)    |                                  | \$ (5,457)  |
| Income Tax Benefit (Expense) as a percentage change |                                    | 408%        |                                  | (195)%      |
| Effective Tax Rate                                  | (0.3)%                             | 0.0%        | (0.4)%                           | 0.1%        |

Income tax expense was \$1.1 million and \$2.7 million for the three and six months ended June 30, 2018, respectively, compared to an expense of \$0.2 million and a benefit of \$2.8 million for the three and six months ended June 30, 2017, respectively. The income tax benefit for the six months ended June 30, 2017 was primarily from the partial release of a valuation allowance against our net deferred tax assets that was not in the six-months ended June 30, 2018. The valuation allowance release was the result of net deferred tax liabilities originating from acquisitions that were an available source of income to realize a portion of our deferred tax assets.

Our effective tax rate differs from the U.S. statutory tax rate primarily due to valuation allowance on our deferred tax assets as it is more likely than not that some or all of our deferred tax assets will not be realized. For additional discussion, see Note 8 to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

*Net Loss and Adjusted EBITDA*

|                                        | <b>Three Months Ended June 30,</b> |              | <b>Six Months Ended June 30,</b> |                |
|----------------------------------------|------------------------------------|--------------|----------------------------------|----------------|
|                                        | <b>2018</b>                        | <b>2017</b>  | <b>2018</b>                      | <b>2017</b>    |
|                                        | <b>(dollars in thousands)</b>      |              |                                  |                |
| Net Loss                               | \$ (353,310)                       | \$ (443,093) | \$ (739,095)                     | \$ (2,651,930) |
| Net Loss as a dollar change            |                                    | \$ 89,783    |                                  | \$ 1,912,835   |
| Net Loss as a percentage change        |                                    | (20)%        |                                  | (72)%          |
| Adjusted EBITDA                        | \$ (169,032)                       | \$ (193,990) | \$ (386,897)                     | \$ (382,233)   |
| Adjusted EBITDA as a dollar change     |                                    | \$ 24,958    |                                  | \$ (4,664)     |
| Adjusted EBITDA as a percentage change |                                    | 13%          |                                  | (1)%           |

Net loss for the three and six months ended June 30, 2018 was \$353.3 million and \$739.1 million compared to \$443.1 million and \$2.7 billion for the same periods in 2017. Adjusted EBITDA loss for the three and six months ended June 30, 2018 was \$169.0 million and \$386.9 million compared to \$194.0 million and \$382.2 million for the same periods in 2017. The change in net loss and Adjusted EBITDA loss for the period was driven by increased revenues, partially offset by increased cost of revenue and higher operating expenses. The increase in cost of revenue was primarily related to increased infrastructure costs. The increase in operating expenses was primarily related to increased personnel costs due to an increase in headcount. The decrease in net loss was driven by a decrease in stock-based compensation expense of \$88.7 million and \$1.9 billion for the three and six months ended June 30, 2018, respectively. For a discussion of the limitations associated with using Adjusted EBITDA rather than GAAP measures and a reconciliation of this measure to net loss, see “Non-GAAP Financial Measures.”

## Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we use certain non-GAAP financial measures, as described below, to understand and evaluate our core operating performance. These non-GAAP financial measures, which may be different than similarly titled measures used by other companies, are presented to enhance investors' overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We use the non-GAAP financial measure of Adjusted EBITDA, which is defined as net income (loss); excluding interest income; interest expense; other income (expense), net; income tax benefit (expense); depreciation and amortization; stock-based compensation expense and related payroll tax expense; and certain other non-cash or non-recurring items impacting net income (loss) from time to time. We believe that Adjusted EBITDA helps identify underlying trends in our business that could otherwise be masked by the effect of the expenses that we exclude in Adjusted EBITDA.

We use the non-GAAP financial measure of Free Cash Flow, which is defined as net cash provided by (used in) operating activities, reduced by purchases of property and equipment. We believe Free Cash Flow is an important liquidity measure of the cash that is available, after capital expenditures, for operational expenses and investment in our business and is a key financial indicator used by management. Additionally, we believe that Free Cash Flow is an important measure since we use third-party infrastructure partners to host our services and therefore we do not incur significant capital expenditures to support revenue generating activities. Free Cash Flow is useful to investors as a liquidity measure because it measures our ability to generate or use cash. Once our business needs and obligations are met, cash can be used to maintain a strong balance sheet and invest in future growth.

We believe that both Adjusted EBITDA and Free Cash Flow provide useful information about our financial performance, enhance the overall understanding of our past performance and future prospects, and allow for greater transparency with respect to key metrics used by our management for financial and operational decision-making. We are presenting the non-GAAP measures of Adjusted EBITDA and Free Cash Flow to assist investors in seeing our financial performance through the eyes of management, and because we believe that these measures provide an additional tool for investors to use in comparing our core financial performance over multiple periods with other companies in our industry.

These non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures compared to the closest comparable GAAP measure. Some of these limitations are that:

- Adjusted EBITDA excludes certain recurring, non-cash charges such as depreciation of fixed assets and amortization of acquired intangible assets and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;
- Adjusted EBITDA excludes stock-based compensation expense and related payroll tax expense, which have been, and will continue to be for the foreseeable future, significant recurring expenses in our business and an important part of our compensation strategy;
- Adjusted EBITDA does not reflect tax payments that reduce cash available to us; and
- Free Cash Flow does not reflect our future contractual commitments.

The following table presents a reconciliation of Adjusted EBITDA to net loss, the most comparable GAAP financial measure, for each of the periods presented:

|                                                         | <b>Three Months Ended June 30,</b> |                     | <b>Six Months Ended June 30,</b> |                     |
|---------------------------------------------------------|------------------------------------|---------------------|----------------------------------|---------------------|
|                                                         | <b>2018</b>                        | <b>2017</b>         | <b>2018</b>                      | <b>2017</b>         |
|                                                         | <b>(in thousands)</b>              |                     |                                  |                     |
| <b>Adjusted EBITDA reconciliation:</b>                  |                                    |                     |                                  |                     |
| Net loss                                                | \$ (353,310)                       | \$ (443,093)        | \$ (739,095)                     | \$ (2,651,930)      |
| Add (deduct):                                           |                                    |                     |                                  |                     |
| Interest income                                         | (6,600)                            | (6,349)             | (12,704)                         | (8,773)             |
| Interest expense                                        | 930                                | 998                 | 1,864                            | 1,693               |
| Other (income) expense, net                             | 61                                 | (786)               | (3,092)                          | (973)               |
| Income tax (benefit) expense                            | 1,077                              | 212                 | 2,655                            | (2,802)             |
| Depreciation and amortization                           | 22,514                             | 12,585              | 44,068                           | 25,035              |
| Stock-based compensation expense                        | 156,371                            | 245,028             | 289,630                          | 2,237,149           |
| Payroll tax expense related to stock-based compensation | 5,997                              | (2,585)             | 15,965                           | 18,368              |
| Reduction in force charges                              | —                                  | —                   | 9,884                            | —                   |
| Lease exit charges                                      | 3,928                              | —                   | 3,928                            | —                   |
| Adjusted EBITDA                                         | <u>\$ (169,032)</u>                | <u>\$ (193,990)</u> | <u>\$ (386,897)</u>              | <u>\$ (382,233)</u> |

Reduction in force charges during the first quarter of 2018 were related to a reduction in force plan we implemented during March 2018, impacting approximately 7% of our global headcount, primarily in engineering and sales. The charges are composed primarily of severance expense and related payroll tax expense. These charges are non-recurring and not reflective of underlying trends in our business. Additionally, we recognized a stock-based compensation forfeiture benefit of \$31.5 million, which is included in stock-based compensation expense above for the six months ended June 30, 2018.

In 2018, we will exit various operating leases prior to the end of the contractual lease term, primarily as a result of moving to a centralized corporate office located in Santa Monica, California. In the three months ended June 30, 2018, we recorded a lease exit charge of \$3.9 million. The charge reflects the present value of our remaining lease obligation on the cease use dates that occurred during the quarter, net of sublease income. We expect to incur total lease exit charges of approximately \$25 million to \$45 million in 2018, primarily in the third quarter, based on current exit plans. These charges are non-recurring and not reflective of underlying trends in our business.

The following table presents a reconciliation of Free Cash Flow to net cash used in operating activities, the most comparable GAAP financial measure, for each of the periods presented:

|                                       | <b>Three Months Ended June 30,</b> |                     | <b>Six Months Ended June 30,</b> |                     |
|---------------------------------------|------------------------------------|---------------------|----------------------------------|---------------------|
|                                       | <b>2018</b>                        | <b>2017</b>         | <b>2018</b>                      | <b>2017</b>         |
|                                       | <b>(in thousands)</b>              |                     |                                  |                     |
| <b>Free Cash Flow reconciliation:</b> |                                    |                     |                                  |                     |
| Net cash used in operating activities | \$ (199,346)                       | \$ (209,574)        | \$ (431,327)                     | \$ (364,571)        |
| Less:                                 |                                    |                     |                                  |                     |
| Purchases of property and equipment   | (34,901)                           | (19,365)            | (71,216)                         | (37,358)            |
| Free Cash Flow                        | <u>\$ (234,247)</u>                | <u>\$ (228,939)</u> | <u>\$ (502,543)</u>              | <u>\$ (401,929)</u> |

## Liquidity and Capital Resources

Cash, cash equivalents, and marketable securities were \$1.6 billion as of June 30, 2018, primarily consisting of cash on deposit with banks and highly liquid investments in U.S. government and agency securities. Our primary source of liquidity is cash generated through financing activities. Our primary uses of cash include operating costs such as personnel-related expenses and the hosting costs of the Snapchat application, acquisitions and investments, and facility-related capital spending. Other than as noted below, there are no known material subsequent events that could have a material impact on our cash or liquidity. We may contemplate and engage in merger and acquisition activity that could materially impact our liquidity and capital resource position.

In July 2016, we entered into a five-year senior unsecured revolving credit facility, or the Credit Facility, with lenders, some of which are affiliated with certain members of the underwriting syndicate for our IPO, that allows us to borrow up to

\$1.1 billion to fund working capital and general corporate-purpose expenditures. The loan bears interest at LIBOR plus 0.75%, as well as an annual commitment fee of 0.10% on the daily undrawn balance of the facility. No origination fees were incurred at the closing of the Credit Facility. Any amounts outstanding under this facility will be due and payable in July 2021. In December 2016, the amount we are permitted to borrow under the Credit Facility was increased to \$1.2 billion. In February 2018, the amount we are permitted to borrow under the Credit Facility was increased to \$1.25 billion. As of June 30, 2018, no amounts were outstanding under the Credit Facility.

We believe our existing cash balance is sufficient to fund our ongoing working capital, investing, and financing requirements for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, headcount, sales and marketing activities, research and development efforts, the introduction of new features, products, and acquisitions, and continued user engagement. We continually evaluate opportunities to issue or repurchase equity or debt securities, obtain, retire, or restructure credit facilities or financing arrangements, or declare dividends for strategic reasons or to further strengthen our financial position.

As of June 30, 2018, approximately 7% of our cash, cash equivalents, and marketable securities was held outside the United States. These amounts were primarily held in the United Kingdom and are utilized to fund our foreign operations. Cash held outside the United States may be repatriated, subject to certain limitations, and would be available to be used to fund our domestic operations. However, repatriation of funds may result in additional tax liabilities. We believe our existing cash balance in the United States is sufficient to fund our working capital needs.

The following table sets forth the major components of our consolidated statements of cash flows for the periods presented:

|                                                             | Six Months Ended June 30, |              |
|-------------------------------------------------------------|---------------------------|--------------|
|                                                             | 2018                      | 2017         |
|                                                             | (in thousands)            |              |
| Net cash used in operating activities                       | \$ (431,327)              | \$ (364,571) |
| Net cash provided by (used in) investing activities         | 442,455                   | (1,734,580)  |
| Net cash provided by financing activities                   | 47,172                    | 2,440,808    |
| Net increase in cash, cash equivalents, and restricted cash | \$ 58,300                 | \$ 341,657   |
| Free Cash Flow (1)                                          | \$ (502,543)              | \$ (401,929) |

- (1) For information on how we define and calculate Free Cash Flow and a reconciliation to net cash used in operating activities to Free Cash Flow, see “Non-GAAP Financial Measures.”

#### ***Six Months Ended June 30, 2018 and 2017***

##### ***Net Cash Used in Operating Activities***

Net cash used in operating activities increased \$66.8 million in the six months ended June 30, 2018 compared to the same period in 2017. Net cash used in operating activities was \$431.3 million for the six months ended June 30, 2018, resulting primarily from net loss, adjusted for non-cash items, primarily stock-based compensation expense of \$289.6 million and depreciation and amortization of \$44.1 million. Net cash used in operating activities was also driven by a decrease in accounts payable of \$46.7 million primarily due to timing of payments, partially offset by a decrease in accounts receivable of \$34.8 million due to seasonality of our business.

##### ***Net Cash Provided by (Used in) Investing Activities***

Net cash provided by investing activities was \$442.5 million for the six months ended June 30, 2018, compared to net cash used in investing activities of \$1.7 billion for the same period in 2017. Our investing activities in the six months ended June 30, 2018 consisted of cash provided by the sales and maturities of marketable securities of \$1.4 billion, partially offset by the purchase of marketable securities of \$874.1 million. Net cash used in investing activities in the prior period was primarily due to the use of \$2.7 billion for the purchase of marketable securities, partially offset by cash provided by the sales and maturities of marketable securities of \$1.3 billion.

##### ***Net Cash Provided by Financing Activities***

Net cash provided by financing activities was \$47.2 million and \$2.4 billion for the six months ended June 30, 2018 and 2017, respectively. Our financing activities in the six months ended June 30, 2018 consisted of proceeds from the exercise of

stock options of \$47.7 million. Net cash provided by financing activities in the prior period consisted of proceeds from the issuance of Class A common stock in our IPO of \$2.7 billion, net of underwriting commissions, partially offset by cash used for stock repurchases from employees for minimum tax withholdings of \$208.4 million.

### *Free Cash Flow*

Free Cash Flow was \$(502.5) million and \$(401.9) million for the six months ended June 30, 2018 and 2017, respectively, and was composed of net cash used in operating activities, resulting primarily from net loss, adjusted for non-cash items and changes in working capital. Free Cash Flow also included purchases of property and equipment of \$71.2 million and \$37.4 million for the six months ended June 30, 2018 and 2017, respectively.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements for any of the periods presented.

### **Contingencies**

We are involved in claims, lawsuits, indirect and other tax matters, government investigations, and proceedings arising in the ordinary course of our business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred and the amount can be reasonably estimated. We also disclose material contingencies when we believe that a loss is not probable but reasonably possible. Significant judgment is required to determine both probability and the estimated amount. Such claims, suits, and proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Many of these legal and tax contingencies can take years to resolve. Should any of these estimates and assumptions change or prove to be incorrect, it could have a material impact on our results of operations, financial position, and cash flows.

### **Commitments**

The following table summarizes our contractual obligations as of June 30, 2018:

|                                      | <b>Total</b>        | <b>Less than 1<br/>Year<br/>(Remainder of<br/>2018)</b> | <b>1-3 Years<br/>(2019 and<br/>2020)</b> | <b>3-5 Years<br/>(2021 and 2022)</b> | <b>After 5<br/>Years<br/>(Thereafter)</b> |
|--------------------------------------|---------------------|---------------------------------------------------------|------------------------------------------|--------------------------------------|-------------------------------------------|
|                                      |                     |                                                         | (in thousands)                           |                                      |                                           |
| Operating leases                     | \$ 401,331          | \$ 29,010                                               | \$ 120,706                               | \$ 106,058                           | \$ 145,557                                |
| Financing leases                     | 43,161              | 2,374                                                   | 9,743                                    | 10,259                               | 20,785                                    |
| Hosting commitments                  | 2,349,295           | 294,639                                                 | 1,271,323                                | 783,333                              | —                                         |
| Other commitments                    | 25,129              | 15,027                                                  | 10,022                                   | 80                                   | —                                         |
| <b>Total contractual commitments</b> | <b>\$ 2,818,916</b> | <b>\$ 341,050</b>                                       | <b>\$ 1,411,794</b>                      | <b>\$ 899,730</b>                    | <b>\$ 166,342</b>                         |

For additional discussion on our operating and financing leases and data hosting and other purchase commitments, see Note 6 to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

In 2018, we will exit various operating leases prior to the end of the contractual lease term, primarily as a result of moving to a centralized corporate office located in Santa Monica, California. As of June 30, 2018, these leases have a remaining contractual obligation of approximately \$82.0 million. In the three months ended June 30, 2018, we recorded a lease exit charge of \$3.9 million. The charge, recorded as general and administrative expense, reflects the present value of our remaining lease obligation on the cease use dates that occurred during the quarter, net of sublease income. We expect to incur total lease exit charges of approximately \$25 million to \$45 million in 2018, primarily in the third quarter, based on current exit plans.

In January 2017, we entered into the Google Cloud Platform License Agreement, which was amended in September 2017, December 2017, and again in January 2018. Under the agreement, we were granted a license to access and use certain cloud services. The agreement has an initial term of five years and we are required to purchase at least \$400.0 million of cloud services in each year of the agreement. For each of the first four years, up to 15% of this amount may be moved to a subsequent year. If we fail to meet the minimum purchase commitment during any year, we are required to pay the difference.

In March 2016, we entered into the AWS Enterprise Agreement for the use of cloud services from Amazon Web Services, Inc., or AWS, which was amended in March 2016, and again in February 2017. The agreement will continue indefinitely until terminated by either party. Under the February 2017 addendum to the agreement, we committed to spend \$1.0 billion between January 2017 and December 2021 on AWS services (\$50.0 million in 2017, \$125.0 million in 2018, \$200.0 million in 2019, \$275.0 million in 2020, and \$350.0 million in 2021). If we fail to meet the minimum purchase commitment during any year, we are required to pay the difference. Any such payment may be applied to future use of AWS services during the addendum term, although it will not count towards meeting the future minimum purchase commitments under the addendum.

### **Critical Accounting Policies and Estimates**

We prepare our financial statements in accordance with GAAP. Preparing these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

The critical accounting estimates, assumptions, and judgments that we believe to have the most significant impact on our consolidated financial statements are revenue recognition, stock-based compensation, business combinations and valuation of goodwill and other acquired intangible assets, and income taxes.

There have been no material changes to our critical accounting policies and estimates as described in our Annual Report.

### **Recent Accounting Pronouncements**

See Note 1 to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the date of this Quarterly Report on Form 10-Q.

### **Item 3. Qualitative and Quantitative Factors about Market Risk**

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

#### ***Interest Rate Risk***

We had cash and cash equivalents totaling \$393.2 million and \$334.1 million at June 30, 2018 and December 31, 2017, respectively. We had marketable securities totaling \$1.2 billion and \$1.7 billion at June 30, 2018 and December 31, 2017, respectively. Our cash and cash equivalents consist of cash in bank accounts and marketable securities consist of U.S. government debt and agency securities. The primary objectives of our investment activities are to preserve principal and provide liquidity without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Due to the relatively short-term nature of our investment portfolio, a hypothetical 100 basis point change in interest rates would not have a material effect on the fair value of our portfolio for the periods presented.

#### ***Foreign Currency Risk***

For the three and six months ended June 30, 2018, the majority of our sales and operating expenses were denominated in U.S. dollars. We therefore have not had material foreign currency risk associated with sales and cost-based activities. The functional currency of our material operating entities is the U.S. dollar. For the three and six months ended June 30, 2018, our operations outside of the United States are not considered material and incur a majority of their operating expenses in foreign currencies. Therefore, our results of operations and cash flows are minimally subject to fluctuations from changes in foreign currency rates. We believe 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 grow operations, our exposure to foreign currency risk will likely become more significant. For the three and six months ended June 30, 2018, we did not enter into any foreign currency exchange contracts. We may, however, enter into foreign currency exchange contracts for purposes of hedging foreign exchange rate fluctuations on our business operations in future operating periods as our exposures are deemed to be material. For additional discussion on foreign currency risk, see “Risk Factors” elsewhere in this Quarterly Report on Form 10-Q.

#### **Item 4. Controls and Procedures**

##### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2018, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was (a) reported within the time periods specified by SEC rules and regulations, and (b) communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding any required disclosure.

##### ***Changes in Internal Control***

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

##### ***Limitations on Effectiveness of Controls and Procedures***

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

We are currently involved in, and may in the future be involved in, legal proceedings, claims, and investigations in the ordinary course of our business, including claims for infringing intellectual property rights related to our products and the content contributed by our users and partners. Although the results of these proceedings, claims, and investigations cannot be predicted with certainty, we do not believe that the final outcome of these matters is reasonably likely to have a material adverse effect on our business, financial condition, or results of operations. Regardless of final outcomes, however, any such proceedings, claims, and investigations may nonetheless impose a significant burden on management and employees and may come with costly defense costs or unfavorable preliminary and interim rulings.

### Item 1A. Risk Factors

*You should carefully consider the risks and uncertainties described below, together with all the other information in this Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes. If any of the following risks actually occurs, our business, reputation, financial condition, results of operations, revenue, and future prospects could be seriously harmed. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. Unless otherwise indicated, references to our business being seriously harmed in these risk factors will include harm to our business, reputation, financial condition, results of operations, revenue, and future prospects. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.*

#### Risks Related to Our Business and Industry

***Our ecosystem of users, advertisers, and partners depends on the engagement of our user base. We anticipate that the growth rate of our user base will decline over time. If we fail to retain current users or add new users, or if our users engage less with Snapchat, our business would be seriously harmed.***

We had 188 million Daily Active Users on average in the quarter ended June 30, 2018, and we view Daily Active Users as a critical measure of our user engagement. Adding, maintaining, and engaging Daily Active Users have been and will continue to be necessary. We anticipate that our Daily Active Users growth rate will continue to decline over time if the size of our active user base increases or we achieve higher market penetration rates. For example, if and when we achieve maximum market penetration rates among younger users in developed markets who use smartphones with iOS operating systems, future growth in Daily Active Users will need to come from older users, developing markets, or users with Android operating systems, which may not be possible or may be more difficult or time consuming for us to achieve. If our Daily Active Users growth rate slows, our financial performance will increasingly depend on our ability to elevate user engagement or increase our monetization of users. If current and potential users do not perceive our products to be fun, engaging, and useful, we may not be able to attract new users, retain existing users, or maintain or increase the frequency and duration of their engagement. In addition, because our products typically require high bandwidth data capabilities, the majority of our users live in countries with high-end mobile device penetration and high bandwidth capacity cellular networks with large coverage areas. We therefore do not expect to experience rapid user growth or engagement in countries with low smartphone penetration even if such countries have well-established and high bandwidth capacity cellular networks. We may also not experience rapid user growth or engagement in countries where, even though smartphone penetration is high, due to the lack of sufficient cellular based data networks, consumers rely heavily on Wi-Fi and may not access our products regularly.

Snapchat is free and easy to join, the barrier to entry for new entrants is low, and the switching costs to another platform are also low. Moreover, the majority of our users are 18-34 years old. This demographic may be less brand loyal and more likely to follow trends than other demographics. These factors may lead users to switch to another product, which would negatively affect our user retention, growth, and engagement. Snapchat also may not be able to penetrate other demographics in a meaningful manner. Falling user retention, growth, or engagement could make Snapchat less attractive to advertisers and partners, which may seriously harm our business. In addition, our Daily Active Users may not continue to grow. We calculate average Daily Active Users for a particular quarter by adding the number of DAUs on each day of that quarter and dividing that sum by the number of days in that quarter. This calculation may mask any individual months within the quarter that are significantly higher or lower than the average. There are many factors that could negatively affect user retention, growth, and engagement, including if:

- users engage more with competing products instead of ours;
- our competitors have and may continue to mimic our products and therefore harm our user engagement and growth;

- we fail to introduce new and exciting products and services or those we introduce are poorly received;
- our products fail to operate effectively on the iOS and Android mobile operating systems;
- we are unable to continue to develop products that work with a variety of mobile operating systems, networks, and smartphones;
- we do not provide a compelling user experience because of the decisions we make regarding the type and frequency of advertisements that we display or the structure and design of our products;
- we are unable to combat spam or other hostile or inappropriate usage on our products;
- there are changes in user sentiment about the quality or usefulness of our existing products in the short term, long term, or both;
- there are concerns about the privacy implications, safety, or security of our products;
- our partners who provide content to Snapchat do not create content that is engaging, useful, or relevant to users;
- our partners who provide content to Snapchat decide not to renew agreements or devote the resources to create engaging content or do not provide content exclusively to us;
- advertisers display ads that are untrue, offensive, or otherwise fail to follow our guidelines;
- there are changes in our products that are mandated by legislation, regulatory authorities, or litigation, including settlements or consent decrees that adversely affect the user experience;
- technical or other problems frustrate the user experience, particularly if those problems prevent us from delivering our products in a fast and reliable manner;
- we fail to provide adequate service to users, advertisers, or partners;
- we do not provide a compelling user experience to entice users to use the Snapchat application on a daily basis;
- we, our partners, or other companies in our industry are the subject of adverse media reports or other negative publicity, some of which may be inaccurate or include confidential information that we are unable to correct or retract;
- we do not maintain our brand image or our reputation is damaged; or
- our current or future products reduce user activity on Snapchat by making it easier for our users to interact directly with partners.

Any decrease to user retention, growth, or engagement could render our products less attractive to users, advertisers, or partners, and would seriously harm our business.

***Snapchat depends on effectively operating with mobile operating systems, hardware, networks, regulations, and standards that we do not control. Changes in our products or to those operating systems, hardware, networks, regulations, or standards may seriously harm our user retention, growth, and engagement.***

Because Snapchat is used primarily on mobile devices, the application must remain interoperable with popular mobile operating systems, Android and iOS, application stores, and related hardware, including but not limited to mobile-device cameras. The owners and operators of such operating systems and application stores, Google and Apple, respectively, each have approval authority and provide consumers with products that compete with ours. Additionally, mobile devices, and mobile-device cameras, are manufactured by a wide array of companies. Those companies have no obligation to test the interoperability of new mobile devices with Snapchat, and may produce new products that are incompatible with or not optimal for Snapchat. We have no control over these operating systems, application stores, or hardware, and any changes to these systems or hardware that degrade our products' functionality, or give preferential treatment to competitive products, could seriously harm Snapchat usage on mobile devices. Our competitors that control the operating systems and related hardware our application runs on could make interoperability of our products with those mobile operating systems more difficult or display their competitive offerings more prominently than ours. Additionally, our competitors that control the standards for the application stores for their operating systems could make Snapchat, or certain features of Snapchat, inaccessible for a potentially significant period of time. We plan to continue to introduce new products and features regularly and have experienced that it takes time to optimize such products and features to function with these operating systems, hardware, and standards, impacting the popularity of such products, and we expect this trend to continue.

The majority of our user engagement is on smartphones with iOS operating systems. As a result, although our products work with Android mobile devices, we historically prioritized development of our products to operate with iOS operating systems rather than smartphones with Android operating systems. To continue growth in user engagement, we have and will continue to prioritize improving our products' operability on smartphones with Android operating systems. If we are unable to improve operability of our products on smartphones with Android operating systems, and those smartphones become more popular and fewer people use smartphones with iOS operating systems, our business could be seriously harmed.

Moreover, our products require high-bandwidth data capabilities. If the costs of data usage increase or access to cellular networks is limited, our user retention, growth, and engagement may be seriously harmed. Additionally, to deliver high-quality video and other content over mobile cellular networks, our products must work well with a range of mobile technologies, systems, networks, regulations, and standards that we do not control. In particular, any future changes to the iOS or Android operating systems or application store may impact the accessibility, speed, functionality, and other performance aspects of our products and features, which issues are likely to occur in the future from time to time. In addition, the adoption of any laws or regulations that adversely affect the growth, popularity, or use of the internet, including laws governing internet neutrality, could decrease the demand for our products and increase our cost of doing business.

For example, in December 2017, the Federal Communications Commission, or FCC, voted to repeal the "open internet rules," which prohibit mobile providers in the United States from impeding access to most content, or otherwise unfairly discriminating against content providers like us and also prohibit mobile providers from entering into arrangements with specific content providers for faster or better access over their data networks. The future impact of such repeal and any challenges to the repeal remains uncertain and our business could be seriously harmed. The European Union similarly requires equal access to internet content. Additionally, as part of its Digital Single Market initiative, the European Union may impose network security, disability access, or 911-like obligations on "over-the-top" services such as those provided by us, which could increase our costs. If the FCC's repeal of the open internet rules is maintained or the European Union modifies these open internet rules, mobile and internet providers may be able to limit our users' ability to access Snapchat or make Snapchat a less attractive alternative to our competitors' applications. Were that to happen, our business would be seriously harmed.

We may not successfully cultivate relationships with key industry participants or develop products that operate effectively with these technologies, systems, networks, regulations, or standards. If it becomes more difficult for our users to access and use Snapchat on their mobile devices, if our users choose not to access or use Snapchat on their mobile devices, or if our users choose to use mobile products that do not offer access to Snapchat, our user retention, growth, and engagement could be seriously harmed.

***We rely on Google Cloud for the vast majority of our computing, storage, bandwidth, and other services. Any disruption of or interference with our use of the Google Cloud operation would negatively affect our operations and seriously harm our business.***

Google provides a distributed computing infrastructure platform for business operations, or what is commonly referred to as a "cloud" computing service, and we currently run the vast majority of our computing on Google Cloud.

Any transition of the cloud services currently provided by Google Cloud to another cloud provider would be difficult to implement and will cause us to incur significant time and expense. We have committed to spend \$2.0 billion with Google Cloud over five years (beginning January 2017) and have built our software and computer systems to use computing, storage capabilities, bandwidth, and other services provided by Google, some of which do not have an alternative in the market. Given this, any significant disruption of or interference with our use of Google Cloud would negatively impact our operations and our business would be seriously harmed. If our users or partners are not able to access Snapchat through Google Cloud or encounter difficulties in doing so, we may lose users, partners, or advertising revenue. The level of service provided by Google Cloud or similar providers may also impact the usage of and our users', advertisers', and partners' satisfaction with Snapchat and could seriously harm our business and reputation. If Google Cloud or similar providers experience interruptions in service regularly or for a prolonged basis, or other similar issues, our business would be seriously harmed. Hosting costs also have and will continue to increase as our user base and user engagement grows and may seriously harm our business if we are unable to grow our revenues faster than the cost of utilizing the services of Google or similar providers.

In addition, Google may take actions beyond our control that could seriously harm our business, including:

- discontinuing or limiting our access to its Google Cloud platform;
- increasing pricing terms;

- terminating or seeking to terminate our contractual relationship altogether;
- establishing more favorable relationships or pricing terms with one or more of our competitors; and
- modifying or interpreting its terms of service or other policies in a manner that impacts our ability to run our business and operations.

Google has broad discretion to change and interpret its terms of service and other policies with respect to us, and those actions may be unfavorable to us. Google may also alter how we are able to process data on the Google Cloud platform. If Google makes changes or interpretations that are unfavorable to us, our business would be seriously harmed.

***We generate substantially all of our revenue from advertising. The failure to attract new advertisers, the loss of advertisers, or a reduction in how much they spend could seriously harm our business.***

Substantially all of our revenue is generated from third parties advertising on Snapchat, a trend that we expect to continue. For the years ended December 31, 2017 and 2016, advertising revenue accounted for 97% and 96% of total revenue, respectively. Although we have and continue to try to establish longer-term advertising commitments with advertisers, most advertisers do not have long-term advertising commitments with us, and our efforts to establish long-term commitments may not succeed.

While no individual customer accounts for more than 10% of our revenue, many of our advertisers only recently started working with us and spend a relatively small portion of their overall advertising budget with us. In addition, advertisers may view some of our products as experimental and unproven. Advertisers will not continue to do business with us if we do not deliver advertisements in an effective manner, or if they do not believe that their investment in advertising with us will generate a competitive return relative to other alternatives. Moreover, we rely heavily on our ability to collect and disclose data and metrics to and for our advertisers to attract new advertisers and retain existing advertisers. Any restriction, whether by law, regulation, policy, or other reason, on our ability to collect and disclose data which our advertisers find useful would impede our ability to attract and retain advertisers. For example, the General Data Protection Regulation, or GDPR, in the European Union, which went effect on May 25, 2018, expanded the rights of individuals to control how their personal data is collected and processed, and placed restrictions on the use of personal data of younger minors. Such restrictions could have an adverse effect on our ability to target and measure ads, and could reduce the demand or the pricing for our advertising products. Such adverse effects could be particularly material to us because we are still early in building our advertising business. Our advertising revenue could be seriously harmed by many other factors, including:

- a decrease in the number of Daily Active Users on Snapchat;
- a decrease in the amount of time spent on Snapchat or decreases in usage of our Creative Tools, Chat Service, or Storytelling Platform;
- our inability to create new products that sustain or increase the value of our advertisements;
- changes in our user demographics that make us less attractive to advertisers;
- lack of ad creative availability by our advertising partners;
- our partners who provide content to us may not renew agreements or devote the resources to create engaging content or do not provide content exclusively to us;
- decreases in the perceived quantity, quality, usefulness, or relevance of the content provided by our users or partners;
- changes in our analytics and measurement solutions that demonstrate the value of our advertisements and other commercial content;
- competitive developments or advertiser perception of the value of our products that change the rates we can charge for advertising or the volume of advertising on Snapchat;
- product changes or advertising inventory management decisions we may make that change the type, size, or frequency of advertisements displayed on Snapchat or the method used by advertisers to purchase advertisements;
- adverse legal developments relating to advertising, including changes mandated by legislation, regulation, or litigation;

- adverse media reports or other negative publicity involving us, our founders, our partners, or other companies in our industry;
- advertiser or user perception that content published by us, our users, or our partners is objectionable;
- the degree to which users skip advertisements and therefore diminish the value of those advertisements to advertisers;
- changes in the way advertising is priced or its effectiveness is measured;
- our inability to measure the effectiveness of our advertising or target the appropriate audience for advertisements;
- our inability to collect and disclose data that new and existing advertisers may find useful;
- difficulty and frustration from advertisers who may need to reformat or change their advertisements to comply with our guidelines; and
- the macroeconomic climate and the status of the advertising industry in general.

These and other factors could reduce demand for our advertising products, which may lower the prices we receive, or cause advertisers to stop advertising with us altogether. Either of these would seriously harm our business.

***Our two co-founders have control over all stockholder decisions because they control a substantial majority of our voting stock.***

As a result of the Class C common stock that they hold, Evan Spiegel, our co-founder and Chief Executive Officer, and Robert Murphy, our co-founder and Chief Technology Officer, are able to exercise voting rights with respect to an aggregate of 219,890,702 shares of Class C common stock, which represents approximately 95.9% of the voting power of our outstanding capital stock as of June 30, 2018. In addition, Mr. Spiegel was granted an RSU for 37,447,817 shares of Class C common stock on the closing of our IPO. This RSU award vested immediately on the closing of our IPO in March 2017 and such shares are delivered to Mr. Spiegel in quarterly installments over three years beginning in November 2017, following which Mr. Spiegel alone may be able to exercise voting control over our outstanding capital stock. The Class A common stock has no voting rights, the Class B common stock is entitled to one vote per share, and the Class C common stock is entitled to ten votes per share. As a result, Mr. Spiegel and Mr. Murphy, and potentially either one of them alone, have the ability to control the outcome of all matters submitted to our stockholders for approval, including the election, removal, and replacement of directors and any merger, consolidation, or sale of all or substantially all of our assets. If Mr. Spiegel's or Mr. Murphy's employment with us is terminated, they will continue to have the ability to exercise the same significant voting power and potentially control the outcome of all matters submitted to our stockholders for approval. Either of our co-founders' shares of Class C common stock will automatically convert into Class B common stock, on a one-to-one basis, nine months following his death or on the date on which the number of outstanding shares of Class C common stock held by such holder represents less than 30% of the Class C common stock held by such holder on the closing of our IPO, or 32,383,178 shares of Class C common stock. Should either of our co-founders' Class C common stock be converted to Class B common stock, the remaining co-founder will be able to exercise voting control over our outstanding capital stock.

In addition, in October 2016, we issued a dividend of one share of non-voting Class A common stock to all our equity holders, which will prolong our co-founders' voting control. As a result of such dividend, our co-founders will be able to liquidate their holdings of non-voting Class A common stock without diminishing their voting control. In the future, our board of directors may, from time to time, decide to issue special or regular stock dividends in the form of Class A common stock, and if we do so, our co-founders' control could be further prolonged. 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. Conversely, this concentrated control could allow our co-founders to consummate such a transaction that our other stockholders do not support. In addition, our co-founders may make long-term strategic investment decisions and take risks that may not be successful and may seriously harm our business.

As our CEO, Mr. Spiegel has control over our day-to-day management and the implementation of major strategic investments of our company, subject to authorization and oversight by our board of directors. As board members and officers, Mr. Spiegel and Mr. Murphy owe a fiduciary duty to our stockholders and must act in good faith in a manner they reasonably believe to be in the best interests of our stockholders. As stockholders, even controlling stockholders, Mr. Spiegel and Mr. Murphy are entitled to vote their shares, and shares over which they have voting control, in their own interests, which may not always be in the interests of our stockholders generally. We have not elected to take advantage of the "controlled company" exemption to the corporate governance rules for New York Stock Exchange, or NYSE, listed

companies. Moreover, Mr. Spiegel and Mr. Murphy have entered into a proxy agreement under which each has granted a voting proxy with respect to all shares of our Class B common stock and Class C common stock that each may beneficially own from time to time or have voting control over. The proxy would become effective on either founder's death or disability. Mr. Spiegel and Mr. Murphy have each initially designated the other as their respective proxies. Accordingly, on the death or in capacity of either Mr. Spiegel or Mr. Murphy, the other could individually control nearly all of the voting power of our outstanding capital stock.

***If we do not develop successful new products or improve existing ones, our business will suffer. We also invest in new lines of business that could fail to attract or retain users or generate revenue.***

Our ability to engage, retain, and increase our user base and to increase our revenue will depend heavily on our ability to successfully create new products, both independently and together with third parties. We may introduce significant changes to our existing products or develop and introduce new and unproven products and services, including technologies with which we have little or no prior development or operating experience. These new products and updates may fail to increase the engagement of our users, advertisers, or partners, and may even result in short-term or long-term decreases in such engagement by disrupting existing user, advertiser, or partner behavior, or by introducing performance and quality issues. For example, in 2017, we transitioned most of our Snap Ads sales to a programmatic model, which decreased average advertising prices. In 2018, we started moving our advertisements in our Creative Tools to a programmatic model. Additionally, we introduced a major redesign of the Snapchat application in December 2017 that rolled out more broadly in February 2018. The short- and long-term impact of any major change, like our recent redesign, is particularly difficult to predict. If new or enhanced products fail to engage our users, advertisers, or partners, we may fail to attract or retain users or to generate sufficient revenue, operating margin, or other value to justify our investments, any of which may seriously harm our business in the short term, long term, or both. Additionally, we frequently launch new products and the products that we launch may have technical issues that diminish the performance of our application. These performance issues or issues that we encounter in the future could impact our user engagement.

Because our products created new ways of communicating, they have often required users to learn new behaviors to use our products, or to use our products repeatedly to receive the most benefit. These new behaviors, such as swiping and tapping in the Snapchat application, are not always intuitive to users. This can create a lag in adoption of new products and new user additions related to new products. To date, this has not hindered our user growth or engagement, but that may be the result of a large portion of our user base being in a younger demographic and more willing to invest the time to learn to use our products most effectively. To the extent that future users, including those in older demographics, are less willing to invest the time to learn to use our products, and if we are unable to make our products easier to learn to use, our user growth or engagement could be affected, and our business could be harmed. We may develop new products that increase user engagement and costs without increasing revenue. For example, we introduced Memories in 2016, our cloud storage service for Snaps, which increases our storage costs.

In addition, we have invested and expect to continue to invest in new lines of business, new products, and other initiatives to generate revenue. The launch of Spectacles in late 2016, which has not and may not generate significant revenue for us, is a good example. We do not have significant experience with hardware products, and we have incurred Spectacles inventory-related charges and may incur increased costs in connection with the development, sale, and marketing of hardware products. There is no guarantee that investing in new lines of business, new products, and other initiatives will succeed. If we do not successfully develop new approaches to monetization or meet the expectations of our users or partners, we may not be able to maintain or grow our revenue as anticipated or recover any associated development costs, and our business could be seriously harmed.

***Our business is highly competitive. We face significant competition that we anticipate will continue to intensify. If we are not able to maintain or improve our market share, our business could suffer.***

We face significant competition in almost every aspect of our business both domestically and internationally. This includes larger, more established companies such as Apple, Facebook (including Instagram and WhatsApp), Google (including YouTube), Twitter, Kakao, LINE, Naver (including Snow), and Tencent, which provide their users with a variety of products, services, content, and online advertising offerings, and smaller companies that offer products and services that may compete with specific Snapchat features. For example, Instagram, a subsidiary of Facebook, introduced a "stories" feature that largely mimics our Stories feature and may be directly competitive. We may also lose users to companies that offer products and services that compete with specific Snapchat features because of the low cost for our users to switch to a different product or service. Moreover, in emerging international markets, where mobile devices often lack large storage capabilities, we may compete with other applications for the limited space available on a user's mobile device. We also face

competition from traditional and online media businesses for advertising budgets. We compete broadly with the social media offerings of Apple, Facebook, Google, and Twitter, and with other, largely regional, social media platforms that have strong positions in particular countries. As we introduce new products, as our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition. For example, in late 2016, we launched Spectacles, our first hardware product. While we view Spectacles as an extension of Snapchat, adding hardware products and services to our product portfolio subjects us to additional competition and new competitors.

Many of our current and potential competitors have significantly greater resources and broader global recognition and occupy stronger competitive positions in certain markets than we do. These factors may allow our competitors to respond to new or emerging technologies and changes in market requirements better than we can. Our competitors may also develop products, features, or services that are similar to ours or that achieve greater market acceptance. These products, features, and services may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. In addition, advertisers may use information that our users share through Snapchat to develop or work with competitors to develop products or features that compete with us. Certain competitors, including Apple, Facebook, and Google, could use strong or dominant positions in one or more markets to gain competitive advantages against us in areas where we operate, including by:

- integrating competing social media platforms or features into products they control such as search engines, web browsers, or mobile device operating systems;
- making acquisitions for similar or complementary products or services; or
- impeding Snapchat's accessibility and usability by modifying existing hardware and software on which the Snapchat application operates.

As a result, our competitors may acquire and engage users at the expense of our user growth or engagement, which may seriously harm our business.

We believe that our ability to compete effectively depends on many factors, many of which are beyond our control, including:

- the usefulness, novelty, performance, and reliability of our products compared to our competitors;
- the number and demographics of our Daily Active Users;
- the timing and market acceptance of our products, including developments and enhancements of our competitors' products;
- our ability to monetize our products;
- the availability of our products to users;
- the effectiveness of our advertising and sales teams;
- the effectiveness of our advertising products;
- our ability to establish and maintain advertisers' and partners' interest in using Snapchat;
- the frequency, relative prominence, and type of advertisements displayed on our application or by our competitors;
- the effectiveness of our customer service and support efforts;
- the effectiveness of our marketing activities;
- changes as a result of legislation, regulatory authorities, or litigation, including settlements and consent decrees, some of which may have a disproportionate effect on us;
- acquisitions or consolidation within our industry;
- our ability to attract, retain, and motivate talented employees, particularly engineers and sales personnel;
- our ability to successfully acquire and integrate companies and assets;
- our ability to cost-effectively manage and scale our rapidly growing operations; and
- our reputation and brand strength relative to our competitors.

If we cannot effectively compete, our user engagement may decrease, which could make us less attractive to users, advertisers, and partners and seriously harm our business.

***We have incurred operating losses in the past, and may never achieve or maintain profitability.***

We began commercial operations in 2011 and for all of our history we have experienced net losses and negative cash flows from operations. As of June 30, 2018, we had an accumulated deficit of \$5.4 billion and for the three months ended June 30, 2018, we experienced a net loss of \$353.3 million. We expect our operating expenses to increase in the future as we expand our operations. If our revenue does not grow at a greater rate than our expenses, we will not be able to achieve and maintain profitability. We may incur significant losses in the future for many reasons, including without limitation the other risks and uncertainties described in this report. Additionally, we may encounter unforeseen expenses, operating delays, or other unknown factors that may result in losses in future periods. If our expenses exceed our revenue, our business may be seriously harmed and we may never achieve or maintain profitability.

***The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could seriously harm our business.***

We depend on the continued services and performance of our key personnel, including Evan Spiegel and Robert Murphy. Although we have entered into employment agreements with Mr. Spiegel and Mr. Murphy, the agreements are at-will, which means that they may resign or could be terminated for any reason at any time. Mr. Spiegel and Mr. Murphy are high profile individuals who have received threats in the past and are likely to continue to receive threats in the future. While Mr. Spiegel, as CEO, has been responsible for our company's strategic vision and Mr. Murphy, as CTO, developed the Snapchat application's technical foundation, should either of them stop working for us for any reason, it is unlikely that the other co-founder would be able to fulfill the responsibilities of the departing co-founder. Nor is it likely that we would be able to immediately find a suitable replacement. The loss of key personnel, including members of management and key engineering, product development, marketing, and sales personnel, could disrupt our operations and seriously harm our business.

As we continue to grow, we cannot guarantee we will continue to attract and retain the personnel we need to maintain our competitive position. In particular, we intend to hire a significant number of engineering and sales personnel in the Los Angeles area, and we expect to face significant competition in hiring them and difficulties in attracting qualified personnel to move to the Los Angeles area.

As we mature, the incentives to attract, retain, and motivate employees provided by our equity awards or by future arrangements, such as through cash bonuses, may not be as effective as in the past. Additionally, many of our current employees received substantial amounts of our capital stock on or after our IPO, giving them a substantial amount of personal wealth, which can lead to an increase in attrition. As a result, it may be difficult for us to continue to retain and motivate these employees, and this wealth could affect their decision about whether they continue to work for us. Additionally, if we issue significant equity to attract and retain employees, we would incur substantial additional stock-based compensation expense and the ownership of our existing stockholders would be further diluted. If we do not succeed in attracting, hiring, and integrating excellent personnel, or retaining and motivating existing personnel, we may be unable to grow effectively and our business could be seriously harmed.

***We have a short operating history and a new business model, which makes it difficult to evaluate our prospects and future financial results and increases the risk that we will not be successful.***

We began commercial operations in 2011 and began meaningfully monetizing Snapchat in 2015. We have a short operating history and a new business model, which makes it difficult to effectively assess our future prospects. Accordingly, we believe that investors' future perceptions and expectations, which can be idiosyncratic and vary widely, and which we do not control, will affect our stock price. Our business model is based on reinventing the camera to improve the way that people live and communicate. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

***If our security is compromised or if our platform is subjected to attacks that frustrate or thwart our users' ability to access our products and services, our users, advertisers, and partners may cut back on or stop using our products and services altogether, which could seriously harm our business.***

Our efforts to protect the information that our users have shared with us may be unsuccessful due to the actions of third parties, software bugs or other technical malfunctions, employee error or malfeasance, or other factors. In addition, third parties may attempt to fraudulently induce employees or users to disclose information to gain access to our data or our users' data. If any of these events occur, our or our users' information could be accessed or disclosed improperly. We have previously suffered the loss of employee information related to an employee error. Our Privacy Policy governs how we may use and share the information that our users have provided us. Some advertisers and partners may store information that we share with them. If these third parties fail to implement adequate data-security practices or fail to comply with our terms and policies, our users' data may be improperly accessed or disclosed. And even if these third parties take all these steps, their networks may still suffer a breach, which could compromise our users' data.

Any incidents where our users' information is accessed without authorization, or is improperly used, or incidents that violate our Terms of Service or policies, could damage our reputation and our brand and diminish our competitive position. In addition, affected users or government authorities could initiate legal or regulatory action against us over those incidents, which could cause us to incur significant expense and liability or result in orders or consent decrees forcing us to modify our business practices. Maintaining the trust of our users is important to sustain our growth, retention, and user engagement. Concerns over our privacy practices, whether actual or unfounded, could damage our reputation and brand and deter users, advertisers, and partners from using our products and services. Any of these occurrences could seriously harm our business.

We are also subject to many federal, state, and foreign laws and regulations, including those related to privacy, rights of publicity, content, data protection, content regulation, intellectual property, health and safety, competition, protection of minors, consumer protection, employment, and taxation. These laws and regulations are constantly evolving and may be interpreted, applied, created, or amended in a manner that could seriously harm our business.

In addition, in December 2014, the U.S. Federal Trade Commission, or the FTC, resolved an investigation into some of our early practices by issuing a final order. That order requires, among other things, that we establish a robust privacy program to govern how we treat user data. During the 20-year term of the order, we must complete bi-annual independent privacy audits. In addition, in June 2014, we entered into a 10-year assurance of discontinuance with the Attorney General of Maryland implementing similar practices, including measures to prevent minors under the age of 13 from creating accounts and providing annual compliance reports. Violating existing or future regulatory orders or consent decrees could subject us to substantial monetary fines and other penalties that could seriously harm our business.

***Our user metrics and other estimates are subject to inherent challenges in measurement, and real or perceived inaccuracies in those metrics may seriously harm and negatively affect our reputation and our business.***

We regularly review metrics, including our Daily Active Users and ARPU metrics, to evaluate growth trends, measure our performance, and make strategic decisions. These metrics are calculated using internal company data and have not been validated by an independent third party. While these metrics are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring how our products are used across large populations globally. For example, there may be individuals who have multiple Snapchat accounts, even though we forbid that in our Terms of Service and implement measures to detect and suppress that behavior. Our user metrics are also affected by technology on certain mobile devices that automatically runs in the background of our Snapchat application when another phone function is used, and this activity can cause our system to miscount the user metrics associated with such account.

Some of our demographic data may be incomplete or inaccurate. For example, because users self-report their dates of birth, our age-demographic data may differ from our users' actual ages. And because users who signed up for Snapchat before June 2013 were not asked to supply their date of birth, we exclude those users and estimate their ages based on a sample of the self-reported ages we do have. If our Daily Active Users provide us with incorrect or incomplete information regarding their age or other attributes, then our estimates may prove inaccurate and fail to meet investor expectations.

In the past we have relied on third-party analytics providers to calculate our metrics, but today we rely primarily on our analytics platform that we developed and operate. For example, before June 2015, we used a third party that counted a Daily Active User when the application was opened or a notification was received via the application on any device. We now use an analytics platform that we developed and operate and we count a Daily Active User only when a user opens the application and only once per user per day. We believe this methodology more accurately measures our user engagement. We have multiple pipelines of user data that we use to determine whether a user has opened the application during a particular day, and thus is a Daily Active User. This provides redundancy in the event one pipeline of data were to become unavailable for technical reasons, and also gives us redundant data to help measure how users interact with our application.

Additionally, to align our pre-June 2015 Daily Active Users with this new methodology, we reduced our pre-June 2015 Daily Active Users by 4.8%, the amount by which we estimated the data generated by the third party was overstated. Since this adjustment is an estimate, the actual pre-June 2015 Daily Active Users may be higher or lower than our reported numbers. As a result, our metrics may not be comparable to prior periods.

Errors or inaccuracies in our metrics or data could result in incorrect business decisions and inefficiencies. For instance, if a significant understatement or overstatement of active users were to occur, we may expend resources to implement unnecessary business measures or fail to take required actions to attract a sufficient number of users to satisfy our growth strategies. We believe that we do not capture all data regarding our active users. This generally occurs because of technical issues, like when our systems do not record data from every user's application. We also seek to identify missed activity when data is lost or not captured, which may result in understated metrics. For example, a user may open the Snapchat application and contact our servers but not be recorded as an active user. We continually seek to address these technical issues and improve our accuracy, such as comparing our active users and other metrics with data received from other pipelines, including data recorded by our servers and systems. But given the complexity of the systems involved and the rapidly changing nature of mobile devices and systems, we expect these issues to continue. If advertisers, partners, or investors do not perceive our user, geographic, or other demographic metrics to be accurate representations of our user base, or if we discover material inaccuracies in our user, geographic, or other demographic metrics, our reputation may be seriously harmed. And at the same time, advertisers and partners may be less willing to allocate their budgets or resources to Snapchat, which could seriously harm our business. In addition, we calculate average Daily Active Users for a particular quarter by adding the number of DAUs on each day of that quarter and dividing that sum by the number of days in that quarter. This calculation may mask any individual months within the quarter that are significantly higher or lower than the average.

***Mobile malware, viruses, hacking and phishing attacks, spamming, and improper or illegal use of Snapchat could seriously harm our business and reputation.***

Mobile malware, viruses, hacking, and phishing attacks have become more prevalent and sophisticated in our industry, have occurred on our systems in the past, and may occur on our systems in the future. Because of our prominence, we believe that we are an attractive target for these sorts of attacks. Although it is difficult to determine what, if any, harm may directly result from an interruption or attack, any failure to detect such attack and maintain performance, reliability, security, and availability of our products and technical infrastructure to the satisfaction of our users may seriously harm our reputation and our ability to retain existing users and attract new users.

In addition, spammers attempt to use our products to send targeted and untargeted spam messages to users, which may embarrass or annoy users and make our products less user friendly. We cannot be certain that the technologies that we have developed to repel spamming attacks will be able to eliminate all spam messages from our products. Our actions to combat spam may also require diversion of significant time and focus of our engineering team from improving our products. As a result of spamming activities, our users may use our products less or stop using them altogether, and result in continuing operational cost to us.

Similarly, terror and other criminal groups may use our products to promote their goals and encourage users to engage in terror and other illegal activities. We expect that as more people use our products, these groups will increasingly seek to misuse our products. Although we invest resources to combat these activities, including by suspending or terminating accounts we believe are violating our Terms of Service and Community Guidelines, we expect these groups will continue to seek ways to act inappropriately and illegally on Snapchat. Combating these groups requires our engineering team to divert significant time and focus from improving our products. In addition, we may not be able to control or stop Snapchat from becoming the preferred application of use by these groups, which may become public knowledge and seriously harm our reputation or lead to lawsuits or attention from regulators. If these activities increase on Snapchat, our reputation, user growth and user engagement, and operational cost structure could be seriously harmed.

***Because we store, process, and use data, some of which contains personal information, we are subject to complex and evolving federal, state, and foreign laws and regulations regarding privacy, data protection, content, and other matters. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in investigations, claims, changes to our business practices, increased cost of operations, and declines in user growth, retention, or engagement, any of which could seriously harm our business.***

We are subject to a variety of laws and regulations in the United States and other countries that involve matters central to our business, including user privacy, security, rights of publicity, data protection, content, intellectual property, distribution, electronic contracts and other communications, competition, protection of minors, consumer protection, taxation, and online-payment services. These laws can be particularly restrictive in countries outside the United States. Both in the United States and abroad, these laws and regulations constantly evolve and remain subject to significant change. In addition, the application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate. Because we store, process, and use data, some of which contains personal information, we are subject to complex and evolving federal, state, and foreign laws and regulations regarding privacy, data protection, content, and other matters. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in investigations, claims, changes to our business practices, increased cost of operations, and declines in user growth, retention, or engagement, any of which could seriously harm our business.

Several proposals have recently been adopted or are currently pending before federal, state, and foreign legislative and regulatory bodies that could significantly affect our business. The General Data Protection Regulation in the European Union, which went into effect on May 25, 2018, placed new data protection obligations and restrictions on organizations and may require us to further change our policies and procedures. If we are not compliant with GDPR requirements, we may be subject to significant fines and our business may be seriously harmed.

***Our financial condition and results of operations will fluctuate from quarter to quarter, which makes them difficult to predict.***

Our quarterly results of operations have fluctuated in the past and will fluctuate in the future. Additionally, we have a limited operating history with the current scale of our business, which makes it difficult to forecast our future results. As a result, you should not rely on our past quarterly results of operations as indicators of future performance. You should take into account the risks and uncertainties frequently encountered by companies in rapidly evolving markets. Our financial condition and results of operations in any given quarter can be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including:

- our ability to maintain and grow our user base and user engagement;
- the development and introduction of new or redesigned products or services by us or our competitors;
- the ability of our data service providers to scale effectively and timely provide the necessary technical infrastructure to offer our service;
- our ability to attract and retain advertisers in a particular period;
- seasonal fluctuations in spending by our advertisers and product usage by our users, each of which may change as our product offerings evolve or as our business grows;
- the number of advertisements shown to users;
- the pricing of our advertisements and other products;
- our ability to demonstrate to advertisers the effectiveness of our advertisements;
- the diversification and growth of revenue sources beyond current advertising;
- increases in marketing, sales, and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- our ability to maintain operating margins;
- our ability to accurately forecast consumer demand for our hardware products and adequately manage inventory;
- system failures or breaches of security or privacy;
- inaccessibility of Snapchat, or certain features within Snapchat, due to third-party actions;

- stock-based compensation expense;
- adverse litigation judgments, settlements, or other litigation-related costs, or product recalls;
- changes in the legislative or regulatory environment, including with respect to privacy, or enforcement by government regulators, including fines, orders, or consent decrees;
- fluctuations in currency exchange rates and changes in the proportion of our revenue and expenses denominated in foreign currencies;
- fluctuations in the market values of our portfolio investments and interest rates;
- changes in our effective tax rate;
- announcements by competitors of significant new products or acquisitions;
- our ability to make accurate accounting estimates and appropriately recognize revenue for our products for which there are no relevant comparable products;
- changes in accounting standards, policies, guidance, interpretations, or principles; and
- changes in business or macroeconomic conditions.

***If we are unable to successfully grow our user base and further monetize our products, our business will suffer.***

We have made, and are continuing to make, investments to enable users and advertisers to create compelling content and deliver advertising to our users. Existing and prospective Snapchat users and advertisers may not be successful in creating content that leads to and maintains user engagement. We are continuously seeking to balance the objectives of our users and advertisers with our desire to provide an optimal user experience. We do not seek to monetize all of our products and we may not be successful in achieving a balance that continues to attract and retain users and advertisers. If we are not successful in our efforts to grow our user base or if we are unable to build and maintain good relations with our advertisers, our user growth and user engagement and our business may be seriously harmed. In addition, we may expend significant resources to launch new products that we are unable to monetize, which may seriously harm our business.

Additionally, we may not succeed in further monetizing Snapchat. We currently monetize Snapchat by displaying in the application advertisements that we sell and advertisements sold by our partners. As a result, our financial performance and ability to grow revenue could be seriously harmed if:

- we fail to increase or maintain Daily Active Users;
- we fail to increase or maintain the amount of time spent on Snapchat or usage of our Creative Tools, Chat Service, or Storytelling Platform;
- partners do not create engaging content for users or renew their agreements with us;
- advertisers do not continue to introduce engaging advertisements;
- advertisers reduce their advertising on Snapchat;
- we fail to maintain good relationships with advertisers or attract new advertisers; or
- the content on Snapchat does not maintain or gain popularity.

***We cannot assure you that we will effectively manage our growth.***

Our employee headcount and the scope and complexity of our business have increased significantly, with the number of full-time employees increasing from 1,859 as of December 31, 2016 to 3,069 as of December 31, 2017. The growth and expansion of our business and products create significant challenges for our management, including managing multiple relationships with users, advertisers, partners, and other third parties, and constrain operational and financial resources. If our operations or the number of third-party relationships continues to grow, our information-technology systems and our internal controls and procedures may not adequately support our operations. In addition, some members of our management do not have significant experience managing large global business operations, so our management may not be able to manage such growth effectively. To effectively manage our growth, we must continue to improve our operational, financial, and management processes and systems and effectively expand, train, and manage our employee base.

As our organization continues to mature and we are required to implement more complex organizational management structures, we may also find it increasingly difficult to maintain the benefits of our corporate culture, including our ability to quickly develop and launch new and innovative products. This could negatively affect our business performance and seriously harm our business.

***Our costs are growing rapidly, which could seriously harm our business or increase our losses.***

Providing our products to our users is costly, and we expect our expenses, including those related to people and hosting, to grow in the future. This expense growth will continue as we broaden our user base, as users increase the number of connections and amount of content they consume and share, as we develop and implement new product features that require more computing infrastructure, and as we grow our business. Historically, our costs have increased each year due to these factors, and we expect to continue to incur increasing costs. Our costs are based on development and release of new products and the addition of users and may not be offset by a corresponding growth of our revenue. We will continue to invest in our global infrastructure to provide our products quickly and reliably to all users around the world, including in countries where we do not expect significant short-term monetization, if any. Our expenses may be greater than we anticipate, and our investments to make our business and our technical infrastructure more efficient may not succeed and may outpace monetization efforts. In addition, we expect to increase marketing, sales, and other operating expenses to grow and expand our operations and to remain competitive. Increases in our costs without a corresponding increase in our revenue would increase our losses and could seriously harm our business and financial performance.

***Our business depends on our ability to maintain and scale our technology infrastructure. Any significant disruption to our service could damage our reputation, result in a potential loss of users and decrease in user engagement, and seriously harm our business.***

Our reputation and ability to attract, retain, and serve users depends on the reliable performance of Snapchat and our underlying technology infrastructure. We have in the past experienced, and may in the future experience, interruptions in the availability or performance of our products and services from time to time. Our systems may not be adequately designed with the necessary reliability and redundancy to avoid performance delays or outages that could seriously harm our business. If Snapchat is unavailable when users attempt to access it, or if it does not load as quickly as they expect, users may not return to Snapchat as often in the future, or at all. As our user base and the volume and types of information shared on Snapchat continue to grow, we will need an increasing amount of technology infrastructure, including network capacity and computing power, to continue to satisfy our users' needs. It is possible that we may fail to effectively scale and grow our technology infrastructure to accommodate these increased demands. In addition, our business is subject to interruptions, delays, and failures resulting from earthquakes, other natural disasters, terrorism, and other catastrophic events.

A substantial portion of our network infrastructure is provided by third parties. Any disruption or failure in the services we receive from these providers could harm our ability to handle existing or increased traffic and could seriously harm our business. Any financial or other difficulties these providers face may seriously harm our business. And because we exercise little control over these providers, we are vulnerable to problems with the services they provide.

***Our business emphasizes rapid innovation and prioritizes long-term user engagement over short-term financial condition or results of operations. That strategy may yield results that sometimes don't align with the market's expectations. If that happens, our stock price may be negatively affected.***

Our business is growing and becoming more complex, and our success depends on our ability to quickly develop and launch new and innovative products. We believe our culture fosters this goal. Our focus on complexity and quick reactions could result in unintended outcomes or decisions that are poorly received by our users, advertisers, or partners. We have made, and expect to continue to make, significant investments to develop and launch new products and services and we are not yet able to determine whether users will purchase or use new products and services in the future. Our culture also prioritizes our long-term user engagement over short-term financial condition or results of operations. We frequently make decisions that may reduce our short-term revenue or profitability if we believe that the decisions benefit the aggregate user experience and will thereby improve our financial performance over the long term. For example, we monitor how advertising on Snapchat affects our users' experiences to ensure we do not deliver too many advertisements to our users, and we may decide to decrease the number of advertisements to ensure our users' satisfaction in the product. In addition, we improve Snapchat based on feedback provided by our users and partners. These decisions may not produce the long-term benefits that we expect, in which case our user growth and engagement, our relationships with advertisers and partners, and our business could be seriously harmed.

***If we are unable to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be seriously harmed. If we need to license or acquire new intellectual property, we may incur substantial costs.***

We aim to protect our confidential proprietary information, in part, by entering into confidentiality agreements and invention assignment agreements with all our employees, consultants, advisors, and any third parties who access or contribute to our proprietary know-how, information, or technology. We also rely on trademark, copyright, patent, trade secret, and domain-name-protection laws to protect our proprietary rights. In the United States and internationally, we have filed various applications to protect aspects of our intellectual property, and we currently hold a number of issued patents in multiple jurisdictions. In the future, we may acquire additional patents or patent portfolios, which could require significant cash expenditures. However, third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge proprietary rights held by us, and pending and future trademark and patent applications may not be approved. In addition, effective intellectual property protection may not be available in every country in which we operate or intend to operate our business. In any of these cases, we may be required to expend significant time and expense to prevent infringement or to enforce our rights. Although we have taken measures to protect our proprietary rights, there can be no assurance that others will not offer products or concepts that are substantially similar to ours and compete with our business. In addition, we regularly contribute software source code under open-source licenses and have made other technology we developed available under other open licenses, and we include open-source software in our products. From time to time, we may face claims from third parties claiming ownership of, or demanding release of, the open-source software or derivative works that we have developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open-source license. These claims could result in litigation and could require us to make our software source code freely available, seek licenses from third parties to continue offering our products for certain uses, or cease offering the products associated with such software unless and until we can re-engineer them to avoid infringement, which may be very costly. For example, in January 2017, Vaporstream, Inc. filed a complaint against us in the U.S. District Court for the Central District of California. The complaint, which seeks injunctive relief among other remedies, alleges that certain Snapchat features infringe several Vaporstream patents. In addition, in April 2018, Blackberry Limited filed a lawsuit against us alleging that we infringe six of its patents. While we believe these claims are meritless, an unfavorable outcome in these litigations could seriously harm our business. If we are unable to protect our proprietary rights or prevent unauthorized use or appropriation by third parties, the value of our brand and other intangible assets may be diminished, and competitors may be able to more effectively mimic our service and methods of operations. Any of these events could seriously harm our business.

***If our users do not continue to contribute content or their contributions are not perceived as valuable to other users, we may experience a decline in user growth, retention, and engagement on Snapchat, which could result in the loss of advertisers and revenue.***

Our success depends on our ability to provide Snapchat users with engaging content, which in part depends on the content contributed by our users. If users, including influential users such as world leaders, government officials, celebrities, athletes, journalists, sports teams, media outlets, and brands, do not continue to contribute engaging content to Snapchat, our user growth, retention, and engagement may decline. That, in turn, may impair our ability to maintain good relationships with our advertisers or attract new advertisers, which may seriously harm our business.

***Foreign government initiatives to restrict access to Snapchat in their countries could seriously harm our business.***

Foreign data protection, privacy, consumer protection, content regulation, and other laws and regulations are often more restrictive than those in the United States. Foreign governments may censor Snapchat in their countries, restrict access to Snapchat from their countries entirely, impose laws on us that require data localization, or impose other restrictions that may affect their citizens' ability to access Snapchat for an extended period of time or even indefinitely. If foreign governments think we are violating their laws, or for other reasons, they may seek to restrict access to Snapchat, which would give our competitors an opportunity to penetrate geographic markets that we cannot access. As a result, our user growth, retention, and engagement may be seriously harmed, and we may not be able to maintain or grow our revenue as anticipated and our business could be seriously harmed. For example, access to Google, which currently powers our infrastructure, is restricted in China, and we do not know if we will be able to enter the market in a manner acceptable to the Chinese government.

***Our users may increasingly engage directly with our partners instead of through Snapchat, which may negatively affect our advertising revenue and seriously harm our business.***

We allow partners to display their advertisements on Snapchat. Using our products, some partners not only can interact directly with our users, but can also direct our users to content on the partner's website directly. When users visit a partner's website, we do not deliver advertisements to these websites. So, if our partners' websites draw users away from Snapchat, the sort of user activity that generates advertising opportunities may decline, which could negatively affect our advertising revenue. Although we believe that Snapchat reaps significant long-term benefits from increased user engagement on content on Snapchat provided by our partners, these benefits may not offset the possible loss of advertising revenue, in which case our business could be seriously harmed.

***If events occur that damage our reputation and brand, our ability to expand our user base, advertisers, and partners may be impaired, and our business may be seriously harmed.***

We have developed a brand that we believe has contributed to our success. We also believe that maintaining and enhancing our brand is critical to expanding our user base, advertisers, and partners. Because many of our users join Snapchat on the invitation or recommendation of a friend or family member, one of our primary focuses is on ensuring that our users continue to view Snapchat and our brand favorably so that these referrals continue. Maintaining and enhancing our brand will depend largely on our ability to continue to provide useful, novel, fun, reliable, trustworthy, and innovative products, which we may not do successfully. We may introduce new products, make changes to existing products and services, or require our users to agree to new terms of service related to new and existing products that users do not like, which may negatively affect our brand in the short term, long term, or both. Additionally, our partners' actions may affect our brand if users do not appreciate what those partners do on Snapchat. In the past, we have experienced, and we expect that in the future we will continue to experience, media, legislative, and regulatory scrutiny of our decisions regarding user privacy or other issues, which may seriously harm our reputation and brand. We may also fail to adequately support the needs of our users, advertisers, or partners, which could erode confidence in our brand. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not be successful. If we fail to successfully promote and maintain our brand or if we incur excessive expenses in this effort, our business may be seriously harmed.

***Unfavorable media coverage could seriously harm our business.***

We and our founders receive a high degree of media coverage globally. Unfavorable publicity regarding us, for example, our privacy practices, product changes, product quality, litigation, or regulatory activity, or regarding the actions of our partners or our users, could seriously harm our reputation. Such negative publicity could also adversely affect the size, demographics, engagement, and loyalty of our user base and result in decreased revenue, fewer app installs (or increased app un-installs), or slower user growth rates, any of which could seriously harm our business.

***If we are not successful in expanding and operating our business in international markets, we may need to lay off employees in those markets, which may seriously harm our reputation and business.***

We have rapidly expanded to new international markets, including areas where we do not yet understand the full scope of commerce and culture. In connection with this rapid international expansion we have also hired new employees in many of these markets. This rapid expansion may:

- impede our ability to continuously monitor the performance of our international employees;
- result in hiring of employees who may not yet fully understand our business, products, and culture; or
- cause us to expand in markets that may lack the culture and infrastructure needed to adopt our products.

These issues may eventually lead to layoffs of employees in these markets and may harm our ability to grow our business in these markets.

***We have spent and anticipate spending substantial funds in connection with the tax liabilities on the settlement of RSUs. The manner in which we fund these tax liabilities may have an adverse effect on our financial condition.***

Given the large number of RSUs that initially settled in connection with our IPO, we expended approximately \$206.6 million in the three months ended March 31, 2017 to satisfy tax withholding and remittance obligations. To settle these RSUs, we net-settled the awards by delivering an aggregate of approximately 14.6 million shares of Class A common stock and Class B common stock to RSU holders and withholding an aggregate of approximately 12.1 million shares of Class A common stock and Class B common stock. For the year ended December 31, 2017, we expended approximately \$394.2 million to satisfy tax withholding and remittance obligations. We withheld and remitted income taxes at applicable statutory rates based on the then-current value of the underlying shares.

To fund the withholding and remittance obligations in the future, we have and may continue to sell equity securities on behalf of our employees near the applicable settlement dates in an amount that is substantially equivalent to the number of shares of common stock that we would withhold in connection with these settlements, such that the newly issued shares should not be dilutive, or we may sell equity securities on our behalf. However, in the event that we issue equity securities, we cannot assure you that we will be able to successfully match the proceeds to the amount of this tax liability. In addition, any such equity financing could result in a decline in our stock price. If we elect not to fully fund tax withholding and remittance obligations through the issuance of equity or we are unable to complete such an offering due to market conditions or otherwise, we may choose to borrow funds under our five-year senior unsecured revolving credit facility, or our Credit Facility, use a substantial portion of our existing cash, or rely on a combination of these alternatives. In the event that we elect to satisfy tax withholding and remittance obligations in whole or in part by drawing on our Credit Facility, our interest expense and principal repayment requirements could increase significantly, which could seriously harm our business.

***Our products are highly technical and may contain undetected software bugs or hardware errors, which could manifest in ways that could seriously harm our reputation and our business.***

Our products are highly technical and complex. Snapchat and Spectacles, or any other products we may introduce in the future, may contain undetected software bugs, hardware errors, and other vulnerabilities. These bugs and errors can manifest in any number of ways in our products, including through diminished performance, security vulnerabilities, malfunctions, or even permanently disabled products. We have a practice of rapidly updating our products and some errors in our products may be discovered only after a product has been released or shipped and used by users, and may in some cases be detected only under certain circumstances or after extended use. Spectacles, as an eyewear product, is regulated by the U.S. Food and Drug Administration, or the FDA, and may malfunction in a way that physically harms a user. We offer a limited one-year warranty in the United States and a limited two-year warranty in Europe, and any such defects discovered in our products after commercial release could result in a loss of sales and users, which could seriously harm our business. Any errors, bugs, or vulnerabilities discovered in our code after release could damage our reputation, drive away users, lower revenue, and expose us to damages claims, any of which could seriously harm our business.

We could also face claims for product liability, tort, or breach of warranty. In addition, our product contracts with users contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and seriously harm our reputation and our business. In addition, if our liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business could be seriously harmed.

***As our business expands, we may offer credit to our partners to stay competitive, and as a result we may be exposed to credit risk of some of our partners, which may seriously harm our business.***

As our business continues to grow and expand, we may decide to engage in business with some of our partners on an open credit basis. While we may monitor individual partner payment capability when we grant open credit arrangements and maintain allowances we believe are adequate to cover exposure for doubtful accounts, we cannot assure investors these programs will be effective in managing our credit risks in the future, especially as we expand our business internationally, engage with partners that have limited operating history, or engage with partners that we may not be familiar with. If we are unable to adequately control these risks, our business could be seriously harmed.

***We may be subject to regulatory investigations and proceedings in the future, which could cause us to incur substantial costs or require us to change our business practices in a way that could seriously harm our business.***

It is possible that a regulatory inquiry might force us to change our policies or practices. And were we to violate existing or future regulatory orders or consent decrees, we might incur substantial monetary fines and other penalties that could seriously harm our business. It is possible that future investigations by, orders issued by, or enforcement actions initiated by, regulatory authorities could cause us to incur substantial costs or require us to change our business practices in a way that could seriously harm our business.

For example, in December 2014, the FTC resolved an investigation into some of our early practices by issuing a final order. That order requires, among other things, that we establish a robust privacy program to govern how we treat user data. During the 20-year term of the order, we must complete bi-annual independent privacy audits. In addition, in June 2014, we entered into a 10-year assurance of discontinuance with the Attorney General of Maryland implementing similar practices, including measures to prevent minors under the age of 13 from creating accounts and providing annual compliance reports. Violating existing or future regulatory orders or consent decrees could subject us to substantial monetary fines and other penalties that could seriously harm our business. Similarly, we may be subject to additional general inquiries from time to time, which may seriously harm our business.

***We are currently, and expect to be in the future, party to patent lawsuits and other intellectual property claims that are expensive and time-consuming. If resolved adversely, lawsuits and claims could seriously harm our business.***

Companies in the mobile, camera, communication, media, internet, and other technology-related industries own large numbers of patents, copyrights, trademarks, trade secrets, and other intellectual property rights, and frequently enter into litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. In addition, various “non-practicing entities” that own patents, copyrights, trademarks, trade secrets, and other intellectual property rights often attempt to aggressively assert their rights to extract value from technology companies. Furthermore, from time to time we may introduce new products or make other business changes, including in areas where we currently do not compete, which could increase our exposure to patent, copyright, trademark, trade secret, and other intellectual property rights claims from competitors and non-practicing entities. We have been subject to, and expect to continue to be subject to, claims and legal proceedings from holders of patents, trademarks, copyrights, and other intellectual property rights alleging that some of our products or content infringe their rights. If these matters continue in the future or we need to enter into licensing arrangements, which may not be available to us or on terms favorable to us, it may increase our costs and decrease the value of our products, and our business could be seriously harmed.

We rely on a variety of statutory and common-law frameworks for the content we provide our users, including the Digital Millennium Copyright Act, or DMCA, the Communications Decency Act, or CDA, and the fair-use doctrine. The DMCA limits, but does not necessarily eliminate, our potential liability for caching, hosting, listing, or linking to third-party content that may include materials that infringe copyrights or other rights. The CDA further limits our potential liability for content uploaded onto Snapchat by third parties. And the fair-use doctrine (and related doctrines in other countries) limits our potential liability for featuring third-party intellectual property content produced by us for purposes such as reporting, commentary, and parody. However, each of these statutes and doctrines is subject to uncertain judicial interpretation and regulatory and legislative amendments. For example, Congress recently amended the CDA in ways that could expose some Internet platforms to an increased risk of litigation. Moreover, some of these statutes and doctrines provide protection only or primarily in the United States. If the rules around these doctrines change, if international jurisdictions refuse to apply similar protections, or if a court were to disagree with our application of those rules to our service, we could incur liability and our business could be seriously harmed.

***From time to time, we are involved in class-action lawsuits and other litigation matters that are expensive and time-consuming. If resolved adversely, lawsuits and other litigation matters could seriously harm our business.***

We are involved in numerous lawsuits, including putative class-action lawsuits brought by users, some of which may claim statutory damages. We anticipate that we will continue to be a target for lawsuits in the future. Because we have millions of users, the plaintiffs in class-action cases filed against us typically claim enormous monetary damages in the aggregate even if the alleged per-user harm is small or non-existent. For example, beginning on May 16, 2017, we, certain of our officers and directors, and the underwriters of our IPO were named as defendants in securities class actions purportedly brought on behalf of purchasers of our Class A common stock. In June 2018, the U.S. District Court for the Central District of California denied our motion to dismiss this matter. Any litigation to which we are a party may result in an onerous or unfavorable judgment that may not be reversed on appeal, or we may decide to settle lawsuits on similarly unfavorable terms. Any such negative outcome could result in payments of substantial monetary damages or fines, or changes to our products or business practices, and accordingly our business could be seriously harmed. Although the results of lawsuits and claims cannot be predicted with certainty, management does not believe that the final outcome of those matters that we currently face will seriously harm our business. However, defending these claims is costly and can impose a significant burden on management and employees, and we may receive unfavorable preliminary, interim, or final rulings in the course of litigation, which could seriously harm our business.

***We do not have manufacturing capabilities and depend on a single contract manufacturer. If we encounter problems with this contract manufacturer or if the manufacturing process stops or is delayed for any reason, we may not deliver our hardware products, such as Spectacles, to our customers on time, which may seriously harm our business.***

We have limited manufacturing experience for our only physical product, Spectacles, and we do not have any internal manufacturing capabilities. Instead, we rely on one contract manufacturer to build Spectacles. Our contract manufacturer is vulnerable to capacity constraints and reduced component availability, and our control over delivery schedules, manufacturing yields, and costs, particularly when components are in short supply, or if we introduce a new product or feature, is limited. In addition, we have limited control over our manufacturer’s quality systems and controls, and therefore must rely on our manufacturer to manufacture our products to our quality and performance standards and specifications. Delays, component shortages, including custom components that are manufactured for us at our direction, and other manufacturing and supply problems could impair the distribution of our products and ultimately our brand. Furthermore, any

adverse change in our contract manufacturer's financial or business condition or our relationship with the contract manufacturer could disrupt our ability to supply our products to our retailers and distributors. If we are required to change our contract manufacturer or assume internal manufacturing operations, we may lose revenue, incur increased costs, and damage our reputation and brand. Qualifying a new contract manufacturer and commencing production is expensive and time-consuming. In addition, if we experience increased demand for our products, we may need to increase our component purchases, contract-manufacturing capacity, and internal test and quality functions. The inability of our contract manufacturers to provide us with adequate supplies of high-quality products could delay our order fulfillment, and may require us to change the design of our products to meet this increased demand. Any redesign would require us to re-qualify our products with any applicable regulatory bodies, which would be costly and time-consuming. This may lead to unsatisfied customers and users and increase costs to us, which could seriously harm our business.

***Components used in our products may fail as a result of a manufacturing, design, or other defect over which we have no control, and render our devices inoperable.***

We rely on third-party component suppliers to provide some of the functionalities needed to operate and use our products, such as Spectacles. Any errors or defects in that third-party technology could result in errors in our products that could seriously harm our business. If these components have a manufacturing, design, or other defect, they can cause our products to fail and render them permanently inoperable. For example, the typical means by which our Spectacles product connects to mobile devices is by way of a Bluetooth transceiver located in the Spectacles product. If the Bluetooth transceiver in our Spectacles product were to fail, it would not be able to connect to a user's mobile device and Spectacles would not be able to deliver any content to the mobile device and the Snapchat application. As a result, we would have to replace these products at our sole cost and expense. Should we have a widespread problem of this kind, the reputational damage and the cost of replacing these products could seriously harm our business.

The FDA and other state and foreign regulatory agencies regulate Spectacles. We may develop future products that are regulated as medical devices by the FDA. Government authorities, primarily the FDA and corresponding regulatory agencies, regulate the medical device industry. Unless there is an exemption, we must obtain regulatory approval from the FDA and corresponding agencies before we can market or sell a new regulated product or make a significant modification to an existing product. Obtaining regulatory clearances to market a medical device can be costly and time-consuming, and we may not be able to obtain these clearances or approvals on a timely basis, or at all, for future products. Any delay in, or failure to receive or maintain, clearance or approval for any medical device products under development could prevent us from launching new products. We could seriously harm our business and the ability to sell our products if we experience any product problems requiring FDA reporting, if we fail to comply with applicable FDA and other state or foreign agency regulations, or if we are subject to enforcement actions such as fines, civil penalties, injunctions, product recalls, or failure to obtain FDA or other regulatory clearances or approvals.

***We may face inventory risk with respect to our Spectacles products.***

We have been and may continue to be exposed to inventory risks related to Spectacles as a result of rapid changes in product cycles and pricing, defective merchandise, changes in consumer demand and consumer spending patterns, changes in consumer tastes with respect to Spectacles products, and other factors. We try to accurately predict these trends and avoid overstocking or understocking inventory. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. The acquisition of certain types of inventory or components may require significant lead-time and prepayment and they may not be returnable. Failure to manage our inventory, supplier commitments, or customer expectations could seriously harm our business.

***Our offices are dispersed in various cities, which may negatively affect employee morale and could seriously harm our business.***

We have many offices, both domestic and abroad, with our principal offices being located in the Los Angeles area, where we have many office buildings that are dispersed throughout the area. This diffuse structure may prevent us from fostering positive employee morale and encouraging social interaction among our employees and different business units. Moreover, because our office buildings are dispersed throughout the area, we may be unable to adequately oversee employees and business functions. If we cannot compensate for these and other issues caused by this geographically dispersed office structure, we may lose employees, which could seriously harm our business.

***We may face lawsuits or incur liability based on information retrieved from or transmitted over the internet and then posted to Snapchat.***

We have faced, currently face, and will continue to face claims relating to information that is published or made available on Snapchat. In particular, the nature of our business exposes us to claims related to defamation, intellectual property rights, rights of publicity and privacy, and personal injury torts. For example, we do not monitor or edit the vast majority of content that appears on Snapchat. This risk is enhanced in certain jurisdictions outside the United States where our protection from liability for third-party actions may be unclear and where we may be less protected under local laws than we are in the United States. In addition, there have been various Congressional efforts to restrict the scope of the protections available to online platforms under Section 230 of the CDA, and our current protections from liability for third-party content in the United States could decrease or change. We could incur significant costs investigating and defending such claims and, if we are found liable, significant damages. We could also face fines or orders restricting or blocking our services in particular geographies as a result of content hosted on our services. For example, recently enacted legislation in Germany may impose significant fines for failure to comply with certain content removal and disclosure obligations. If any of these events occur, our business could be seriously harmed.

***We plan to continue expanding our operations abroad where we have limited operating experience and may be subject to increased business and economic risks that could seriously harm our business.***

We plan to continue expanding our business operations abroad and translating our products into other languages. Snapchat is currently available in more than 20 languages, and we have offices in more than ten countries. We plan to enter new international markets where we have limited or no experience in marketing, selling, and deploying our products. If we fail to deploy or manage our operations in international markets successfully, our business may suffer. In the future, as our international operations increase, or more of our expenses are denominated in currencies other than the U.S. dollar, our operating results may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. In addition, we are subject to a variety of risks inherent in doing business internationally, including:

- political, social, and economic instability;
- risks related to the legal and regulatory environment in foreign jurisdictions, including with respect to privacy, and unexpected changes in laws, regulatory requirements, and enforcement;
- potential damage to our brand and reputation due to compliance with local laws, including potential censorship and requirements to provide user information to local authorities;
- fluctuations in currency exchange rates;
- higher levels of credit risk and payment fraud;
- complying with tax requirements of multiple jurisdictions;
- enhanced difficulties of integrating any foreign acquisitions;
- complying with a variety of foreign laws, including certain employment laws requiring national collective bargaining agreements that set minimum salaries, benefits, working conditions, and termination requirements;
- reduced protection for intellectual-property rights in some countries;
- difficulties in staffing and managing global operations and the increased travel, infrastructure, and compliance costs associated with multiple international locations;
- regulations that might add difficulties in repatriating cash earned outside the United States and otherwise preventing us from freely moving cash;
- import and export restrictions and changes in trade regulation;
- complying with statutory equity requirements;
- complying with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and similar laws in other jurisdictions; and
- export controls and economic sanctions administered by the Department of Commerce Bureau of Industry and Security and the Treasury Department's Office of Foreign Assets Control.

If we are unable to expand internationally and manage the complexity of our global operations successfully, our business could be seriously harmed.

***New legislation that would change U.S. or foreign taxation of international business activities or other tax-reform policies, including the imposition of tax based on gross income, could seriously harm our business.***

Reforming the taxation of international businesses has been a priority for politicians, and a wide variety of potential changes have been proposed. Some proposals, several of which have been enacted, impose incremental taxes on gross revenue, regardless of profitability. Due to the large and expanding scale of our international business activities, any changes in the taxation of such activities may increase our worldwide effective tax rate and the amount of taxes we pay and seriously harm our business.

For example, the Tax Cuts and Jobs Act, or the Tax Act, was enacted on December 22, 2017 and significantly reforms the U.S. Internal Revenue Code of 1986, as amended, or the Code. The Tax Act lowers U.S. federal corporate income tax rates, changes the utilization of future net operating loss carryforwards, allows for the expensing of certain capital expenditures, and puts into effect sweeping changes to U.S. taxation of international business activities. As a result, our net U.S. deferred tax assets and corresponding valuation allowances were revalued at the new U.S. corporate rate in the period of enactment. We continue to examine the impact this tax reform legislation may have on our business. The impact of this tax reform on us and on holders of our common stock is uncertain and could seriously harm our business.

Additionally, in March 2018, the European Commission released a proposal for a European Council directive on the taxation of specified digital services. If enacted, the proposal initially would impose tax on applicable gross revenue at a 3% rate. A long-term regime would create a taxable presence for digital services and impose tax based on net income. Other jurisdictions, including the United Kingdom, are considering enacting similar tax regimes for digital services. If enacted, one or more of these or similar proposals could seriously harm our business.

***Exposure to United Kingdom political developments, including the outcome of the referendum on membership in the European Union, could be costly and difficult to comply with and could seriously harm our business.***

In June 2016, a referendum was passed in the United Kingdom to leave the European Union, commonly referred to as “Brexit.” This decision creates an uncertain political and economic environment in the United Kingdom and other European Union countries, even though the formal process for leaving the European Union may take years to complete. This formal process began in March 2017, when the United Kingdom served notice to the European Council under Article 50 of the Treaty of Lisbon. We have licensed a portion of our intellectual property to one of our United Kingdom subsidiaries and have based a significant portion of our non-U.S. operations in the United Kingdom. The long-term nature of the United Kingdom’s relationship with the European Union is unclear and there is considerable uncertainty when any relationship will be agreed and implemented. The political and economic instability created by Brexit has caused and may continue to cause significant volatility in global financial markets and uncertainty regarding the regulation of data protection in the United Kingdom. In particular, it is unclear whether the United Kingdom will enact data protection laws or regulations designed to be consistent with the EU General Data Protection Regulation and how data transfers to and from the United Kingdom will be regulated. Brexit could also have the effect of disrupting the free movement of goods, services, and people between the United Kingdom, the European Union, and elsewhere. The full effect of Brexit is uncertain and depends on any agreements the United Kingdom may make to retain access to European Union markets. Consequently, no assurance can be given about the impact of the outcome and our business, including operational and tax policies, may be seriously harmed or require reassessment if our European operations or presence become a significant part of our business.

***We plan to continue to make acquisitions and investments in privately held companies, which could require significant management attention, disrupt our business, dilute our stockholders, and seriously harm our business.***

As part of our business strategy, we have made and intend to make acquisitions to add specialized employees and complementary companies, products, and technologies, as well as investments in privately held companies in furtherance of our strategic objectives. Our ability to acquire and successfully integrate larger or more complex companies, products, and technologies is unproven. In the future, we may not be able to find other suitable acquisition or investment candidates, and we may not be able to complete acquisitions or investments on favorable terms, if at all. Our previous and future acquisitions and investments may not achieve our goals, and any future acquisitions or investments we complete could be viewed negatively by users, advertisers, partners, or investors. In addition, if we fail to successfully close transactions or integrate new teams, or integrate the products and technologies associated with these acquisitions into our company, our business could be seriously harmed. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or use the acquired products, technology, and personnel, or accurately forecast the financial impact of an acquisition or investment transaction, including accounting charges. We may also incur unanticipated liabilities that we assume as a result of acquiring companies. We may have to pay cash, incur debt, or issue equity securities to pay for any acquisition or investment, any of which could seriously harm our business. Selling equity to finance any such acquisition or investment would also dilute our stockholders. Incurring debt would increase our fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

In addition, on average, it has historically taken us approximately one year after the closing of an acquisition to finalize the purchase price allocation. Therefore, it is possible that our valuation of an acquisition may change and result in unanticipated write-offs or charges, impairment of our goodwill, or a material change to the fair value of the assets and liabilities associated with a particular acquisition, any of which could seriously harm our business.

Our acquisition and investment strategy may not succeed if we are unable to remain attractive to target companies or expeditiously close transactions. Issuing shares of Class A common stock to fund an acquisition or investment would cause economic dilution to existing stockholders but not voting dilution. If we develop a reputation for being a difficult acquirer or having an unfavorable work environment, or target companies view our non-voting Class A common stock unfavorably, we may be unable to consummate key acquisition transactions essential to our corporate strategy and our business may be seriously harmed.

***If we default on our credit obligations, our operations may be interrupted and our business could be seriously harmed.***

We have a Credit Facility that we may draw on to finance our operations, acquisitions, and other corporate purposes, such as funding our tax-withholding and remittance obligations in connection with settling RSUs. If we default on these credit obligations, our lenders may:

- require repayment of any outstanding amounts drawn on our Credit Facility;
- terminate our Credit Facility; or
- require us to pay significant damages.

If any of these events occur, our operations may be interrupted and our ability to fund our operations or obligations, as well as our business, could be seriously harmed. In addition, our Credit Facility contains operating covenants, including customary limitations on the incurrence of certain indebtedness and liens, restrictions on certain intercompany transactions, and limitations on the amount of dividends and stock repurchases. Our ability to comply with these covenants may be affected by events beyond our control, and breaches of these covenants could result in a default under the Credit Facility and any future financial agreements into which we may enter. If not waived, defaults could cause our outstanding indebtedness under our Credit Facility and any future financing agreements that we may enter into to become immediately due and payable. For more information on our Credit Facility, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

***We may have exposure to greater-than-anticipated tax liabilities, which could seriously harm our business.***

Our income tax obligations are based on our corporate operating structure and third-party and intercompany arrangements, including the manner in which we develop, value, and use our intellectual property and the valuations of our intercompany transactions. The tax laws applicable to our international business activities, including the laws of the United States and other jurisdictions, are subject to change and uncertain interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology, intercompany arrangements, or transfer pricing, which could increase our worldwide effective tax rate and the amount of taxes we pay and seriously harm our business. Taxing authorities may also determine that the manner in which we operate our business is not consistent with how we report our income, which could increase our effective tax rate and the amount of taxes we pay and seriously harm our business. In addition, our future income taxes could fluctuate because of earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, or accounting principles. We are subject to regular review and audit by U.S. federal and state and foreign tax authorities. Any adverse outcome from a review or audit could seriously harm our business. In addition, determining our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements for such period or periods and may seriously harm our business.

***Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited, each of which could seriously harm our business.***

As of December 31, 2017, we had U.S. federal net operating loss carryforwards of approximately \$1.6 billion and state net operating loss carryforwards of approximately \$930.2 million. Under Sections 382 and 383 of the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income and taxes may be limited. In general, an “ownership change” occurs if there is a cumulative change in our ownership by “5% shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. In the event that it is determined that we have in the past experienced an ownership change, or if we experience one or more ownership changes as a result of future transactions in our stock, then we may be limited in our ability to use our net operating loss carryforwards and other tax assets to reduce taxes owed on the net taxable income that we earn. Any limitations on the ability to use our net operating loss carryforwards and other tax assets could seriously harm our business.

Additionally, the Tax Act, which was enacted on December 22, 2017, significantly reforms the Code, including changes to the rules governing net operating loss carryforwards. For net operating loss carryforwards arising in tax years beginning after December 31, 2017, the Tax Act limits a taxpayer’s ability to utilize such carryforwards to 80% of taxable income. In addition, net operating loss carryforwards arising in tax years ending after December 31, 2017 can be carried forward indefinitely, but carryback is generally prohibited. Net operating loss carryforwards generated by us before January 1, 2018 will not be subject to the taxable income limitation and will continue to have a twenty-year carryforward period. However, the changes in the carryforward and carryback periods as well as the new limitation on use of net operating losses may significantly impact our ability to use net operating loss carryforwards generated after December 31, 2017, as well as the timing of any such use, and could seriously harm our business.

***If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings, which could seriously harm our business.***

Under U.S. generally accepted accounting principles, or GAAP, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. As of June 30, 2018, we had recorded a total of \$782.7 million of goodwill and intangible assets, net related to our acquisitions. An adverse change in market conditions, particularly if such change has the effect of changing one of our critical assumptions or estimates, could result in a change to the estimation of fair value that could result in an impairment charge to our goodwill or intangible assets. Any such material charges may seriously harm our business.

***We cannot be certain that additional financing will be available on reasonable terms when needed, or at all, which could seriously harm our business.***

We have incurred net losses and negative cash flow from operations for all prior periods, and we may not achieve or maintain profitability. As a result, we may need additional financing. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, our credit rating, the condition of the capital markets, and other factors. To the extent we use available funds or draw on our Credit Facility, we may need to raise additional funds and we cannot assure investors that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked, or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our Class A common stock, and our existing stockholders may experience dilution. In the event that we are unable to obtain additional financing on favorable terms, our interest expense and principal repayment requirements could increase significantly, which could seriously harm our business.

***Payment transactions using Snapcash or future products may subject us to additional regulatory requirements and other risks that could be costly and difficult to comply with and could seriously harm our business.***

Our users can use Snapchat to send cash to other users using our Snapcash feature. Depending on how our Snapcash product evolves or whether we develop additional commerce products in the future, we may be subject to a variety of laws and regulations in the United States, Europe, and elsewhere, including those governing money transmission, gift cards, and other prepaid access instruments, electronic funds transfers, anti-money laundering, counter-terrorist financing, gambling, banking and lending, and import and export restrictions. Although we currently use the service of a third party to provide the Snapcash feature, these laws may apply to us in some jurisdictions. To increase flexibility in how our use of Snapcash may evolve and to mitigate regulatory uncertainty, we may be required to apply for certain money-transmitter licenses in the United States, which may generally require us to demonstrate compliance with many domestic laws in these areas. Our efforts to comply with these laws and regulations could be costly and divert management's time and effort and may still not guarantee compliance. If we are found to violate any of these legal or regulatory requirements, we may be subject to monetary fines or other penalties, such as a cease-and-desist order, or we may be required to make product changes, any of which could seriously harm our business. Moreover, the Snapcash product is not enabled on Snapchat by default, and our users must manually enable the feature within the application, which may prevent the Snapcash product from gaining traction with our users or becoming a material part of our business. We have not recognized revenue related to Snapcash to date.

In addition, we may be subject to a variety of additional risks as a result of Snapcash, including:

- increased costs and diversion of management time and effort and other resources to deal with bad transactions or customer disputes;
- potential fraudulent or otherwise illegal activity by users or third parties;
- restrictions on the investment of consumer funds used to make Snapcash transactions; and
- additional disclosure and reporting requirements.

If any of these risks occurs, our business may be seriously harmed.

#### **Risks Related to Ownership of Our Class A Common Stock**

***Holders of Class A common stock have no voting rights. As a result, holders of Class A common stock will not have any ability to influence stockholder decisions.***

Class A common stockholders have no voting rights, unless required by Delaware law. As a result, all matters submitted to stockholders will be decided by the vote of holders of Class B common stock and Class C common stock. As of June 30, 2018, Mr. Spiegel and Mr. Murphy control approximately 96.4% of our voting power, and potentially either one of them alone have the ability to control the outcome of all matters submitted to our stockholders for approval. In addition, because our Class A common stock carries no voting rights (except as required by Delaware law), the issuance of the Class A common stock in future offerings, in future stock-based acquisition transactions, or to fund employee equity incentive programs could prolong the duration of Mr. Spiegel's and Mr. Murphy's current relative ownership of our voting power and their ability to elect certain directors and to determine the outcome of all matters submitted to a vote of our stockholders. This concentrated control eliminates other stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our Class A common stock could be adversely affected.

***We cannot predict the impact our capital structure and the concentrated control by our founders may have on our stock price or our business.***

Although other U.S.-based companies have publicly traded classes of non-voting stock, to our knowledge, no other public company has listed only non-voting stock on a U.S. stock exchange. We cannot predict whether this structure, combined with the concentrated control by Mr. Spiegel and Mr. Murphy, will result in a lower trading price or greater fluctuations in the trading price of our Class A common stock, or will result in adverse publicity or other adverse consequences. In addition, some indexes are considering whether to exclude non-voting stock, like our Class A common stock, from their membership. For example, FTSE Russell, a provider of widely followed stock indexes, now requires new constituents of its indexes to have at least five percent of their voting rights in the hands of public stockholders. In addition, in July 2017, S&P Dow Jones, another provider of widely followed stock indexes, stated that companies with multiple share classes will not be eligible for certain of their indexes. As a result, our Class A common stock will likely not be eligible for these stock indexes. We cannot assure you that other stock indexes will not take a similar approach to FTSE Russell or S&P Dow Jones in the future. Exclusion from indexes could make our Class A common stock less attractive to investors and, as a result, the market price of our Class A common stock could be adversely affected.

***Because our Class A common stock is non-voting, we and our stockholders are exempt from certain provisions of U.S. securities laws. This may limit the information available to holders of our Class A common stock.***

Because our Class A common stock is non-voting, significant holders of our common stock are exempt from the obligation to file reports under Sections 13(d), 13(g), and 16 of the Exchange Act. These provisions generally require periodic reporting of beneficial ownership by significant stockholders, including changes in that ownership. For example, in November 2017, Tencent Holdings Limited notified us that it, together with its affiliates, acquired 145,778,246 shares of our non-voting Class A common stock via open market purchases. As a result of our capital structure, neither we nor Tencent is obligated to disclose changes in Tencent's ownership of our Class A common stock, so there can be no assurance that you, or we, will be notified of any such changes. Our directors and officers are required to file reports under Section 16 of the Exchange Act. Our significant stockholders, other than directors and officers, are exempt from the "short-swing" profit recovery provisions of Section 16 of the Exchange Act and related rules with respect to their purchases and sales of our securities. As such, stockholders will be unable to bring derivative claims for disgorgement of profits for trades by significant stockholders under Section 16(b) of the Exchange Act unless the significant stockholders are also directors or officers.

Since our Class A common stock is our only class of stock registered under Section 12 of the Exchange Act and that class is non-voting, we are not required to file proxy statements or information statements under Section 14 of the Exchange Act, unless a vote of the Class A common stock is required by applicable law. Accordingly, legal causes of action and remedies under Section 14 of the Exchange Act for inadequate or misleading information in proxy statements may not be available to holders of our Class A common stock. If we do not deliver any proxy statements, information statements, annual reports, and other information and reports to the holders of our Class B common stock and Class C common stock, then we will similarly not provide any of this information to holders of our Class A common stock. Because we are not required to file proxy statements or information statements under Section 14 of the Exchange Act, any proxy statement, information statement, or notice of our annual meeting may not include all information under Section 14 of the Exchange Act that a public company with voting securities registered under Section 12 of the Exchange Act would be required to provide to its stockholders. Most of that information, however, will be reported in other public filings. For example, any disclosures required by Part III of Form 10-K as well as disclosures required by the NYSE for the year ended December 31, 2017 that are customarily included in a proxy statement are instead included in our Annual Report, rather than a proxy statement. But some information required in a proxy statement or information statement is not required in any other public filing. For example, we will not be required to comply with the proxy access rules under Section 14 of the Exchange Act. If we take any action in an extraordinary meeting of stockholders where the holders of Class A common stock are not entitled to vote, we will not be required to provide the information required under Section 14 of the Exchange Act. Nor will we be required to file a preliminary proxy statement under Section 14 of the Exchange Act. Since that information is also not required in a Form 10-K, holders of Class A common stock may not receive the information required under Section 14 of the Exchange Act with respect to extraordinary meetings of stockholders. In addition, we are not subject to the "say-on-pay" and "say-on-frequency" provisions of the Dodd-Frank Act. As a result, our stockholders do not have an opportunity to provide a non-binding vote on the compensation of our executive officers. Moreover, holders of our Class A common stock will be unable to bring matters before our annual meeting of stockholders or nominate directors at such meeting, nor can they submit stockholder proposals under Rule 14a-8 of the Exchange Act.

***The trading price of our Class A common stock has been and will likely continue to be volatile.***

The trading price of our Class A common stock has been and is likely to continue to be volatile. Shares of Class A common stock were sold in our IPO in March 2017 at a price of \$17.00 per share. Since then, the trading price of our Class A common stock has ranged from \$10.50 to \$29.44 through June 30, 2018. The market price of our Class A common stock may fluctuate or decline significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our user growth, retention, engagement, revenue, or other operating results;
- variations between our actual operating results and the expectations of securities analysts, investors, and the financial community;
- the accuracy of our financial guidance or projections;
- any forward-looking financial or operating information we may provide, any changes in this information, or our failure to meet expectations based on this information;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;

- whether our capital structure is viewed unfavorably, particularly our non-voting Class A common stock and the significant voting control of our co-founders;
- additional shares of our common stock being sold into the market by us or our existing stockholders, or the anticipation of such sales, including if we issue shares to satisfy RSU-related tax obligations;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- announcements by us or estimates by third parties of actual or anticipated changes in the size of our user base or the level of user engagement;
- changes in operating performance and stock market valuations of technology companies in our industry, including our partners and competitors;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- lawsuits threatened or filed against us;
- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

In addition, extreme price and volume fluctuations in the stock markets have affected and continue to affect many technology companies' stock prices. Often, their stock prices have fluctuated in ways unrelated or disproportionate to the companies' operating performance. In the past, stockholders have filed securities class-action litigation following periods of market volatility. Beginning on May 16, 2017, we, certain of our officers and directors, and the underwriters for our IPO were named as defendants in securities class actions purportedly brought on behalf of purchasers of our Class A common stock. In June 2018, the U.S. District Court for the Central District of California denied our motion to dismiss this matter. This litigation could subject us to substantial costs, divert resources and the attention of management from our business, and seriously harm our business.

***Delaware law and provisions in our amended and 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 amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could depress the trading price of our Class A common stock by acting to discourage, delay, or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions include the following:

- our amended and restated certificate of incorporation provides for a tri-class capital structure. As a result of this structure, Mr. Spiegel and Mr. Murphy control all stockholder decisions. As a result of Mr. Spiegel's RSU award, Mr. Spiegel alone may exercise voting control over our outstanding capital stock. If they vote together, they will have control over all stockholder matters. This includes the election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets. This concentrated control could discourage others from initiating any potential merger, takeover, or other change-of-control transaction that other stockholders may view as beneficial. As noted above, the issuance of the Class A common stock dividend, and any future issuances of Class A common stock dividends, could have the effect of prolonging the influence of Mr. Spiegel and Mr. Murphy on the company;
- our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death, or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- our amended and restated certificate of incorporation prohibits cumulative voting in the election of directors. This limits the ability of minority stockholders to elect director candidates; and
- our board of directors may issue, without stockholder approval, shares of undesignated preferred stock. The ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws, or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

***An active trading market for our Class A common stock may not be sustained.***

Our Class A common stock is listed on the NYSE under the symbol “SNAP.” However, we cannot assure you that an active trading market for our Class A common stock will be sustained or maintained. In addition, we cannot assure you that the liquidity of any trading market will provide stockholders the ability to sell shares of our Class A common stock when or at prices that they desire.

***Future sales of shares by existing stockholders could cause our stock price to decline.***

If our existing stockholders, including employees and service providers who obtain equity, sell, or indicate an intention to sell, substantial amounts of our Class A common stock in the public market, the trading price of our Class A common stock could decline. As of June 30, 2018, we had outstanding a total of 958.8 million shares of Class A common stock, 94.5 million shares of Class B common stock, and 219.9 million shares of Class C common stock. In addition, as of June 30, 2018, 170.6 million shares of Class A common stock, 6.9 million shares of Class B common stock, and 28.1 million shares of Class C common stock were subject to outstanding stock options and RSUs. All of our outstanding shares, other than approximately 461.6 million shares (including options exercisable as of June 30, 2018) held by directors, executive officers, and other affiliates that are subject to volume limitations under Rule 144 of the Securities Act, are eligible for sale in the public market. Our employees, other service providers, and directors are subject to our quarterly trading window closures. In addition, we have reserved shares for issuance under our equity incentive plans. When these shares are issued and subsequently sold, it would be dilutive to existing stockholders and the trading price of our Class A common stock could decline.

***If securities or industry analysts either do not publish research about us, or publish inaccurate or unfavorable research about us, our business, or our market, or if they change their recommendations regarding our common stock adversely, the trading price or trading volume of our Class A common stock could decline.***

The trading market for our Class A common stock is influenced in part by the research and reports that securities or industry analysts may publish about us, our business, our market, or our competitors. If one or more of the analysts initiate research with an unfavorable rating or downgrade our Class A common stock, provide a more favorable recommendation about our competitors, or publish inaccurate or unfavorable research about our business, our Class A common stock price would likely decline. If any analyst who may cover us were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the trading price or trading volume to decline. Since we provide only limited financial guidance, this may increase the probability that our financial results are perceived as not in line with analysts’ expectations, and could cause volatility to our Class A common stock price.

***We are currently an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our Class A common stock less attractive to investors.***

We are currently an emerging growth company, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to “emerging growth companies,” including:

- not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act;
- reduced disclosure obligations regarding executive compensation in our periodic reports and annual report on Form 10-K; and
- exemptions from the requirements of holding nonbinding advisory votes on executive compensation and stockholder approval of any golden parachute payments not previously approved.

Based on the market value of our common stock held by non-affiliates as of June 30, 2018, we will cease to be an emerging growth company as of December 31, 2018 and, therefore, will not be able to take advantage of these various exemptions. However, so long as our Class A common stock remains both non-voting and our only publicly traded class of stock, we will not be subject to the requirements of holding nonbinding advisory votes on executive compensation and any golden parachute payments because we would not be subject to the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, mandating advisory votes.

We cannot predict if investors will find our Class A common stock less attractive if we choose to rely on any of the exemptions afforded emerging growth companies. If some investors find our Class A common stock less attractive because we rely on any of these exemptions, there may be a less active trading market for our Class A common stock and the market price of our Class A common stock may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this accommodation allowing for delayed adoption of new or revised accounting standards, and therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

***We do not intend to pay cash dividends for the foreseeable future.***

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any cash dividends in the foreseeable future. As a result, you may only receive a return on your investment in our Class A common stock if the market price of our Class A common stock increases. In addition, our Credit Facility includes restrictions on our ability to pay cash dividends.

***We have previously identified material weaknesses in our internal control over financial reporting, and if we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our Class A common stock may be seriously harmed.***

We are required to maintain internal control over financial reporting and to report any material weaknesses in those internal controls, subject to any exemptions that we avail ourselves to under the JOBS Act. For example, in 2018 we are required to perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. We are in the process of designing, implementing, and testing internal control over financial reporting required to comply with this obligation. That process is time-consuming, costly, and complicated.

We and our prior independent registered public accounting firm, PricewaterhouseCoopers LLP, identified material weaknesses in our internal control over financial reporting for the year ended December 31, 2014 related to the lack of sufficient qualified accounting personnel, which we remediated as of December 31, 2015. If we identify future material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion or expresses a qualified or adverse opinion about 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. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, and other regulatory authorities, which could require additional financial and management resources.

***The requirements of being a public company may strain our resources, result in more litigation, and divert management's attention.***

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the NYSE, and other applicable securities rules and regulations. Complying with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources. Beginning with our Annual Report on Form 10-K for the year ending December 31, 2018, we will be subject to Section 404 of the Sarbanes-Oxley Act, which requires that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results.

By complying with public disclosure requirements, our business and financial condition are more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. For example, beginning on May 16, 2017, we, certain of our officers and directors, and the underwriters of our IPO were named as defendants in securities class actions purportedly brought on behalf of purchasers of our Class A common stock. In June 2018, the U.S. District Court for the Central District of California denied our motion to dismiss this matter. Shareholder litigation can subject us to substantial costs and divert resources and the attention of management from our business. If those claims are successful, our business could be seriously harmed. Even if the claims do not result in litigation or are resolved in our favor, the time and resources needed to resolve them could divert our management's resources and seriously harm our business.

***Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware and the federal district courts of the United States of America will be the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.***

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a breach of fiduciary duty;
- any action asserting a claim against us arising under the Delaware General Corporation Law, our amended and restated certificate of incorporation, or our amended and restated bylaws; and
- any action asserting a claim against us that is governed by the internal-affairs doctrine.

Our amended and restated certificate of incorporation further provides that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act.

These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. If a court were to find either exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could seriously harm our business.

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

### *Use of Proceeds for Initial Public Offering of Class A Common Stock*

On March 1, 2017, our Registration Statement on Form S-1 (File No. 333-215866) was declared effective by the SEC for our initial public offering of Class A common stock, pursuant to which we sold an aggregate of 160,349,765 shares of our Class A common stock at a public offering price of \$17.00 per share. There has been no material change in the planned use of proceeds from our initial public offering as described in our prospectus dated March 1, 2017, as filed with the SEC pursuant to Rule 424(b) under the Securities Act.

## **Item 3. Defaults Upon Senior Securities**

None.

## **Item 4. Mine Safety Disclosures**

Not applicable.

## **Item 5. Other Information**

### *Stockholder Election of Directors and Ratification of Appointment of Independent Registered Accounting Firm*

On August 2, 2018, we held our 2018 annual meeting of stockholders. That same day, the holders of an aggregate of 219,890,702 shares of our Class C common stock and 11,724,820 shares of our Class B common stock, representing an aggregate of 96.4% of the voting power of our outstanding capital stock, acted by written consent to elect the following

individuals to our board of directors: Evan Spiegel, Robert Murphy, Michael Lynton, Joanna Coles, A.G. Lafley, Stanley Meresman, Scott D. Miller, Poppy Thorpe, and Christopher Young. Each of these individuals will serve until the next annual meeting of stockholders and until his or her successor is elected, or, if sooner, until the director's death, resignation, or removal.

Additionally, pursuant to this action by written consent, the holders ratified the selection by the audit committee of our board of directors of Ernst & Young LLP as our independent registered accounting firm for the fiscal year ended December 31, 2018.

We are including this disclosure in this Form 10-Q rather than filing a Form 8-K under Item 5.07 at a later date.

## Item 6. Exhibits

| Exhibit Number | Description                                                                                                                                                                                                     | Incorporated by Reference |             |         |             |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------|---------|-------------|
|                |                                                                                                                                                                                                                 | Schedule Form             | File Number | Exhibit | Filing Date |
| 10.1 +         | <a href="#">Transition Agreement, by and between Snap Inc. and Andrew Vollero, dated May 7, 2018.</a>                                                                                                           | 8-K                       | 001-38017   | 10.1    | May 7, 2018 |
| 10.2 +         | <a href="#">Offer Letter, by and between Snap Inc. and Tim Stone, dated May 4, 2018.</a>                                                                                                                        | 8-K                       | 001-38017   | 10.2    | May 7, 2018 |
| 31.1           | <a href="#">Certification of the Chief Executive Officer of Snap Inc. pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.</a>                                      |                           |             |         |             |
| 31.2           | <a href="#">Certification of the Chief Financial Officer of Snap Inc. pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.</a>                                      |                           |             |         |             |
| 32.1*          | <a href="#">Certification of the Chief Executive Officer and Chief Financial Officer of Snap Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a> |                           |             |         |             |
| 101.INS        | XBRL Instance Document.                                                                                                                                                                                         |                           |             |         |             |
| 101.SCH        | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                        |                           |             |         |             |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                                          |                           |             |         |             |
| 101.DEF        | XBRL Taxonomy Definition Linkbase Document.                                                                                                                                                                     |                           |             |         |             |
| 101.LAB        | XBRL Taxonomy Extension Labels Linkbase Document.                                                                                                                                                               |                           |             |         |             |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                                                                                         |                           |             |         |             |

+ Indicates management contract or compensatory plan.

\* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

## 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.

### SNAP INC.

Date: August 7, 2018

/s/ Tim Stone

\_\_\_\_\_  
Tim Stone

Chief Financial Officer

*(Principal Financial Officer)*

Date: August 7, 2018

/s/ Lara Sweet

\_\_\_\_\_  
Lara Sweet

Chief Accounting Officer

*(Principal Accounting Officer)*

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Evan Spiegel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Snap 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(s) 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)) for the registrant and 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) [Omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a)];
  - (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; and
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 7, 2018

/s/ Evan Spiegel

Evan Spiegel

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tim Stone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Snap 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(s) 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)) for the registrant and 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) [Omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a)];
  - (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; and
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 7, 2018

/s/ Tim Stone

\_\_\_\_\_  
Tim Stone  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Snap Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 7, 2018

/s/ Evan Spiegel

Evan Spiegel

Chief Executive Officer

*(Principal Executive Officer)*

Date: August 7, 2018

/s/ Tim Stone

Tim Stone

Chief Financial Officer

*(Principal Financial Officer)*