UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2020

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: 001-39058

Peloton Interactive, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**47-3533761**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
125 West 25th Street, 11th Floor **New York, New York**	**10001**
(Address of principal executive offices)	*(Zip Code)*

(866) 679-9129

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.000025 par value per share	PTON	The Nasdaq Stock Market LLC

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, as amended (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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		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 Act). Yes ☐ No ☒

As of January 29, 2021, the number of shares of the registrant's Class A common stock outstanding was 263,637,415 and the number of shares of the registrant's Class B common stock outstanding was 30,864,250.

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, market growth, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “potential,” “continue,” “anticipate,” “intend,” “expect,” “could,” “would,” “project,” “plan, “target,” and similar expressions are intended to identify forward-looking statements.

Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, gross profit, Adjusted EBITDA, operating expenses including changes in sales and marketing, general and administrative expenses (including any components of the foregoing), and research and development, and our ability to achieve and maintain future profitability;
- our business plan and our ability to effectively manage our growth;
- anticipated trends, growth rates, and challenges in our business and in the markets in which we operate;
- our international expansion plans and ability to continue to expand internationally;
- anticipated release dates for new Connected Fitness Products and services;
- market acceptance of our Connected Fitness Products and services;
- beliefs and objectives for future operations;
- our ability to increase sales of our Connected Fitness Products and services;
- our ability to further penetrate our existing Subscription base and maintain and expand our Subscription base;
- the expected timing for completion of our acquisition of Precor Incorporated, a Delaware corporation ("Precor");
- the expected benefits of the proposed acquisition of Precor;
- the effects of seasonal trends on our results of operations;
- our expectations regarding content costs for past use;
- our ability to maintain, protect, and enhance our intellectual property;
- the effects of increased competition in our markets and our ability to compete effectively;
- the direct and indirect impacts to our business and financial performance from the COVID-19 pandemic;
- our ability to stay in compliance with laws and regulations that currently apply or become applicable to our business both in the United States and internationally; and
- economic and industry trends, projected growth, or trend analysis.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in the section titled “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. In particular, the impact of the current COVID-19 pandemic to economic conditions and the fitness industry in general and our financial position and operating results in particular have been material, are changing rapidly, and cannot be predicted.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance, or achievements. We undertake no obligation to update any of these forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q or to conform these statements to actual results or revised expectations, except as required by law.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the Securities and Exchange Commission, or the SEC, with the understanding that our actual future results, performance, and events and circumstances may be materially different from what we expect.

In this Quarterly Report on Form 10-Q, the words "we," "us," "our" and "Peloton" refer to Peloton Interactive, Inc. and its wholly owned subsidiaries, unless the context requires otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PELOTON INTERACTIVE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share amounts)

	December 31, 2020 (unaudited)	June 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,248.4	$ 1,035.5
Marketable securities	862.1	719.5
Accounts receivable, net	54.1	34.6
Inventories, net	522.8	244.5
Prepaid expenses and other current assets	172.6	124.5
Total current assets	2,860.0	2,158.6
Property and equipment, net	405.1	242.3
Intangible assets, net	38.9	16.0
Goodwill	40.8	39.1
Restricted cash	1.5	1.5
Operating lease right-of-use assets, net	537.6	492.5
Other assets	26.5	31.8
Total assets	$ 3,910.5	$ 2,981.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 721.4	$ 361.7
Customer deposits and deferred revenue	611.0	363.6
Operating lease liabilities, current	41.7	33.1
Other current liabilities	10.2	13.9
Total current liabilities	1,384.4	772.2
Operating lease liabilities, non-current	577.5	508.2
Other non-current liabilities	20.2	23.4
Total liabilities	1,982.1	1,303.8
Commitments and contingencies (Note 9)		
Stockholders' equity		
Common stock, $0.000025 par value; 2,500,000,000 and 2,500,000,000 Class A shares authorized, 263,239,900 and 237,518,574 shares issued and outstanding as of December 31, 2020 and June 30, 2020, respectively; 2,500,000,000 and 2,500,000,000 Class B shares authorized, 31,033,183 and 50,538,538 shares issued and outstanding as of December 31, 2020 and June 30, 2020, respectively.	—	—
Additional paid-in capital	2,472.7	2,361.8
Accumulated other comprehensive income	16.6	10.1
Accumulated deficit	(561.0)	(693.9)
Total stockholders' equity	1,928.3	1,678.0
Total liabilities and stockholders' equity	$ 3,910.5	$ 2,981.8

See accompanying notes to these unaudited condensed consolidated financial statements.

PELOTON INTERACTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(unaudited)
(in millions, except share and per share amounts)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
Revenue:				
Connected Fitness Products	$ 870.1	$ 389.1	$ 1,471.5	$ 550.0
Subscription	194.7	77.1	351.2	144.3
Total revenue	1,064.8	466.3	1,822.7	694.3
Cost of revenue:				
Connected Fitness Products	562.8	236.7	927.0	330.1
Subscription	77.2	32.4	142.2	61.9
Total cost of revenue	640.0	269.1	1,069.2	392.1
Gross profit	424.8	197.1	753.5	302.2
Operating expenses:				
Sales and marketing	177.4	160.5	292.1	238.1
General and administrative	141.1	77.5	249.7	138.5
Research and development	47.5	20.7	84.1	38.1
Total operating expenses	366.0	258.7	625.8	414.6
Income (loss) from operations	58.8	(61.5)	127.7	(112.4)
Other income, net:				
Interest income, net	1.9	5.9	4.3	7.1
Other expense, net	(0.1)	(0.1)	(0.9)	(0.2)
Total other income, net	1.8	5.7	3.5	6.9
Income (loss) before provision for income taxes	60.6	(55.8)	131.2	(105.5)
Income tax benefit	(3.0)	(0.4)	(1.7)	(0.4)
Net income (loss)	$ 63.6	$ (55.4)	$ 132.8	$ (105.2)
Net income (loss) attributable to Class A and Class B common stockholders	$ 63.6	$ (55.4)	$ 132.8	$ (105.2)
Net income (loss) per share attributable to common stockholders, basic	$ 0.22	$ (0.20)	$ 0.46	$ (0.66)
Net income (loss) per share attributable to common stockholders, diluted	$ 0.18	$ (0.20)	$ 0.39	$ (0.66)
Weighted-average Class A and Class B common shares outstanding, basic	292,462,184	279,974,823	290,591,037	159,214,343
Weighted-average Class A and Class B common shares outstanding, diluted	347,886,695	279,974,823	344,994,314	159,214,343
Other comprehensive income (loss):				
Net unrealized losses on marketable securities	$ (1.3)	$ (0.2)	$ (2.6)	$ (0.2)
Change in foreign currency translation adjustment	5.3	4.7	9.1	3.4
Total other comprehensive income	4.0	4.5	6.5	3.1
Comprehensive income (loss)	$ 67.5	$ (50.9)	$ 139.4	$ (102.0)

See accompanying notes to these unaudited condensed consolidated financial statements.

PELOTON INTERACTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in millions)

	Six Months Ended December 31,	
	2020	2019
Cash Flows from Operating Activities:		
Net income (loss)	$ 132.8	$ (105.2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	24.2	17.2
Stock-based compensation expense	67.1	35.8
Non-cash operating lease expense	28.2	21.4
Amortization of premium from marketable securities	3.5	(0.5)
Other non-cash items	2.3	—
Changes in operating assets and liabilities:		
Accounts receivable	(18.0)	23.8
Inventories	(273.0)	(94.2)
Prepaid expenses and other current assets	(35.2)	(12.5)
Other assets	0.7	(8.1)
Accounts payable and accrued expenses	331.9	98.0
Customer deposits and deferred revenue	245.7	68.3
Operating lease liabilities, net	4.1	(17.5)
Other liabilities	(3.9)	6.7
Net cash provided by operating activities	510.5	33.2
Cash Flows from Investing Activities:		
Purchases of marketable securities	(449.1)	(973.1)
Maturities of marketable securities	300.6	141.5
Sales of marketable securities	—	55.4
Cash paid for cost method investment	(0.1)	—
Purchases of property and equipment	(119.4)	(45.3)
Capitalization of internal-use software costs	(0.7)	(3.4)
Business combination, net of cash acquired	—	(45.9)
Asset acquisitions, net of cash acquired	(78.1)	—
Net cash used in investing activities	(346.7)	(870.8)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock upon initial public offering, net of offering costs	—	1,195.7
Proceeds from employee stock purchase plan withholdings	7.2	2.0
Proceeds from exercise of stock options	53.3	4.2
Taxes withheld and paid on employee stock awards	(16.5)	—
Principal repayments of finance leases	(0.5)	—
Net cash provided by financing activities	43.6	1,201.9
Effect of exchange rate changes	5.5	7.1
Net change in cash, cash equivalents, and restricted cash	212.9	371.4
Cash, cash equivalents and restricted cash — Beginning of period	1,037.0	163.0
Cash, cash equivalents and restricted cash — End of period	$ 1,249.9	$ 534.4
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 0.3	$ —
Cash paid for income taxes	$ 1.3	$ —
Supplemental Disclosures of Non-Cash Investing and Financing Information:		
Conversion of convertible preferred stock to common stock	$ —	$ 941.1
Property and equipment accrued but unpaid	$ 47.2	$ 7.7
Stock-based compensation capitalized for software development costs	$ 1.8	$ 0.9

PELOTON INTERACTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in millions)

See accompanying notes to these unaudited condensed consolidated financial statements.

PELOTON INTERACTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(unaudited)
(in millions)

	Class A and Class B Common Stock		Additional Paid-In Capital	Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance – September 30, 2019	280.3	$ —	$ 2,249.1	$ (1.1)	$ (672.0)	$ 1,576.0
Exercise of stock options	0.3	—	2.6	—	—	2.6
Stock-based compensation expense	—	—	17.6	—	—	17.6
Other comprehensive income	—	—	—	4.5	—	4.5
Net loss	—	—	—	—	(55.4)	(55.4)
Balance – December 31, 2019	280.6	$ —	$ 2,269.3	$ 3.3	$ (727.4)	$ 1,545.2
Balance — September 30, 2020	291.8	$ —	$ 2,412.9	$ 12.7	$ (624.6)	$ 1,801.0
Issuance of common stock pursuant to stock-based awards, net of withholding taxes	2.4	—	21.4	—	—	21.4
Stock-based compensation expense	—	—	38.5	—	—	38.5
Other comprehensive income	—	—	—	4.0	—	4.0
Net income	—	—	—	—	63.6	63.6
Balance — December 31, 2020	294.3	$ —	$ 2,472.7	$ 16.6	$ (561.0)	$ 1,928.3

PELOTON INTERACTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)
(in millions)

	Redeemable Convertible Preferred Stock		Class A and Class B Common Stock		Additional Paid-In Capital	Other Comprehensive Income	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount				
Balance - June 30, 2019	210.6	$ 941.1	25.3	$ —	$ 90.7	$ 0.2	$ (629.5)	$ (538.6)
Initial public offering, net of issuance costs of $6.3 million	—	—	43.4	—	1,195.7	—	—	1,195.7
Conversion of redeemable convertible preferred stock to common stock	(210.6)	(941.1)	210.6	—	941.1	—	—	941.1
Exercise of stock options	—	—	1.0	—	5.1	—	—	5.1
Exercise of stock warrants	—	—	0.2	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	36.7	—	—	36.7
Other comprehensive income	—	—	—	—	—	3.1	—	3.1
Net loss	—	—	—	—	—	—	(105.2)	(105.2)
Cumulative effect adjustment in connection with adoption of ASU 2016-02	—	—	—	—	—	—	7.2	7.2
Balance - December 31, 2019	—	$ —	280.6	$ —	$ 2,269.3	$ 3.3	$ (727.4)	$ 1,545.2
Balance - June 30, 2020	—	$ —	288.1	$ —	$ 2,361.8	$ 10.1	$ (693.9)	$ 1,678.0
Issuance of common stock pursuant to stock-based awards, net of withholding taxes	—	—	5.9	—	36.9	—	—	36.9
Issuance of common stock under employee stock purchase plan	—	—	0.2	—	5.1	—	—	5.1
Stock-based compensation expense	—	—	—	—	68.9	—	—	68.9
Other comprehensive income	—	—	—	—	—	6.5	—	6.5
Net income	—	—	—	—	—	—	132.8	132.8
Balance - December 31, 2020	—	$ —	294.3	$ —	$ 2,472.7	$ 16.6	$ (561.0)	$ 1,928.3

See accompanying notes to these unaudited condensed consolidated financial statements.

1. Description of Business and Basis of Presentation

Description and Organization

Peloton Interactive, Inc. ("Peloton" or the "Company") is the largest interactive fitness platform in the world with a loyal community of Members, which we define as any individual who has a Peloton account through a paid Connected Fitness Subscription or a paid Peloton Digital subscription. The Company pioneered connected, technology-enabled fitness with the creation of its interactive fitness equipment ("Connected Fitness Products") and the streaming of immersive, instructor-led boutique classes to its Members anytime, anywhere. The Company makes fitness entertaining, approachable, effective and convenient while fostering social connections that encourage its Members to be the best versions of themselves.

Basis of Presentation and Consolidation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. The condensed consolidated balance sheet as of June 30, 2020, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures including certain notes required by GAAP on an annual reporting basis. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2020, filed with the SEC on September 10, 2020 (the "Form 10-K"). However, the Company believes that the disclosures provided herein are adequate to prevent the information presented from being misleading.

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

In the opinion of management, the accompanying interim condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, cash flows and the changes in equity for the interim periods. The results for the three and six months ended December 31, 2020 are not necessarily indicative of the results to be expected for any subsequent quarter, the fiscal year ending June 30, 2021, or any other period.

Certain monetary amounts, percentages, and other figures included elsewhere in these financial statements have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

Except as described elsewhere in Note 2 of the notes to the condensed consolidated financial statements in the section titled "—Recently Issued Accounting Pronouncements" in Part I, Item 1 of this Quarterly Report on Form 10-Q, there have been no material changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. On an ongoing basis, the Company evaluates its estimates, including, among others, those related to revenue related reserves, the realizability of inventory, content costs for past use reserve, fair value measurements, the incremental borrowing rate associated with lease liabilities, useful lives of property and equipment, product warranty, goodwill and finite-lived intangible assets, accounting for income taxes, stock-based compensation expense, transaction price estimates, the fair values of assets acquired and liabilities assumed in business combinations, contingent consideration, and commitments and contingencies. Actual results may differ from these estimates.

Recently Issued Accounting Pronouncements

ASU 2016-13

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments.* This standard changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which may result in earlier recognition of allowances for losses, and require expected credit losses to be reflected as allowances rather than reductions in the amortized cost of available-for-sale debt securities. The Company adopted this standard and related amendments on July 1, 2020. The adoption of this standard did not materially impact the Company's consolidated financial statements.

ASU 2019-12

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, which amends ASC Topic 740, *Income Taxes*. This ASU simplifies the accounting for income taxes by modifying the treatment of intraperiod tax allocation in certain circumstances, eliminating an exception to recognizing deferred tax liabilities for outside basis differences for foreign equity method investments and foreign subsidiaries when ownership or control changes, and modifying interim period tax calculations when a loss is forecast. In addition, this ASU also requires that enacted changes in tax laws or rates be included in the annual effective rate determination in the period that includes the enactment date and clarifies the tax accounting of a step up in tax basis of goodwill. The Company adopted this standard on July 1, 2020. The adoption of this standard did not materially impact the Company's condensed consolidated financial statements.

ASU 2020-01

In January 2020, the FASB issued ASU No. 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.* This guidance clarifies the interaction of the accounting for equity investments under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. This standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently evaluating the potential impact of adopting this new accounting guidance, but does not expect the adoption of the standard to have a material impact on its condensed consolidated financial statements.

ASU 2020-04

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This guidance provides temporary optional expedients and exceptions to accounting guidance on contract modifications and hedge accounting to ease entities' financial reporting burdens as the market transitions from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The guidance was effective upon issuance and generally can be applied through December 31, 2022. The Company plans to adopt this standard when LIBOR is discontinued. The Company is currently evaluating the potential impact of adopting this new accounting guidance, but does not expect the adoption of the standard to have a material impact on its condensed consolidated financial statements.

3. Revenue

The Company's primary source of revenue is from sales of its Connected Fitness Products and associated recurring Subscription revenue.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company's revenue is reported net of sales returns, discounts, and incentives as a reduction of the transaction price. Certain contracts include consideration payable that is accounted for as a payment for distinct goods or services. The Company estimates its liability for product returns and concessions based on historical trends by product category, impact of seasonality, and an evaluation of current economic and market conditions and records the expected customer refund liability as a reduction to revenue, and the expected inventory right of recovery as a reduction of cost of revenue. If actual return costs differ from previous estimates, the amount of the liability and corresponding revenue are adjusted in the period in which such costs occur.

Some of the Company's contracts with customers contain multiple performance obligations. For customer contracts that include multiple performance obligations, the Company accounts for individual performance obligations if they are distinct. The transaction price is then allocated to each performance obligation based on its standalone selling price. The Company generally determines standalone selling price based on prices charged to customers.

The Company applies the practical expedient as per ASC 606-10-50-14 and does not disclose information related to remaining performance obligations due to their original expected terms being one year or less.

The Company expenses sales commissions on its Connected Fitness Products when incurred because the amortization period would have been less than one year. These costs are recorded in sales and marketing expense.

Connected Fitness Products

Connected Fitness Products include the Company's portfolio of Connected Fitness Products and related accessories, branded apparel, and extended warranty agreements. The Company recognizes Connected Fitness Product revenue net of sales returns and discounts when the product has been delivered to the customer, except for extended warranty revenue which is recognized over the warranty period. The Company allows customers to return products within thirty days of purchase, as stated in its return policy.

The Company records fees paid to third-party financing partners in connection with its consumer financing program as a reduction of revenue, as it considers such costs to be a customer sales incentive. The Company records payment processing fees for its credit card sales for Connected Fitness Products within Sales and marketing in the Company's condensed consolidated statements of operations and comprehensive income (loss).

Subscription

The Company's subscriptions provide unlimited access to content in its library of live and on-demand fitness classes. The Company's subscriptions are offered on a month-to-month basis.

Amounts paid for subscription fees are included within customer deposits and deferred revenue on the Company's condensed consolidated balance sheets and recognized ratably on a month-to-month basis. The Company records payment processing fees for its monthly subscription charges within cost of subscription revenue in the Company's condensed consolidated statements of operations and comprehensive income (loss).

Sales tax collected from customers and remitted to governmental authorities is not included in revenue and is reflected as a liability on the Company's condensed consolidated balance sheets.

Product Warranty

The Company offers a standard product warranty that its Connected Fitness Products will operate under normal, non-commercial use for a period of one year covering the touchscreen and most original Bike, Bike+, Tread, and Tread+ components from the date of original delivery. The Company has the obligation, at its option, to either repair or replace the defective product. At the time revenue is recognized, an estimate of future warranty costs, including costs associated with service of Connected Fitness Products outside of the warranty period, is recorded as a component of cost of revenue. Factors that affect the warranty obligation include historical as well as current product failure rates, service delivery costs incurred in correcting product failures, and warranty policies and business practices. The Company's products are manufactured both in-house and by contract manufacturers, and in certain cases, the Company may have recourse to such contract manufacturers.

The Company also offers the option for customers in some markets to purchase an extended warranty and service contract that extends or enhances the technical support, parts, and labor coverage offered as part of the base warranty included with the Connected Fitness Product for an additional period of 12 to 27 months.

Revenue and related fees paid to the third-party provider are recognized on a gross basis as the Company has a continuing obligation to perform over the service period. Extended warranty revenue is recognized ratably over the extended warranty coverage period and is included in Connected Fitness Product revenue in the condensed consolidated statements of operations and comprehensive income (loss).

Disaggregation of Revenue

The Company's revenue from contracts with customers disaggregated by major product lines, excluding sales-based taxes, are included in Note 13 under the heading "Segment Information".

The Company's revenue disaggregated by geographic region, were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(in millions)			
North America[1]	$ 1,007.8	$ 451.0	$ 1,729.7	$ 672.7
Rest of world[2]	57.0	15.2	93.0	21.5
Total revenue	$ 1,064.8	$ 466.3	$ 1,822.7	$ 694.3

(1) Consists of United States and Canada.
(2) Consists of United Kingdom and Germany.

During the three and six months ended December 31, 2020, the Company's revenue attributable to the United States represented 91% and 92% of total revenue, respectively, and 94% and 95% of total revenue for the three and six months ended December 31, 2019, respectively.

Customer Deposits and Deferred Revenue

Deferred revenue is recorded for nonrefundable cash payments received for the Company's performance obligation to transfer, or stand ready to transfer, goods or services in the future. Deferred revenue consists of subscription fees billed that have not been recognized. Customer deposits represent payments received in advance before the Company transfers a good or service to the customer and are refundable.

As of December 31, 2020 and June 30, 2020, customer deposits of $576.3 million and $341.5 million, respectively, and deferred revenue of $34.8 million and $22.1 million, respectively, were included in customer deposits and deferred revenue on the Company's condensed consolidated balance sheet.

In the six months ended December 31, 2020 and 2019, the Company recognized revenue of $22.1 million and $9.5 million, respectively, that was included in the deferred revenue balance as of June 30, 2020 and 2019, respectively.

4. Investments in Marketable Securities

The following table summarizes the Company's investments in marketable securities:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Corporate bonds	$ 630.9	$ 0.8	$ (0.1)	$ 631.6
U.S. treasury securities	166.2	0.6	—	166.8
Commercial paper	62.9	—	—	62.9
Supranational securities	31.3	—	—	31.3
Certificate of deposits	7.8	—	—	7.8
	$ 899.1	$ 1.4	$ (0.1)	$ 900.4
Less: Restricted marketable securities [1]				$ 38.4
Total marketable securities				$ 862.1

(1) The Company is required to pledge or otherwise restrict a portion of cash, cash equivalents, and marketable securities as collateral for standby letters of credit. The Company classifies cash, cash equivalents, and marketable securities with use restrictions of less than twelve months as "Prepaid expenses and other current assets" and of twelve months or longer as non-current "Other assets" on its condensed consolidated balance sheets.

5. Fair Value Measurements

The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy:

	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets				
Marketable securities	$ 900.4	$ —	$ —	$ 900.4
Cost-method investments	—	—	0.7	0.7
Total	$ 900.4	$ —	$ 0.7	$ 901.1
Liabilities				
Other current liabilities:				
Contingent consideration	$ —	$ —	$ 2.4	$ 2.4
Other non-current liabilities:				
Contingent consideration	—	—	2.2	2.2
Total	$ —	$ —	$ 4.6	$ 4.6

Cash equivalents are highly liquid investments with maturities of three months or less when purchased. These investments are carried at fair value. All investments classified as available-for-sale are recorded at fair value within marketable securities in the condensed consolidated balance sheets. The Company's investments classified as Level 1 are based on quoted prices that are available in active markets.

The contingent consideration represents the estimated fair value of cash consideration payable in connection with an acquisition that is contingent upon the achievement of certain performance milestones. The Company estimated the fair value using expected future cash flows over the period in which the obligation is expected to be settled, and applied a discount rate that appropriately captures a market participant's view of risk associated with the obligation, which are considered to be Level 3 inputs. The fair value of the contingent consideration arrangement is sensitive to change in the expected achievement of the applicable milestones and changes in discount rate. The Company remeasures the fair value of the contingent consideration arrangement each reporting period, including the accretion of the discount, if applicable, and changes are recognized in general and administrative expense in the condensed consolidated statements of operations and comprehensive income (loss).

6. Inventory

Inventories were as follows:

	December 31, 2020	June 30, 2020
	(in millions)	
Raw materials	$ 34.0	$ 17.8
Work-in-process	7.3	4.6
Finished products	495.3	232.5
Total inventories	536.6	254.9
Less: Reserves	(13.7)	(10.5)
Total inventories, net	$ 522.8	$ 244.5

7. Acquisitions

Asset Acquisitions

During the three months ended December 31, 2020, the Company completed three separate transactions to acquire certain software, developed technology, and an assembled workforce for use in the development of the Company's connected fitness products and services, for total net cash consideration paid of approximately $78.1 million, inclusive of $2.4 million of direct transaction costs. The Company accounted for each transaction as an asset acquisition in accordance with ASC 805.

Total aggregate consideration allocated for the three transactions was $84.0 million, inclusive of the deferred tax liability of $5.9 million. The Company allocated the consideration based on the relative fair values of the assets acquired in each transaction, resulting in $57.4 million being allocated to developed software, $22.7 million being allocated to developed technology, and $3.9 million being allocated to the assembled workforce.

The developed software acquired was assigned a useful life of 5 years, and is recorded in Property and equipment, net. The developed technology assets acquired were assigned a useful life of 3 years and the assembled workforce was assigned a useful life of 4 years. Both of these acquired assets are recorded in Intangible assets, net.

Pending Transaction

On December 21, 2020, the Company entered into a Stock and Purchase Agreement ("Purchase Agreement") with Amer Sports Corporation ("Parent"), a Finnish corporation, pursuant to which the Company will acquire Precor Incorporated, a Delaware corporation ("Precor"), and certain related entities and assets from Parent and certain of its subsidiaries. Precor manufactures, sells, and distributes cardiovascular and strength-building exercise machines, fitness equipment, and associated technical and digital services.

Under the terms of the Purchase Agreement, the Company has agreed to acquire Precor for $420.0 million in cash, subject to customary adjustments for working capital, transaction expenses, cash, and indebtedness.

The closing of the transactions contemplated by the Purchase Agreement is anticipated to occur during early calendar 2021 and is subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The Purchase Agreement also provides customary termination rights to each of the parties.

8. Debt and Financing Arrangements

Amended and Restated Credit Agreement

In 2019, the Company entered into an amended and restated loan and security agreement ("Amended Credit Agreement"). The Amended Credit Agreement provides for a $250.0 million secured revolving credit facility, including up to the lesser of $150.0 million and the aggregate unused amount of the facility for the issuance of letters of credit. Interest on the Amended Credit Agreement is paid based on LIBOR plus 2.75% or an Alternative Base Rate plus 1.75%. The Company is required to pay an annual commitment fee of 0.375% on a quarterly basis based on the unused portion of the revolving credit facility.

During the three and six months ended December 31, 2020, the Company incurred total commitment fees of $0.2 million and $0.5 million, respectively, and $0.2 million and $0.4 million during the three and six months ended December 31, 2019, respectively, which are included in interest expense in the condensed consolidated statements of operations and comprehensive income (loss).

The outstanding balance, if any, is payable in full in June 2024. As of December 31, 2020, the Company has not drawn on the credit facility and did not have outstanding borrowings under the Amended Credit Agreement.

In connection with the execution of the Amended Credit Agreement, the Company incurred debt issuance costs of $0.9 million, which are capitalized and presented as other assets on the Company's condensed consolidated balance sheets. These costs are being amortized to interest expense using the effective interest method over the term of the Amended Credit Agreement.

The Company has the option to repay its borrowings under the Amended Credit Agreement without premium or penalty prior to maturity. The Amended Credit Agreement contains customary affirmative covenants, such as financial statement reporting requirements and delivery of borrowing base certificates, as well as customary covenants that include limitations on the Company's ability to, among other things, incur additional indebtedness, sell certain assets, guarantee obligations of third parties, declare cash dividends in the entirety or make certain other distributions, and undergo a merger or consolidation or certain other transactions. The Amended Credit Agreement also contains certain financial condition covenants, including maintaining a total level of liquidity of not less than $125.0 million and maintaining certain minimum total revenue ranging from $725.0 million to $1,985.0 million depending on the applicable date of determination. As of December 31, 2020, the Company was in compliance with the covenants under the Amended Credit Agreement. At December 31, 2020, the Company was contingently liable for approximately $4.8 million in standby letters of credit as security for an operating lease obligation.

9. Commitments and Contingencies

Content Costs for Past Use Reserve

To secure the rights to stream music on the Peloton platform, the Company must obtain licenses from, and pay royalties to, copyright owners of both sound recordings and musical compositions. The Company has entered into negotiations with various music rights holders, to pay for any and all uses of musical compositions and sound recordings to date and, at the same time, enter into go-forward license agreements for the use of music in the future.

Prior to the execution of go-forward music license agreements, the Company estimates and records expenses inclusive of estimated content costs for past use as well as normal and recurring music royalty expenses. During the three and six months ended December 31, 2020, the Company recorded content costs for past use and estimates for normal and recurring royalty expense of $3.3 million and $5.6 million, respectively, and $0.9 million and $3.5 million during the three and six months ended December 31, 2019, respectively. The Company includes both of these components in its reserve. As of December 31, 2020 and 2019, the Company recorded reserves of $17.6 million and $21.7 million, respectively, included in Accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

Legal Proceedings

The Company is, or may become, a party to legal and regulatory proceedings with respect to a variety of matters in the ordinary course of business. Some of these proceedings may be based on complex claims involving substantial uncertainties and unascertainable damages, such as litigation that centers around intellectual property claims. Accordingly, it is not possible to determine the probability of loss or estimate damages, and therefore, the Company has not established reserves for any of these proceedings. When the Company determines that a loss is both probable and reasonably estimable, the Company records a liability, and, if the liability is material, discloses the amount of the liability reserved. The Company does not believe that the outcome of any existing legal or regulatory proceeding to which it is a party, either individually or in the aggregate, will have a material adverse effect on its results of operations, financial condition or cash flows.

10. Equity-Based Compensation

2019 Equity Incentive Plan

In August 2019, the Board of Directors adopted the 2019 Equity Incentive Plan (the "2019 Plan"), which was subsequently approved by the Company's stockholders in September 2019. The 2019 Plan serves as the successor to the 2015 Stock Plan (the "2015 Plan"). The 2015 Plan continues to govern the terms and conditions of the outstanding awards previously granted thereunder. Any reserved shares not issued or subject to outstanding grants under the 2015 Plan on the effective date of the 2019 Plan became available for grant under the 2019 Plan and will be issued as Class A common stock. The number of shares reserved for issuance under the 2019 Plan will increase automatically on July 1 of each of 2020 through 2029 by the number of shares of the Company's Class A common stock equal to 5% of the total outstanding shares of all of the Company's classes of common stock as of each June 30 immediately preceding the date of increase, or a lesser amount as determined by the Board of Directors. On July 1, 2020, the number of shares of Class A common stock available for issuance under the 2019 Plan was automatically increased according to its terms by 14,401,954 shares. As of December 31, 2020, the number of shares of Class A common stock available for future award under the 2019 Plan is 50,054,907.

Stock Options

The following summary sets forth the stock option activity under the 2019 Plan:

	Options Outstanding			
	Number of Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding — June 30, 2020	66,818,860	$ 10.57	8.0	$ 3,153.6
Granted	2,653,078	$ 86.81		
Exercised	(6,031,747)	$ 7.31		
Forfeited	(1,141,370)	$ 17.24		
Outstanding — December 31, 2020	62,298,821	$ 14.01	7.6	$ 8,578.9
Vested and Exercisable— December 31, 2020	28,599,374	$ 6.28	6.7	$ 4,159.6

Unvested option activity is as follows:

	Options	Weighted-Average Grant Date Fair Value
Unvested - June 30, 2020	39,674,590	$ 7.41
Granted	2,653,078	$ 36.05
Early exercised unvested	(39,117)	$ 3.31
Vested	(7,454,067)	$ 6.62
Forfeited	(1,135,037)	$ 7.88
Unvested - December 31, 2020	33,699,447	$ 9.83

During the six months ended December 31, 2020, 633,896 shares of common stock were issued upon cashless exercise of 898,390 options.

The aggregate intrinsic value of options outstanding, vested and exercisable, were calculated as the difference between the exercise price of the options and the fair value of the Company's common stock as of December 31, 2020. The fair value of the common stock is the closing stock price of the Company's Class A common stock as reported on the Nasdaq Global Select Market.

As part of the 2015 Plan and 2019 Plan (collectively, the "Plans"), the Company issued options to certain key management that vest upon the achievement of certain performance milestones. During the three and six months ended December 31, 2020, the Company recorded stock-based

compensation expense related to the performance-based options of $0.2 million and $0.4 million, respectively, and $0.1 million and $3.9 million for the three and six months ended December 31, 2019, respectively.

For the six months ended December 31, 2020 the weighted-average grant date fair value per option was $36.05. The fair value of each option was estimated at the grant date using the Black-Scholes method with the following assumptions:

	Six Months Ended December 31, 2020
Weighted average risk-free interest rate [1]	0.4%
Weighted average expected term (in years)	6.2
Weighted average expected volatility [2]	42.8%
Expected dividend yield	—

(1) Based on U.S. Treasury seven-year constant maturity interest rate whose term is consistent with the expected term of the option.

(2) Expected volatility is based on an analysis of comparable public company volatilities and adjusted for the Company's stage of development.

Restricted Stock and Restricted Stock Units

The following table summarizes the activity related to the Company's restricted stock and restricted stock units:

	Restricted Stock Units Outstanding	
	Number of Awards	Weighted-Average Grant Date Fair Value
Outstanding — June 30, 2020	616,113	$ 32.02
Granted	804,740	$ 89.09
Vested and converted to shares	(159,381)	$ 39.88
Cancelled	(8,172)	$ 86.67
Outstanding — December 31, 2020	1,253,300	$ 67.31

Employee Stock Purchase Plan

In August 2019, the Board of Directors adopted, and in September 2019, the Company's stockholders approved, the 2019 Employee Stock Purchase Plan ("ESPP"), through which eligible employees may purchase shares of the Company's Class A common stock at a discount through accumulated payroll deductions. The ESPP became effective on the date the registration statement, in connection with the Company's IPO, was declared effective by the SEC (the "Effective Date"). The number of shares of the Company's Class A common stock that will be available for issuance and sale to eligible employees under the ESPP will increase automatically on the first day of each fiscal year of the Company beginning on July 1, 2020 through 2029, equal to 1% of the total number of outstanding shares of all classes of the Company's common stock on the immediately preceding June 30, or such lesser number as may be determined by the Board of Directors or applicable committee in its sole discretion. On July 1, 2020, the number of shares of Class A common stock available for issuance under the ESPP was automatically increased according to its terms by 2,880,390 shares. As of December 31, 2020, a total of 8,101,657 shares of Class A common stock are available for sale to employees under the ESPP.

Unless otherwise determined by the Board of Directors, each offering period will consist of four six-month purchase periods, provided that the initial offering period commenced on the Effective Date and will end on August 31, 2021, and the initial purchase period ended February 28, 2020. Thereafter, each offering period and each purchase period will commence on September 1 and March 1 and end on August 31 and February 28 of each two-year period or each six-month period, respectively, subject to a reset provision. If the closing stock price on the first day of an offering period is higher than the closing stock price on the last day of any applicable purchase period, participants will be withdrawn from the ongoing offering period immediately following the purchase of ESPP shares on the purchase date and would automatically be enrolled in the subsequent offering period ("ESPP reset"), resulting in a modification under ASC 718.

Unless otherwise determined by the Board of Directors, the purchase price for each share of Class A common stock purchased under the ESPP will be 85% of the lower of the fair market value per share on the first trading day of the applicable offering period or the fair market value per share on the last trading day of the applicable purchase period.

The Black-Scholes option pricing model assumptions used to calculate the fair value of shares estimated to be purchased at the commencement of the ESPP offering periods were as follows:

	Six Months Ended December 31, 2020
Weighted average risk-free interest rate	1.1%
Weighted average expected term (in years)	1.2
Weighted average expected volatility	60.0%
Expected dividend yield	—

The expected term assumptions were based on each offering period's respective purchase date. Since the Company does not have a historical trading history of its stock, the expected volatility was derived from the average historical stock volatilities of several unrelated public companies that the Company considers to be comparable to its business over a period equivalent to the expected terms. The risk-free rate assumptions were based on the U.S. treasury yield curve in effect at the time of the grants. The dividend yield assumption was zero as the Company has not historically paid any dividends and does not expect to declare or pay dividends in the foreseeable future.

During the three and six months ended December 31, 2020, the Company recorded stock-based compensation expense associated with the ESPP of $2.2 million and $3.8 million, respectively and $0.9 million for each of the three and six months ended December 31, 2019.

In connection with the offering period which ended on August 31, 2020, employees purchased approximately 216,094 shares of Class A common stock at a weighted-average price of $23.73 under the ESPP. As of December 31, 2020, total unrecognized compensation cost related to the ESPP was $12.1 million, which will be amortized over a weighted-average remaining period of 1.4 years.

Stock-Based Compensation Expense

The Company's total stock-based compensation expense was as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(in millions)			
Cost of revenue				
Connected Fitness Products	$ 2.0	$ 0.5	$ 3.5	$ 0.7
Subscription	5.1	1.2	9.5	2.2
Total cost of revenue	7.1	1.6	13.0	2.9
Sales and marketing	4.6	2.0	8.0	3.6
General and administrative	21.2	11.2	37.8	24.6
Research and development	4.6	2.4	8.2	4.7
Total stock-based compensation expense	$ 37.5	$ 17.1	$ 67.1	$ 35.8

As of December 31, 2020, the Company had $385.3 million of unrecognized stock-based compensation expense related to unvested stock-based awards that is expected to be recognized over a weighted-average period of 3.2 years.

11. Income Taxes

The Company recorded a benefit from income taxes of $3.0 million and $1.7 million for the three and six months ended December 31, 2020, respectively, and $0.4 million for each of the three and six months ended December 31, 2019. Furthermore, the Company's effective tax rates were (4.60)% and (1.24)% for the three and six months ended December 31, 2020, respectively, and 0.79% and 0.32% for the three and six months ended December 31, 2019, respectively. The income tax benefit is driven by adjustments to the valuation allowance resulting from the acquisitions disclosed in Note 7, partially offset by state and international taxes.

The Company maintains a valuation allowance on the majority of its deferred tax assets as it has concluded that it is more likely than not that the deferred assets will not be utilized.

12. Net Income (Loss) Per Share

The computation of basic and diluted net income (loss) per share is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(in millions, except share and per share amounts)			
Basic net income (loss) per share:				
Net income (loss) attributable to common stockholders	$ 63.6	$ (55.4)	$ 132.8	$ (105.2)
Shares used in computation:				
Weighted-average common shares outstanding	292,462,184	279,974,823	290,591,037	159,214,343
Basic net income (loss) per share	$ 0.22	$ (0.20)	$ 0.46	$ (0.66)
Diluted net income (loss) per share:				
Net income (loss) attributable to common stockholders	$ 63.6	$ (55.4)	$ 132.8	$ (105.2)
Shares used in computation:				
Weighted-average common shares outstanding	292,462,184	279,974,823	290,591,037	159,214,343
Weighted-average effect of potentially dilutive securities:				
Employee stock options	54,271,831	—	53,426,104	—
Restricted stock units and awards	636,056	—	552,394	—
Shares estimated to be purchased under ESPP	516,624	—	424,779	—
Diluted weighted-average common shares outstanding	347,886,695	279,974,823	344,994,314	159,214,343
Diluted net income (loss) per share	$ 0.18	$ (0.20)	$ 0.39	$ (0.66)

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
Employee stock options	65,236	40,863,282	206,467	39,488,218
Restricted Stock units and awards	590	—	6,761	—

13. Segment Information

The Company applies ASC 280, *Segment Reporting*, in determining reportable segments for its financial statement disclosure. The Company has two reportable segments: Connected Fitness Products and Subscription. Segment information is presented in the same manner that the chief operating decision maker ("CODM") reviews the operating results in assessing performance and allocating resources. The CODM reviews revenue and gross profit for both of the reportable segments. Gross profit is defined as revenue less cost of revenue incurred by the segment.

No operating segments have been aggregated to form the reportable segments. The Company does not allocate assets at the reportable segment level as these are managed on an entity wide group basis and, accordingly, the Company does not report asset information by segment.

The Connected Fitness Product segment derives revenue from sale of the Company's portfolio of Connected Fitness Products and related accessories, delivery and installation services, branded apparel, and extended warranty agreements. The Subscription segment derives revenue from monthly Subscription fees. There are no internal revenue transactions between the Company’s segments.

Key financial performance measures of the segments including Revenue, Cost of revenue, and Gross profit are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(in millions)			
Connected Fitness Products:				
Revenue	$ 870.1	$ 389.1	$ 1,471.5	$ 550.0
Cost of revenue	562.8	236.7	927.0	330.1
Gross profit	$ 307.3	$ 152.4	$ 544.5	$ 219.8
Subscription:				
Revenue	$ 194.7	$ 77.1	$ 351.2	$ 144.3
Cost of revenue	77.2	32.4	142.2	61.9
Gross profit	$ 117.5	$ 44.7	$ 209.0	$ 82.4
Consolidated:				
Revenue	$ 1,064.8	$ 466.3	$ 1,822.7	$ 694.3
Cost of revenue	640.0	269.1	1,069.2	392.1
Gross profit	$ 424.8	$ 197.1	$ 753.5	$ 302.2

Reconciliation of Gross Profit

Operating expenditures, interest income and other expense, and taxes are not allocated to individual segments as these are managed on an entity wide group basis. The reconciliation between reportable Segment Gross Profit to consolidated Income (loss) before tax is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(in millions)			
Segment Gross Profit	$ 424.8	$ 197.1	$ 753.5	$ 302.2
Sales and marketing	(177.4)	(160.5)	(292.1)	(238.1)
General and administrative	(141.1)	(77.5)	(249.7)	(138.5)
Research and development	(47.5)	(20.7)	(84.1)	(38.1)
Total other income, net	1.8	5.7	3.5	6.9
Income (loss) before provision for income taxes	$ 60.6	$ (55.8)	$ 131.2	$ (105.5)

14. Subsequent Events

On January 31, 2021, the Company entered into an agreement and plan of merger to purchase various developed technology, intellectual property and related assets for approximately $57.5 million.

The Company has not yet completed its evaluation and determination of consideration paid, certain assets and liabilities acquired, or treatment of these transactions as either a business combination or asset acquisition in accordance with Topic 805.

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 interim condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020 filed with the SEC on September 10, 2020 (the "Form 10-K"). As discussed in the section titled "Special Note Regarding Forward Looking Statements," the following discussion and analysis contains forward looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our Form 10-K.

Overview

Peloton is the largest interactive fitness platform in the world with a loyal community of over 4.4 million Members as of December 31, 2020. We pioneered connected, technology-enabled fitness, and the streaming of immersive, instructor-led boutique classes to our Members anytime, anywhere. We make fitness entertaining, approachable, effective, and convenient while fostering social connections that encourage our Members to be the best versions of themselves. We define a Member as any individual who has a Peloton account through a paid Connected Fitness Subscription, or a paid Peloton Digital subscription.

Our Connected Fitness Product portfolio currently include the Peloton Bike, Bike+, and the Peloton Tread and Tread+. Our revenue is generated primarily from the sale of our Connected Fitness Products and associated recurring subscription revenue. We have experienced significant growth in sales of our Connected Fitness Products, which, when combined with our low Average Net Monthly Connected Fitness Churn has led to significant growth in Connected Fitness Subscriptions. From the three months ended December 31, 2019 to the three months ended December 31, 2020, total revenue grew 128%, and our Connected Fitness Subscription base grew 134%.

Our compelling financial profile is characterized by high growth, strong retention, recurring revenue, margin expansion, and efficient customer acquisition. Our low Average Net Monthly Connected Fitness Churn, together with our high Subscription Contribution Margin allows us to generate attractive value from our Connected Fitness Subscriptions. When we acquire new Connected Fitness Subscriptions, we are able to offset our subscription acquisition costs with the gross profit earned on our Connected Fitness Products. This allows for rapid payback of our sales and marketing investments and results in a robust unit economic model.

For the three months ended December 31, 2020 and 2019:

- We generated total revenue of $1,064.8 million and $466.3 million, respectively, representing 128% year-over-year growth;
- As of December 31, 2020 and 2019, we had 1,667,223 and 712,005 Connected Fitness Subscriptions, respectively, representing 134% year-over-year growth;
- Our Average Net Monthly Connected Fitness Churn was 0.76%, and 0.74%, respectively;
- We recognized net income (loss) of $63.6 million and $(55.4) million, respectively; and
- Our Adjusted EBITDA was $116.9 million and $(28.4) million, respectively.

For a definition of Connected Fitness Subscriptions and Average Net Monthly Connected Fitness Churn, see the section titled "—Key Operational and Business Metrics".

See the section titled "—Non-GAAP Financial Measures" for definitions of and information regarding our use of Adjusted EBITDA, Adjusted EBITDA Margin, Subscription Contribution and Subscription Contribution Margin, and a reconciliation of each of net income (loss) to Adjusted EBITDA and Subscription Gross Profit to Subscription Contribution.

Q2 update

We were pleased to announce strong results for the quarter ended December 31, 2020. We continued to see robust demand for our connected fitness platform through the Holiday selling season, and Member engagement gains continue to validate our hardware, software, and content investments. Our new Peloton Tread officially debuted in the U.K. on December 26th and we look forward to extending distribution to additional geographies in the coming months.

On December 21, 2020, we entered into a Stock and Asset Purchase Agreement (the "Purchase Agreement") with Amer Sports Corporation, a Finnish corporation, pursuant to which we will acquire Precor Incorporated, a Delaware corporation ("Precor"), and certain related entities and assets for $420.0 million in cash, subject to customary adjustments for working capital, transaction expenses, cash and indebtedness. Precor manufactures, sells and distributes cardiovascular and strength-building exercise machines, fitness equipment, and associated technical and digital services. The consummation of the acquisition is subject to customary closing conditions, including regulatory approval among other conditions. We currently anticipate that the closing of the transactions contemplated by the Purchase Agreement will occur in early calendar year 2021 and is subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Precor has long been a leader in the commercial fitness industry and brings substantial domestic manufacturing capabilities and a deep bench of R&D and manufacturing talent to Peloton. With Precor we see an opportunity to accelerate our plan to produce Peloton products domestically and further enhance our consumer and commercial offerings.

The ongoing COVID-19 pandemic continues to present a challenging operating landscape and we continue to work to address long order-to-delivery timeframes. However, our supply chain investments over the last several months are helping us better match our supply and demand going forward. Our manufacturing output has significantly increased and we have officially begun ramping up production at our new Shin Ji factory in Taiwan. Unfortunately, well-publicized West Coast port delays and COVID-related factors continue to present challenges to returning our delivery times to pre-pandemic levels. With many of our markets reaching record level COVID-19 cases and new stay-at-home orders, we continue to see robust demand for our products. As a consequence, we are carrying a substantial number of deliveries into our fiscal third quarter. While we have significantly increased Bike and Bike+ production over the last several months, we remain supply constrained with longer than acceptable wait times for the delivery of our products. To directly address this situation, we will making significant additional investments in the near term in order to improve our order-to-delivery windows. While this investment will dampen our near-term profitability, improving our Member experience is our first priority.

Content

Our global Content team was exceptionally busy in the quarter. In December, we introduced Peloton Pilates, an eagerly awaited series of 20 classes led by instructors Hannah Corbin, Emma Lovewell, Kristin McGee, Aditi Shah and Sam Yo. Members immediately responded, driving over 650,000 workouts in just three weeks.

Seasonally themed content featured the debut of Gratitude Week, encompassing the Thanksgiving holiday, featured 17 classes across 9 fitness disciplines, driving over 870,000 workouts. A perennial favorite among our Member base, our Annual Thanksgiving Day Turkey Burn live rides led by Robin Arzón and Alex Toussaint were our single largest live rides ever, with a combined live audience of over 88,000 Connected Fitness Members. Another highlight of Gratitude Week was our first ever Live Fit Family class. The quarter we also launched Pre/Postnatal classes led by Robin Arzón.

Heritage months have become widely popular points of engagement on the Peloton platform. This quarter we celebrated LatinX/Hispancic Heritage Month, producing over 25 classes and driving over 330,000 workouts. This year we also extended our Heritage celebrations to our international markets, launching Black History Month in the U.K., and produced a series of Unification Rides hosted by our German instructors Irène Scholz and Erik Jäger.

From the beginning it has been clear that music is a critical component of the Peloton workout experience for our Members. Our music team is committed to providing the most compelling music experience in Connected Fitness, continuing to produce collaborations with artists and music rights holders to bring exclusive “only on Peloton” experiences to our Members. During the quarter ended December 31, 2020, we proudly announced our Beyoncé partnership with seven Beyoncé-themed classes. These classes drove over 1 million workouts in the quarter and included our largest live audiences to date for Yoga and Bike Bootcamp. Other Artist Series launches in the quarter included Metallica, Outkast and--on Christmas Day--The Beatles. Overall, our Artist Series themed classes were taken over 3.6 million times in the quarter, with over 148,000 live class participants across ten fitness disciplines.

And, in another first for our Peloton Music team, this quarter we partnered with the Elvis Presley Estate and Sony Music to produce three original Elvis remixes featuring Big Boi, Dillon Francis and Chromeo. These remixes debuted exclusively on our platform, providing a unique music discovery experience for our Member base.

We were also excited by the early results of our November “Sessions” beta test. Sessions offers Connected Fitness Members the ability to take pre-recorded classes with a synchronized start time, providing Members with a live leaderboard experience and the ability to more easily schedule shared rides with other Peloton Community Members. Sessions represented our first platform-wide feature beta test, logging over 2.1 million workouts by 890,000 Members over just a three-week period. After further refinements, we are looking forward to the relaunch of Sessions in the coming months.

As our international Member community grows, so too does our investment in foreign language content. This quarter we were excited to announce the addition of two German language instructors: Mayla Wedekind and Cliff Dwenger. Based in London, Mayla and Cliff will lead cycling classes in both German and English.

Key Operational and Business Metrics

In addition to the measures presented in our interim condensed consolidated financial statements, we use the following key operational and business metrics to evaluate our business, measure our performance, develop financial forecasts, and make strategic decisions.

	Three Months Ended December 31,	
	2020	2019
Ending Connected Fitness Subscriptions	1,667,223	712,005
Average Net Monthly Connected Fitness Churn	0.76 %	0.74 %
Total Workouts (in millions)	98.1	24.3
Average Monthly Workouts per Connected Fitness Subscription	21.1	12.6
Subscription Gross Profit (in millions)	$ 117.5	$ 44.7
Subscription Contribution (in millions)[1]	$ 127.2	$ 49.7
Subscription Gross Margin	60.3 %	58.0 %
Subscription Contribution Margin[1]	65.3 %	64.4 %
Net Income (loss) (in millions)	$ 63.6	$ (55.4)
Adjusted EBITDA (in millions)[2]	$ 116.9	$ (28.4)
Adjusted EBITDA Margin[2]	11.0 %	(6.1)%

(1) Please see the section titled “Non-GAAP Financial Measures—Subscription Contribution and Subscription Contribution Margin” for a reconciliation of Subscription Gross Profit to Subscription Contribution and an explanation of why we consider Subscription Contribution and Subscription Contribution Margin to be helpful metrics for investors.

(2) Please see the section titled “Non-GAAP Financial Measures—Adjusted EBITDA and Adjusted EBITDA Margin” for a reconciliation of Net income (loss) to Adjusted EBITDA and an explanation of why we consider Adjusted EBITDA to be a helpful metric for investors.

Connected Fitness Subscriptions

Our ability to expand the number of Connected Fitness Subscriptions is an indicator of our market penetration and growth. We define a Connected Fitness Subscription as a person, household, or commercial property, such as a hotel or residential building, who has either paid for a subscription to a Connected Fitness Product (a Connected Fitness Subscription with a successful credit card billing or with prepaid subscription credits or waivers) or requested a "pause" to their subscription for up to 3 months. We do not include canceled or unpaid Connected Fitness Subscriptions in the Connected Fitness Subscription count.

Average Net Monthly Connected Fitness Churn

We use Average Net Monthly Connected Fitness Churn to measure the retention of our Connected Fitness Subscriptions. We define Average Net Monthly Connected Fitness Churn as Connected Fitness Subscription cancellations, net of reactivations, in the quarter, divided by the average number of beginning Connected Fitness Subscriptions in each month, divided by three months. This metric does not include data related to our Peloton Digital subscriptions for Members who pay a monthly fee for access to our content library on their own devices.

Total Workouts and Average Monthly Workouts per Connected Fitness Subscription

We review Total Workouts and Average Monthly Workouts per Connected Fitness Subscription to measure engagement, which is the leading indicator of retention for our Connected Fitness Subscriptions. We define Total Workouts as all workouts completed during a given period. We define a Workout as a Connected Fitness Subscription for Members either completing at least 50% of an instructor-led or scenic ride or run, or ten or more minutes of “Just Ride” or “Just Run” mode. We define Average Monthly Workouts per Connected Fitness Subscription as the Total Workouts completed in the quarter divided by the average number of Connected Fitness Subscriptions in each month, divided by three months.

Non-GAAP Financial Measures

In addition to our results determined in accordance with accounting principles generally accepted in the United States, or GAAP, we believe the following non-GAAP financial measures are useful in evaluating our operating performance.

Adjusted EBITDA and Adjusted EBITDA Margin

We calculate Adjusted EBITDA as net income (loss) adjusted to exclude: other (income) expense, net; income tax (benefit); depreciation and amortization expense; stock-based compensation expense; transaction costs; certain litigation expenses, consisting of legal settlements and related fees for specific proceedings that arise outside of the ordinary course of our business; and specific non-recurring costs associated with COVID-19. Adjusted EBITDA Margin is calculated by dividing Adjusted EBITDA by total revenue.

We use Adjusted EBITDA and Adjusted EBITDA Margin as measures of operating performance and the operating leverage in our business. We believe that these non-GAAP financial measures are useful to investors for period-to-period comparisons of our business and in understanding and evaluating our operating results for the following reasons:

- Adjusted EBITDA and Adjusted EBITDA Margin are widely used by investors and securities analysts to measure a company's operating performance without regard to items such as stock-based compensation expense, depreciation and amortization expense, other (income) expense, net, and provision for income taxes that can vary substantially from company to company depending upon their financing, capital structures, and the method by which assets were acquired;
- Our management uses Adjusted EBITDA and Adjusted EBITDA Margin in conjunction with financial measures prepared in accordance with GAAP for planning purposes, including the preparation of our annual operating budget, as a measure of our core operating results and the effectiveness of our business strategy, and in evaluating our financial performance; and
- Adjusted EBITDA and Adjusted EBITDA Margin provide consistency and comparability with our past financial performance, facilitate period-to-period comparisons of our core operating results, and also facilitate comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

Our use of Adjusted EBITDA and Adjusted EBITDA Margin have limitations as analytical tools, and you should not consider these measures in isolation or as substitutes for analysis of our financial results as reported under GAAP. Some of these limitations are, or may in the future be, as follows:

- Although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA and Adjusted EBITDA Margin do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA and Adjusted EBITDA Margin exclude stock-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect: (1) changes in, or cash requirements for, our working capital needs; (2) interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us; or (3) tax payments that may represent a reduction in cash available to us;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect certain litigation expenses, consisting of legal settlements and related fees for specific proceedings, that arise outside of the ordinary course of our business;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect transaction costs related to acquisitions;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect incremental costs associated with COVID-19, which consist of hazard pay for field operations employees; and
- The expenses and other items that we exclude in our calculation of Adjusted EBITDA and Adjusted EBITDA Margin may differ from the expenses and other items, if any, that other companies may exclude from Adjusted EBITDA when they report their operating results and we may, in the future, exclude other significant, unusual or non-recurring expenses or other items from these financial measures.

Because of these limitations, Adjusted EBITDA and Adjusted EBITDA Margin should be considered along with other operating and financial performance measures presented in accordance with GAAP.

The following table presents a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable financial measure prepared in accordance with GAAP, for each of the periods indicated:

Adjusted EBITDA and Adjusted EBITDA Margin

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(in millions)			
Net income (loss)	$ 63.6	$ (55.4)	$ 132.8	$ (105.2)
Adjusted to exclude the following:				
Other (income), net	(1.8)	(5.7)	(3.5)	(6.9)
Income tax (benefit)	(3.0)	(0.4)	(1.7)	(0.4)
Depreciation and amortization expense	12.8	10.1	24.2	17.2
Stock-based compensation expense	37.5	17.1	67.1	35.8
Litigation and settlement expenses	4.4	5.8	7.5	9.7
Other adjustment items [(1)]	3.4	0.1	9.4	0.3
Adjusted EBITDA	$ 116.9	$ (28.4)	$ 235.8	$ (49.4)
Adjusted EBITDA Margin	11.0 %	(6.1)%	12.9 %	(7.1)%

(1) Includes incremental costs associated with COVID-19 of zero and $5.9 million, respectively, and transaction costs of $3.4 million for each of the three and six months ended December 31, 2020, respectively, and $0.1 million and $0.3 million of transaction costs for the three and six months ended December 31, 2019, respectively.

We expect Adjusted EBITDA Margin to increase over the long-term as we continue to scale our business and achieve greater leverage in our operating expenses.

Subscription Contribution and Subscription Contribution Margin

We define Subscription Contribution as subscription revenue less cost of subscription revenue, adjusted to exclude from cost of subscription revenue, depreciation and amortization expense, and stock-based compensation expense. Subscription Contribution Margin is calculated by dividing Subscription Contribution by subscription revenue.

We use Subscription Contribution and Subscription Contribution Margin to measure our ability to scale and leverage the costs of our Connected Fitness Subscriptions. We believe that these non-GAAP financial measures are useful to investors for period-to-period comparisons of our business and in understanding and evaluating our operating results because our management uses Subscription Contribution and Subscription Contribution Margin in conjunction with financial measures prepared in accordance with GAAP for planning purposes, including the preparation of our annual operating budget, as a measure of our core operating results and the effectiveness of our business strategy, and in evaluating our financial performance.

Our use of Subscription Contribution and Subscription Contribution Margin have limitations as analytical tools, and you should not consider these in isolation or as substitutes for analysis of our financial results as reported under GAAP. Some of these limitations are as follows:

- Although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Subscription Contribution and Subscription Contribution Margin do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; and
- Subscription Contribution and Subscription Contribution Margin exclude stock-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy.

Because of these limitations, Subscription Contribution and Subscription Contribution Margin should be considered along with other operating and financial performance measures presented in accordance with GAAP.

The following table presents a reconciliation of Subscription Contribution to Subscription Gross Profit, the most directly comparable financial measure prepared in accordance with GAAP, for each of the periods indicated:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(in millions)			
Subscription Revenue	$ 194.7	$ 77.1	$ 351.2	$ 144.3
Less: Cost of Subscription	77.2	32.4	142.2	61.9
Subscription Gross Profit	$ 117.5	$ 44.7	$ 209.0	$ 82.4
Subscription Gross Margin	60.3 %	58.0 %	59.5 %	57.1 %
Add back:				
Depreciation and amortization expense	$ 4.6	$ 3.8	$ 9.0	$ 7.5
Stock-based compensation expense	5.1	1.2	9.5	2.2
Subscription Contribution	$ 127.2	$ 49.7	$ 227.6	$ 92.0
Subscription Contribution Margin	65.3 %	64.4 %	64.8 %	63.8 %

The continued growth of our Connected Fitness Subscription base will allow us to improve our Subscription Contribution Margin. While there are variable costs, including music royalties, associated with our Connected Fitness Subscriptions, a significant portion of our content creation costs are fixed given that we operate with a limited number of production studios and instructors. The fixed nature of those expenses should scale over time as we grow our Connected Fitness Subscription base.

Components of our Results of Operations

Revenue

Connected Fitness Products

Connected Fitness Product revenue consists of sales of our portfolio of Connected Fitness Products and related accessories, delivery and installation services, branded apparel, and extended warranty agreements. Connected Fitness Product revenue is recognized at the time of delivery, except for extended warranty revenue which is recognized over the warranty period, and is recorded net of returns and discounts and third-party financing program fees, when applicable.

Subscription

Subscription revenue consists of revenue generated from our monthly $39.00 Connected Fitness Subscription and $12.99 Peloton Digital subscription.

As of December 31, 2020, 97% and 100% of our Connected Fitness Subscription and Peloton Digital subscription bases were paying month-to-month, respectively.

If a Connected Fitness Subscription owns both a Bike and Tread product in the same household, the price of the Subscription remains $39.00 monthly. As of December 31, 2020, approximately 3% of our Connected Fitness Subscriptions owned both a Bike and Tread product.

Cost of revenue

Connected Fitness Products

Connected Fitness Product cost of revenue consists of our portfolio of Connected Fitness Products and branded apparel product costs, including manufacturing costs, duties and other applicable importing costs, shipping and handling costs, packaging, warranty replacement and service costs, fulfillment costs, warehousing costs, and certain allocated costs related to management, facilities, and personnel-related expenses associated with supply chain logistics. As we launch new Connected Fitness Products and continue to grow our presence in new regions where we have not yet achieved economies of scale, we expect to incur higher cost of revenue (as a percentage of sales) for our Connected Fitness Products.

Subscription

Subscription cost of revenue includes costs associated with content creation and costs to stream content to our Members. These costs consist of both fixed costs, including studio rent and occupancy, other studio overhead, instructor and production personnel-related expenses, as well as variable costs, including music royalty fees, content costs for past use, third-party platform streaming costs, and payment processing fees for our monthly subscription billings. While our fixed costs currently represent the majority of these costs, music royalty fees are our largest subscription variable cost. As we have grown the number of licensing agreements with music rights holders, music royalty fees as a percent of our subscription revenue has increased. However, unlike music streaming services where having an exhaustive music catalog is vital to be able to compete for customers, we have control over what music we select for our classes. As a result, we expect to be able to manage music expense such that, over time, these fees as a percentage of subscription revenue will flatten, or even decrease.

Operating expenses

Sales and marketing

Sales and marketing expense consists of performance marketing media spend, asset creation, and other brand creative, all showroom expenses and related lease payments, payment processing fees incurred in connection with the sale of our Connected Fitness Products, sales and marketing personnel-related expenses, and expenses related to Peloton Digital. We intend to continue to invest in our sales and marketing capabilities in the future and expect this expense to increase in absolute dollars in future periods as we release new products and expand internationally. Sales and marketing expense as a percentage of total revenue may fluctuate from period to period based on total revenue and the timing of our investments in our sales and marketing functions as these investments may vary in scope and scale over future periods.

General and administrative

General and administrative expense includes personnel-related expenses and facilities-related costs primarily for our executive, finance, accounting, legal, human resources, and IT functions. General and administrative expense also includes fees for professional services principally comprised of legal, audit, tax and accounting services, and insurance, as well as litigation settlement costs.

We expect to continue to incur additional general and administrative expenses as a result of operating as a public company, including expenses related to compliance and reporting obligations of public companies, and increased costs for insurance, investor relations expenses, and professional services. As a result, we expect that our general and administrative expenses will increase in absolute dollars in future periods and vary from period to period as a percentage of revenue, but we expect to leverage these expenses over time as we grow our revenue and Connected Fitness Subscription base.

Research and development

Research and development expense primarily consists of personnel and facilities-related expenses, consulting and contractor expenses, tooling and prototype materials, and software platform expenses. We capitalize certain qualified costs incurred in connection with the development of internal-use software which may also cause research and development expenses to vary from period to period. We expect our research and

development expenses to increase in absolute dollars in future periods and vary from period to period as a percentage of total revenue as we continue to hire personnel to develop new and enhance existing Connected Fitness Products and interactive software.

Other income, net

Other income, net consists of interest (expense) income, realized gains (losses) on investments, amortization of debt issuance costs, and impacts from foreign exchange transactions.

Provision for income taxes

The provision for income taxes consists primarily of income taxes related to state and international taxes for jurisdictions in which we conduct business. We maintain a valuation allowance on the majority of our deferred tax assets as we have concluded that it is more likely than not that the deferred assets will not be utilized.

Results of Operations

The following tables set forth our condensed consolidated results of operations in dollars and as a percentage of total revenue for the periods presented. The period-to-period comparisons of our historical results are not necessarily indicative of the results that may be expected in the future.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(in millions)			
Consolidated Statement of Operations Data:				
Revenue				
Connected Fitness Products	$ 870.1	$ 389.1	$ 1,471.5	$ 550.0
Subscription	194.7	77.1	351.2	144.3
Total revenue	1,064.8	466.3	1,822.7	694.3
Cost of revenue[1][2]				
Connected Fitness Products	562.8	236.7	927.0	330.1
Subscription	77.2	32.4	142.2	61.9
Total cost of revenue	640.0	269.1	1,069.2	392.1
Gross profit	424.8	197.1	753.5	302.2
Operating expenses				
Sales and marketing[1][2]	177.4	160.5	292.1	238.1
General and administrative[1][2]	141.1	77.5	249.7	138.5
Research and development[1][2]	47.5	20.7	84.1	38.1
Total operating expenses	366.0	258.7	625.8	414.6
Income (loss) from operations	58.8	(61.5)	127.7	(112.4)
Other income, net	1.8	5.7	3.5	6.9
Income (loss) before provision for income tax	60.6	(55.8)	131.2	(105.5)
Income tax benefit	(3.0)	(0.4)	(1.7)	(0.4)
Net income (loss)	$ 63.6	$ (55.4)	$ 132.8	$ (105.2)

(1) Includes stock-based compensation expense as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(in millions)			
Cost of revenue				
Connected Fitness Products	$ 2.0	$ 0.5	$ 3.5	$ 0.7
Subscription	5.1	1.2	9.5	2.2
Total cost of revenue	7.1	1.6	13.0	2.9
Sales and marketing	4.6	2.0	8.0	3.6
General and administrative	21.2	11.2	37.8	24.6
Research and development	4.6	2.4	8.2	4.7
Total stock-based compensation expense	$ 37.5	$ 17.1	$ 67.1	$ 35.8

(2) Includes depreciation and amortization expense as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(in millions)			
Cost of revenue				
Connected Fitness Products	$ 1.6	$ 0.8	$ 2.9	$ 1.3
Subscription	4.6	3.8	9.0	7.5
Total cost of revenue	6.2	4.6	11.8	8.8
Sales and marketing	3.3	2.2	6.2	3.8
General and administrative	2.0	3.2	4.8	4.5
Research and development	1.3	0.1	1.4	0.1
Total depreciation and amortization expense	$ 12.8	$ 10.1	$ 24.2	$ 17.2

Comparison of the Three and Six Months Ended December 31, 2020 and 2019

Revenue

	Three Months Ended December 31,			Six Months Ended December 31,		
	2020	2019	% Change	2020	2019	% Change
	(dollars in millions)					
Revenue:						
Connected Fitness Products	$ 870.1	$ 389.1	123.6 %	$ 1,471.5	$ 550.0	167.6 %
Subscription	194.7	77.1	152.4	351.2	144.3	143.4
Total revenue	$ 1,064.8	$ 466.3	128.4 %	$ 1,822.7	$ 694.3	162.5 %
Percentage of revenue						
Connected Fitness Products	81.7 %	83.5 %		80.7 %	79.2 %	
Subscription	18.3	16.5		19.3	20.8	
Total	100.0 %	100.0 %		100.0 %	100.0 %	

Three and Six Months Ended December 31, 2020 and 2019

Connected Fitness Products revenue increased $481.0 million and $921.5 million for the three and six month periods ended December 31, 2020 compared to the three and six month periods ended December 31, 2019, respectively. These increases were primarily attributable to the significant growth in the number of Connected Fitness Products delivered during the periods, which was the result of investments made in brand and product awareness, compounded by a strong increase in demand driven by the stay-at-home orders issued by governments around the world in response to the COVID-19 pandemic. This was partially impacted by the longer wait times for deliveries of our products due to slower than anticipated deliveries due to port congestion and unforeseen COVID -19 related closures.

Subscription revenue increased $117.5 million and $206.9 million for the three and six months ended December 31, 2020 compared to the three and six months ended December 31, 2019, respectively. These increases were primarily attributable to the year-over-year growth in our Connected Fitness Subscriptions. The growth of our Connected Fitness Subscriptions was primarily driven by the increased number of Connected Fitness Products delivered during the period and our low Average Net Monthly Connected Fitness Churn of 0.76% and 0.71% for the three and six months ended December 31, 2020, respectively. We believe engagement is a leading indicator of retention. Our Member engagement continued to grow with 21.1 and 20.9 Average Monthly Workouts per Connected Fitness Subscription during the three and six months ended December 31, 2020 compared to 12.6 and 12.2 Average Monthly Workouts per Connected Fitness Subscription for the three and six months ended December 31, 2019, respectively. Members with Connected Fitness Subscriptions worked out with us 98.1 million and 175.8 million times in the three and six months ended December 31, 2020, up from 24.3 million and 43.5 million workouts during the three and six months ended December 31, 2019, respectively, representing over 300% year-over-year growth.

Cost of Revenue, Gross Profit, and Gross Margin

	Three Months Ended December 31,			Six Months Ended December 31,		
	2020	2019	% Change	2020	2019	% Change
			(dollars in millions)			
Cost of Revenue:						
Connected Fitness Products	$ 562.8	$ 236.7	137.8 %	$ 927.0	$ 330.1	180.8 %
Subscription	77.2	32.4	138.0	142.2	61.9	129.6
Total cost of revenue	$ 640.0	$ 269.1	137.8 %	$ 1,069.2	$ 392.1	172.7 %
Gross Profit:						
Connected Fitness Products	$ 307.3	$ 152.4	101.6 %	$ 544.5	$ 219.8	147.7 %
Subscription	117.5	44.7	162.8	209.0	82.4	153.7
Total Gross profit	$ 424.8	$ 197.1	115.5 %	$ 753.5	$ 302.2	149.3 %
Gross Margin:						
Connected Fitness Products	35.3 %	39.2 %		37.0 %	40.0 %	
Subscription	60.3	58.0		59.5	57.1	

Three Months Ended December 31, 2020 and 2019

Connected Fitness Products cost of revenue for the three months ended December 31, 2020 increased $326.1 million, or 137.8%, compared to the three months ended December 31, 2019. This increase was primarily driven by costs associated with the growth in the number of Connected Fitness Products delivered during the period.

Our Connected Fitness Product Gross Margin decreased by 385 basis points for the three months ended December 31, 2020 compared to the three months ended December 31, 2019 primarily driven by the price reduction on our Bike from $2,245 to $1,895 as well as increased shipping costs associated with temporary expedited shipping costs.

Subscription cost of revenue for the three months ended December 31, 2020 increased $44.8 million, or 138.0%, compared to the three months ended December 31, 2019. This increase was primarily driven by an increase of $27.2 million in music royalty and streaming delivery fees driven by increased usage of our platform as our Subscription base and engagement continued to increase, an increase of $4.9 million in personnel-related expenses excluding stock-based compensation expense, due to increased headcount, an increase of $3.9 million in stock-based compensation expense, and an increase of $3.1 million in payment processing fees for our monthly subscription billing.

Subscription Gross Margin increased by 240 basis points for the three months ended December 31, 2020 compared to the three months ended December 31, 2019 primarily driven by fixed cost leverage with more Connected Fitness Subscriptions.

Six Months Ended December 31, 2020 and 2019

Connected Fitness Products cost of revenue for the six months ended December 31, 2020 increased $596.9 million, or 180.8%, compared to the six months ended December 31, 2019. This increase was primarily driven by costs associated with the growth in the number of Connected Fitness Products delivered during the period.

Our Connected Fitness Product Gross Margin decreased by 297 basis points for the six months ended December 31, 2020 compared to the six months ended December 31, 2019 primarily driven by the price reduction on our Bike from $2,245 to $1,895 as well as temporary expedited shipping costs.

Subscription cost of revenue for the six months ended December 31, 2020 increased $80.3 million, or 129.6%, compared to the six months ended December 31, 2019. This increase was primarily driven by an increase of $50.2 million in music royalty and streaming delivery fees driven by increased usage of our platform as our Subscription base and engagement continued to increase, an increase of $9.7 million in personnel-related expenses excluding stock-based compensation expense, due to increased headcount, an increase of $7.4 million in stock-based compensation expense, and an increase of $5.5 million in payment processing fees for our monthly subscription billing.

Subscription Gross Margin increased by 243 basis points for the six months ended December 31, 2020 compared to the six months ended December 31, 2019 primarily driven by fixed cost leverage with more Connected Fitness Subscriptions.

Operating Expenses

Sales and Marketing

	Three Months Ended December 31,			Six Months Ended December 31,		
	2020	2019	% Change	2020	2019	% Change
			(dollars in millions)			
Sales and marketing	$ 177.4	$ 160.5	10.6%	$ 292.1	$ 238.1	22.7%
As a percentage of total revenue	16.7 %	34.4 %		16.0 %	34.3 %	

Three and Six Months Ended December 31, 2020 and 2019

Sales and marketing expense increased $16.9 million and $54.0 million when comparing the three and six months ended December 31, 2020 with the three and six months ended December 31, 2019, respectively. These increases were primarily due to a volume-based increase in payment processing fees of $13.4 million and $25.4 million, an increase in personnel-related expenses of $12.9 million and $25.5 million, excluding stock-based compensation expense, due to increased headcount, an increase in expenses related to our showrooms of $5.1 million and $9.5 million, and an increase in stock-based compensation expense of $2.6 million and $4.4 million, partially offset by a deliberate and temporary decrease in spending on advertising and marketing programs of $19.2 million and $16.9 million, respectively to allow us the ability to alleviate our current supply chain challenges.

General and Administrative

	Three Months Ended December 31,			Six Months Ended December 31,		
	2020	2019	% Change	2020	2019	% Change
			(dollars in millions)			
General and administrative	$ 141.1	$ 77.5	82.0%	$ 249.7	$ 138.5	80.3%
As a percentage of total revenue	13.2 %	16.6 %		13.7 %	19.9 %	

Three and Six Months Ended December 31, 2020 and 2019

General and administrative expense increased $63.5 million and $111.2 million when comparing the three and six months ended December 31, 2020 with the three and six months ended December 31, 2019, respectively. These increases were primarily due to our build out of our corporate support teams as we comply with additional public company requirements in our second year, as well as our Member support teams to support our growing Member base. This drove an increase in personnel-related expenses of $24.1 million and $40.6 million, excluding stock-based compensation expense, due to increased headcount, an increase in professional fees, comprised of legal, audit and consulting fees of $19.9 million and $31.8 million, and an increase in stock-based compensation expense of $10.0 million and $13.2 million, respectively.

Research and Development

	Three Months Ended December 31,			Six Months Ended December 31,		
	2020	2019	% Change	2020	2019	% Change
			(dollars in millions)			
Research and development	$ 47.5	$ 20.7	129.9%	$ 84.1	$ 38.1	120.7%
As a percentage of total revenue	4.5 %	4.4 %		4.6 %	5.5 %	

Three and Six Months Ended December 31, 2020 and 2019

Research and development expense increased $26.8 million and $46.0 million when comparing the three and six months ended December 31, 2020 with the three and six months ended December 31, 2019, respectively. These increases were primarily due to an increase in personnel-related expenses, which, excluding stock-based compensation expense, increased $12.2 million and $21.1 million, due to increased headcount, an increase of $6.7 million and $11.1 million in product development and research costs associated with development of new software features and products, and an increase of $4.4 million and $7.9 million in software expense, respectively.

Other Income, Net and Income Tax Benefit

	Three Months Ended December 31,			Six Months Ended December 31,		
	2020	2019	% Change	2020	2019	% Change
			(dollars in millions)			
Other income, net	$ 1.8	$ 5.7	(68.6)%	$ 3.5	$ 6.9	(49.5)%
Income tax benefit	$ (3.0)	$ (0.4)	NM	$ (1.7)	$ (0.4)	NM

*NM - not meaningful

Three and Six Months Ended December 31, 2020 and 2019

Other income, net, was comprised of the following for the three and six months ended December 31, 2020:

- Unrealized gains from the impacts of changes in foreign exchange rates of $4.0 million and $6.5 million;
- Net interest earned on cash, cash equivalents, and short-term investments of $1.9 million and $4.3 million; and
- Foreign exchange losses of $(4.1) million and $(7.3) million, respectively.

Other income, net, was comprised of the following for the three and six months ended December 31, 2019:

- Net interest earned on cash, cash equivalents, and short-term investments of $5.9 million and $7.1 million; and
- Foreign exchange losses of $(0.1) million and $(0.1) million, respectively.

Income tax benefit increased for the three and six months ended December 31, 2020 primarily due to adjustments to the valuation allowance resulting from acquisitions during the period, partially offset by state and international taxes.

Liquidity and Capital Resources

Our operations have been funded primarily through cash flow from operating activities and net proceeds from the sales of our equity securities. As of December 31, 2020, we had cash and cash equivalents of approximately $1.2 billion and marketable securities of $862.1 million.

As of December 31, 2020, our marketable securities portfolio primarily consists of U.S. government notes and investment grade corporate securities.

We believe our existing cash and cash equivalent balances, cash flow from operations, marketable securities portfolio, and amounts available for borrowing under our Amended Credit Agreement (described below) will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, timing and amount of spending related to acquisitions, the timing and amount of spending on research and development, growth in sales and marketing activities, the timing of new Connected Fitness Product introductions, market acceptance of our Connected Fitness Products, timing and investments needed for international expansion, and overall economic conditions. Further, we may use cash to satisfy exercise payments and/or tax withholdings in connection with the settlement of equity awards, or other stock buyback programs. To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, we may be required to seek additional equity or debt financing. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. There can be no assurances that we will be able to raise additional capital. The inability to raise capital would adversely affect our ability to achieve our business objectives.

Amended Credit Agreement

In June 2019, we entered into an amended and restated loan and security agreement, or the Amended Credit Agreement, with JPMorgan Chase Bank, N.A., as administrative agent, lead arranger and bookrunner and Bank of America, N.A., Barclays Bank PLC, Goldman Sachs Lending Partners LLC and Silicon Valley Bank, as joint syndication agents, which amended and restated our prior secured revolving credit facility.

The Amended Credit Agreement provides for a $250.0 million secured revolving credit facility, including up to the lesser of $150.0 million and the aggregate unused amount of the facility for the issuance of letters of credit. Interest on the Amended Credit Agreement is paid based on LIBOR plus 2.75% or an Alternative Base Rate plus 1.75%. We are required to pay an annual commitment fee of 0.375% on a quarterly basis based on the unused portion of the revolving credit facility. The principal amount, if any, is payable in full in June 2024. As of December 31, 2020, we had not drawn on the credit facility and did not have outstanding borrowings under the Amended Credit Agreement. As of December 31, 2020, we had outstanding letters of credit totaling $4.8 million issued primarily to cover security deposits for an operating lease obligation.

We have the option to repay our borrowings under the Amended Credit Agreement without premium or penalty prior to maturity. The Amended Credit Agreement contains customary affirmative covenants, such as financial statement reporting requirements and delivery of borrowing base certificates, as well as customary covenants that include limitations on our ability to, among other things, incur additional indebtedness, sell certain assets, guarantee obligations of third parties, declare dividends or make certain distributions, and undergo a merger or consolidation or certain other transactions. The Amended Credit Agreement also contains certain financial condition covenants, including maintaining a total level of liquidity of not less than $125.0 million and maintaining certain minimum total revenue ranging from $725.0 million to $1,985.0 million depending on the applicable date of determination.

Cash Flows

	Six Months Ended December 31,	
	2020	2019
	(in millions)	
Net cash flows provided by operating activities	$ 510.5	$ 33.2
Net cash flows used in investing activities	(346.7)	(870.8)
Net cash flows provided by financing activities	43.6	1,201.9

Operating Activities

Net cash provided by operating activities of $510.5 million for the six months ended December 31, 2020 was primarily due to an increase in net change in operating assets and liabilities of $252.3 million, net income of $132.8 million and non-cash adjustments of $125.3 million. The increase in net operating assets and liabilities was primarily due to a $331.9 million increase in accounts payable and accrued expenses related to increased inventory and other expenditures to support general business growth, as well as the timing of payments, and a $245.7 million increase in customer deposits and deferred revenue driven by elevated sales volumes and longer delivery windows, partially offset by a $273.0 million increase in inventory levels as we ramped up supply to meet the current increased demand. Non-cash adjustments primarily consisted of stock-based compensation expense, operating lease expense, and depreciation and amortization expense.

Investing activities

Net cash used in investing activities for the six months ended December 31, 2020 of $346.7 million was primarily related to purchases of marketable securities of $449.1 million, $119.4 million used for capital expenditures primarily related to the continued build out of our New York City headquarters, our new Peloton studios in London, our new manufacturing facilities in Taiwan, and new showrooms, and $78.1 million relating to acquisitions, partially offset by maturities of marketable securities of $300.6 million.

Financing activities

Net cash provided by financing activities of $43.6 million for the six months ended December 31, 2020 was primarily related to proceeds from exercise of stock options of $53.3 million, partially offset by $7.2 million of taxes withheld and paid on employee stock awards.

Contractual Obligations

As of December 31, 2020, our contractual obligations were as follows:

	Payments due by period				
Contractual obligations:	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in millions)		
Lease obligations [1]	$ 908.9	$ 40.9	$ 153.1	$ 156.2	$ 558.7
Minimum guarantees [2]	47.4	38.1	9.3	—	—
Unused credit facility fee payments [3]	3.2	0.9	1.8	0.4	—
Other purchase obligations [4]	69.4	33.9	33.1	2.5	—
Acquisition of Precor [5]	420.0	420.0	—	—	—
Total	$ 1,448.9	$ 533.8	$ 197.3	$ 159.1	$ 558.7

(1) Lease obligations relate to our office space, warehouses, production studios, equipment, and retail showrooms and microstores. The lease terms are between one and twenty-one years, and the majority of the lease agreements are renewable at the end of the lease period.

(2) We are subject to minimum royalty payments associated with our license agreements for the use of licensed content. See "Risk Factors --Our Most Material Financial, Operational, and Execution Risks— We are a party to many music license agreements that are complex and impose numerous obligations upon us that may make it difficult to operate our business, and a breach of such agreements could adversely affect our business, operating results, and financial condition."

(3) We are required to pay a commitment fee of 0.375% based on the unused portion of the revolving credit facility. As of December 31, 2020, we were contingently liable for approximately $4.8 million in standby letters of credit for our operating lease obligations.

(4) Other purchase obligations include all other non-cancelable contractual obligations. These contracts are primarily related to cloud computing costs.

(5) On December 21, 2020, we entered into a Stock and Purchase Agreementv with Amer Sports Corporation pursuant to which we will acquire Precor in cash, subject to customary adjustments for working capital, transaction expenses, cash, and indebtedness. See Note 7 in the “Notes to our Condensed Consolidated Financial Statements” in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The commitment amounts in the table above are associated with contracts that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the actions under the contracts.

Purchase orders or contracts for the purchase of certain goods and services are not included in the table. We cannot determine the aggregate amount of such purchase orders that represent contractual obligations because purchase orders may represent authorizations to purchase rather than binding agreements. Our purchase orders are based on our current needs and are fulfilled by our suppliers and manufacturers within short periods of time. We subcontract with other companies to manufacture our products. During the normal course of business, we and our

manufacturers procure components based upon a forecasted production plan. If we cancel all or part of the orders, we may be liable to our suppliers and manufacturers for the cost of the unutilized component orders or components purchased by our manufacturers.

Off-Balance Sheet Arrangements

We did not have any undisclosed off-balance sheet arrangements as of December 31, 2020.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. In preparing the condensed consolidated financial statements, we make estimates and judgments that affect the reported amounts of assets, liabilities, stockholders' equity/deficit, revenue, expenses, and related disclosures. We re-evaluate our estimates on an on-going basis. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Because of the uncertainty inherent in these matters, actual results may differ from these estimates and could differ based upon other assumptions or conditions. The critical accounting policies that reflect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements include those described in Note 2 of the notes to our condensed consolidated financial statements in the section titled "—Summary of Significant Accounting Policies" in Part I, Item 1 of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K.

Recent Accounting Pronouncements

See Note 2 of the notes to our condensed consolidated financial statements in the section titled "—Recently Issued Accounting Pronouncements" in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion about new accounting pronouncements adopted and not yet adopted as of the date of this report.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

We had cash and cash equivalents and marketable securities of approximately $2.1 billion as of December 31, 2020. The primary objective of our investment activities is the preservation of capital, and we do not enter into investments for trading or speculative purposes. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. A hypothetical 10% increase in interest rates during any of the periods presented would not have had a material impact on our condensed consolidated financial statements.

We are primarily exposed to changes in short-term interest rates with respect to our cost of borrowing under our Amended Credit Agreement. We monitor our cost of borrowing under our facility, taking into account our funding requirements, and our expectations for short-term rates in the future. A hypothetical 10% change in the interest rate on our Amended Credit Agreement for all periods presented would not have a material impact on our condensed consolidated financial statements.

Foreign Currency Risk

Our international sales are primarily denominated in foreign currencies and any unfavorable movement in the exchange rate between U.S. dollars and the currencies in which we conduct sales in foreign countries could have an adverse impact on our revenue. We source and manufacture inventory primarily in U.S. dollars and Taiwanese dollars. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to fluctuations due to changes in foreign currency exchange rates. For example, we recently purchased Tonic, a contract manufacturer, and our operating expenses incurred in manufacturing our products in Tonic's facilities in Taiwan are denominated in foreign currencies and not in U.S. dollars. In addition, our suppliers incur many costs, including labor and supply costs, in other currencies. While we are not currently contractually obligated to pay increased costs due to changes in exchange rates, to the extent that exchange rates move unfavorably for our suppliers, they may seek to pass these additional costs on to us, which could have a material impact on our gross margins. Our operating results and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. However, we believe that the exposure to foreign currency fluctuation from operating expenses is relatively small at this time as the related costs do not constitute a significant portion of our total expenses. We use derivative instruments, such as foreign currency forwards, and have the ability to use option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. Our exposure to foreign currency exchange rates has historically been partially hedged as our foreign currency denominated inflows create a natural hedge against our foreign currency denominated expenses.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations. If our costs become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, and operating results.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation 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, or the Exchange Act, as of December 31, 2020. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2020, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized, and reported as and when required, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

PART II

Item 1. Legal Proceedings

For a discussion of legal proceedings, see Note 9 in the "Notes to our Condensed Consolidated Financial Statements" in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Further, we are and, from time to time, we may become, involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any other legal proceedings that in the opinion of our management, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition, or cash flows.

Item 1A. Risk Factors

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated financial statements and the accompanying notes and the information contained in our other public filings before deciding whether to invest in shares of our Class A common stock. 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 deem immaterial may also become important factors that adversely affect our business. If any of the following risks occur, our business, financial condition, operating results, and future prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

Risk Factors Summary

Consistent with the foregoing, our business is subject to a number of risks and uncertainties, including those risks discussed at length below. These risks include, among others, the following, which we consider our most material risks:

- We have incurred operating losses in the past, may incur operating losses in the future, and may not achieve or maintain profitability in the future.
- We may be unable to attract and retain Subscribers, which could have an adverse effect on our business and rate of growth.
- If we are unable to anticipate consumer preferences and successfully develop and introduce new, innovative, and updated products and services in a timely manner or effectively manage the introduction of new or enhanced products and services, our business may be adversely affected.
- The market for our products and services is still in the early stages of growth and if it does not continue to grow, grows more slowly than we expect, or fails to grow as large as we expect, our business, financial condition, and operating results may be adversely affected.
- We have a limited operating history and our past financial results may not be indicative of our future performance. Further, our revenue growth rate is likely to slow as our business matures.
- The outbreak of the COVID-19 coronavirus pandemic, or COVID-19, could have an adverse effect on our business, results of operations, and financial condition.
- We operate in a highly competitive market and we may be unable to compete successfully against existing and future competitors.
- We derive a significant majority of our revenue from sales of our Bike. A decline in sales of our Bike would negatively affect our future revenue and operating results.
- We rely on a limited number of suppliers, contract manufacturers, and logistics partners for our Connected Fitness Products. A loss of any of these partners could negatively affect our business.
- We have limited control over our suppliers, contract manufacturers, and logistics partners, which may subject us to significant risks, including the potential inability to produce or obtain quality products and services on a timely basis or in sufficient quantity.
- We depend upon third-party licenses for the use of music in our content. An adverse change to, loss of, or claim that we do not hold necessary licenses may have an adverse effect on our business, operating results, and financial condition.
- Our success depends on our ability to maintain the value and reputation of the Peloton brand.

Risks Factors

Our Most Material Financial, Operational and Execution Risks

We have incurred operating losses in the past, may incur operating losses in the future, and may not achieve or maintain profitability in the future.

While we had net income of $63.6 million and $132.8 million in the three and six months ended December 31, 2020, respectively, we have incurred operating losses each year since our inception in 2012, including net losses of $(71.6) million, $(195.6) million, and $(47.9) million for fiscal 2020, 2019, and 2018, respectively, and may continue to incur net losses in the future. We expect our operating expenses to increase in the future as we continue our sales and marketing efforts, continue to invest in research and development, expand our operating and retail infrastructure, add content and software features to our platform, expand into new geographies, develop new Connected Fitness Products, and in connection with legal, accounting, and other expenses related to operating as a new public company. These efforts and additional expenses

may be more costly than we expect, and we cannot guarantee that we will be able to increase our revenue to offset our operating expenses. Our revenue growth may slow or our revenue may decline for a number of other reasons, including reduced demand for our products and services, increased competition, a decrease in the growth or reduction in size of our overall market, the impacts to our business from the COVID-19 pandemic, or if we cannot capitalize on growth opportunities. If our revenue does not grow at a greater rate than our operating expenses, we will not be able to achieve and maintain profitability.

We may be unable to attract and retain Subscribers, which could have an adverse effect on our business and rate of growth.

We have experienced significant Subscriber growth over the past several years. Our continued business and revenue growth is dependent on our ability to continuously attract and retain Subscribers, and we cannot be sure that we will be successful in these efforts, or that Subscriber retention levels will not materially decline. There are a number of factors that could lead to a decline in Subscriber levels or that could prevent us from increasing our Subscriber levels, including:

- our failure to introduce new features, products, or services that Members find engaging or our introduction of new products or services, or changes to existing products and services that are not favorably received;
- harm to our brand and reputation;
- pricing and perceived value of our offerings;
- our inability to deliver quality products, content, and services;
- unsatisfactory experiences with the delivery, installation, or servicing of our Connected Fitness Products, including due to prolonged delivery timelines and limitations on or the suspension of the in-home installation, return, and warranty servicing processes as a result of the current COVID-19 pandemic;
- our Members engaging with competitive products and services;
- technical or other problems preventing Members from accessing our content and services in a rapid and reliable manner or otherwise affecting the Member experience;
- a decline in the public's interest in indoor cycling or running, or other fitness disciplines that we invest most heavily in;
- deteriorating general economic conditions or a change in consumer spending preferences or buying trends, whether as a result of the COVID-19 pandemic or otherwise; and
- interruptions in our ability to sell or deliver our Connected Fitness Products or to create content and services for our Members as a result of the COVID-19 pandemic.

Additionally, further expansion into international markets such as Canada, the United Kingdom, and Germany will create new challenges in attracting and retaining Subscribers that we may not successfully address. As a result of these factors, we cannot be sure that our Subscriber levels will be adequate to maintain or permit the expansion of our operations. A decline in Subscriber levels could have an adverse effect on our business, financial condition, and operating results.

If we are unable to anticipate consumer preferences and successfully develop and introduce new, innovative, and updated products and services in a timely manner or effectively manage the introduction of new or enhanced products and services, our business may be adversely affected.

Our success in maintaining and increasing our Subscriber base depends on our ability to identify and originate trends as well as to anticipate and react to changing consumer demands in a timely manner. Our products and services are subject to changing consumer preferences that cannot be predicted with certainty. If we are unable to introduce new or enhanced offerings in a timely manner, or our new or enhanced offerings are not accepted by our Subscribers, our competitors may introduce similar offerings faster than us, which could negatively affect our rate of growth. Moreover, our new offerings may not receive consumer acceptance as preferences could shift rapidly to different types of fitness and wellness offerings or away from these types of offerings altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower subscription rates, lower sales, pricing pressure, lower gross margins, discounting of our existing Connected Fitness Products, and excess inventory levels. Even if we are successful in anticipating consumer preferences, our ability to adequately react to and address them will partially depend upon our continued ability to develop and introduce innovative, high-quality offerings. Development of new or enhanced products and services may require significant time and financial investment, which could result in increased costs and a reduction in our profit margins. For example, we have historically incurred higher levels of sales and marketing expenses accompanying each product and service introduction. Moreover, while we have experienced a significant increase in our Subscriber base since the outbreak of COVID-19, it remains uncertain how the COVID-19 pandemic will impact consumer demand for our products and services and consumer preferences generally. In addition, we have experienced and may continue to experience delays in the development and introduction of new or enhanced products and services due to the effects of the current COVID-19 pandemic.

Moreover, we must successfully manage introductions of new or enhanced products and services, which could adversely impact the sales of our existing products and services. For instance, consumers may choose to forgo purchasing existing products or services in advance of new product and service launches and we may experience higher returns from users of existing products. As we introduce new or enhanced products and services, we may face additional challenges managing a more complex supply chain and manufacturing process, including the time and cost associated with onboarding and overseeing additional suppliers, contract manufacturers, and logistics providers. We may also face challenges managing the inventory of new or existing products, which could lead to excess inventory and discounting of such products. In addition, new or enhanced products or services may have varying selling prices and costs compared to legacy products and services, which could negatively impact our gross margins and operating results.

The market for our products and services is still in the early stages of growth and if it does not continue to grow, grows more slowly than we expect, or fails to grow as large as we expect, our business, financial condition, and operating results may be adversely affected.

The connected fitness and wellness market is relatively new, rapidly growing, largely unproven, and it is uncertain whether it will sustain high levels of demand and achieve wide market acceptance. Our success depends substantially on the willingness of consumers to widely adopt our products and services. To be successful, we will have to educate consumers about our products and services through significant investment, and provide quality content that is superior to the content and experiences provided by our competitors. Additionally, the fitness and wellness market at large is heavily saturated, and the demand for and market acceptance of new products and services in the market is uncertain. It is difficult to predict the future growth rates, if any, and size of our market. We cannot assure you that our market will develop, that the public's interest in connected fitness and wellness will continue, or that our products and services will be widely adopted. If our market does not develop, develops more slowly than expected, or becomes saturated with competitors, or if our products and services do not achieve market acceptance, our business, financial condition, and operating results could be adversely affected.

We have a limited operating history and our past financial results may not be indicative of our future performance. Further, our revenue growth rate is likely to slow as our business matures.

We began operations in 2012, shipped our first Bike in 2014, and shipped our first Tread in 2018. We have a limited history of generating revenue. As a result of our short operating history, we have limited financial data that can be used to evaluate our current business. Therefore, our historical revenue growth should not be considered indicative of our future performance. In particular, we have experienced periods of high revenue growth since we began selling our Bike that we do not expect to continue as our business matures. Estimates of future revenue growth are subject to many risks and uncertainties and our future revenue may differ materially from our projections. We have encountered, and will continue to encounter, risks and difficulties frequently experienced by growing companies in rapidly changing industries, including market acceptance of our products and services, attracting and retaining Subscribers, and increasing competition and expenses as we expand our business. We cannot be sure that we will be successful in addressing these and other challenges we may face in the future, and our business may be adversely affected if we do not manage these risks successfully. In addition, we may not achieve sufficient revenue to attain or maintain positive cash flows from operations or profitability in any given period, or at all.

The full effect of the COVID-19 coronavirus pandemic, or COVID-19, is uncertain and cannot be predicted. The COVID-19 pandemic could worsen, or its effects may be prolonged, which could have an adverse effect on our business, results of operations, and financial condition.

COVID-19 has caused significant volatility in financial markets and has caused what is likely to be an extended global recession. Public health problems resulting from COVID-19 and precautionary measures instituted by governments and businesses to mitigate its spread, including travel restrictions and quarantines, could contribute to a general slowdown in the global economy, adversely impact our Members, third-party suppliers, contract manufacturers, logistics providers and other business partners, and disrupt our operations. Changes in our operations in response to COVID-19 or employee illnesses resulting from the pandemic has resulted in inefficiencies or delays, including in sales, delivery, and product development efforts, and additional costs related to business continuity initiatives, that cannot be fully mitigated through succession and business continuity planning, employees working remotely or teleconferencing technologies.

COVID-19 and related governmental reactions have had and may continue to have a negative impact on our business, liquidity, results of operations, and stock price due to the occurrence of some or all of the following events or circumstances, among others:

- our inability to manage our business effectively due to key employees becoming ill, working from home inefficiently, and being unable to travel to our facilities;
- our and our third-party suppliers', contract manufacturers', logistics providers', and other business partners' inability to operate worksites, including manufacturing facilities, shipping and fulfillment centers, and our retail showrooms and production studios, due to employee illness or reluctance to appear at work, or "stay-at-home" regulations;
- our inability to provide our Members with high-quality Member support due to changes to the delivery experience and our inability to provide in-home servicing of Connected Fitness Products due to safety risks and local government regulations related to COVID-19;
- a temporary suspension in sales of our Tread due to the Tread installation process requiring our delivery teams to enter the residences of our Members;
- prolonged delivery timelines and the implementation of curbside and "threshold" delivery, which requires our Members to self-install and set up their Bikes, due to work restrictions related to COVID-19;
- our inability to meet consumer demand and delays in the delivery of our products to our customers, resulting in reputational harm and damaged customer relationships;
- increased rates of post-purchase order cancellation, or consumer or consumer protection agency claims and litigation as a result of long delivery lead times and delivery reschedules;
- increased return rates due to a decrease in consumer discretionary spending;
- inventory shortages caused by a combination of increased demand for our Connected Fitness Products that has been difficult to predict with accuracy, and longer lead-times and component shortages in the manufacturing of our Connected Fitness Products, due to work restrictions related to COVID-19, import/export conditions such as port congestion, and local government orders;
- interruptions in our ability to offer live studio classes and produce new content;
- interruptions in manufacturing (including the sourcing of key components), shipment and delivery of our products; for example, in certain instances, we have temporarily closed certain of our field operations warehouses for short periods of time for deep cleanings following confirmed cases of COVID-19;
- disruptions of the operations of our third-party suppliers, which could impact our ability to purchase components at efficient prices and in sufficient amounts;
- reduced demand for our Connected Fitness Products and services, including due to any prolonged economic downturn that may occur;
- our inability to raise additional capital or the dilution of our common stock if we raise capital by issuing equity securities;
- volatility in the market price of our Class A common stock; and
- incurrence of significant increases to employee health care and benefits costs.

Despite the uncertainties caused by COVID-19, sales of our Connected Fitness Products have increased each quarter during the pandemic as consumers have invested in at-home fitness equipment due to government mandated stay-at-home orders. As a result of our increased sales, the price of our Class A common stock has increased significantly over the course of the past nine months, but has also fluctuated based on developments surrounding COVID-19. For example, when the effectiveness of the first COVID-19 vaccination was announced in November 2020, the stock price of our Class A common stock dropped, and as reports of COVID-19 increased during the 2020 holiday season, the stock price of our Class A common stock rose.

The full extent of the impact of COVID-19 on our business and financial results will depend largely on future developments, including the duration of the spread of the outbreak and related stay-at-home orders, the impact on capital and financial markets and global supply chains, and the related impact on the financial circumstances of our Members, all of which are highly uncertain and cannot be predicted. (See also " - Our operating results could be adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory.") This situation is changing rapidly, and additional impacts may arise that we are not aware of currently.

We operate in a highly competitive market and we may be unable to compete successfully against existing and future competitors.

Our products and services are offered in a highly competitive market. We face significant competition in every aspect of our business, including at-home fitness equipment and content, fitness clubs, in-studio fitness classes, and health and wellness apps. Moreover, we expect the competition in our market to intensify in the future as new and existing competitors introduce new or enhanced products and services that compete with ours.

Our competitors may develop, or have already developed, products, features, content, services, or technologies that are similar to ours or that achieve greater acceptance, may undertake more successful product development efforts, create more compelling employment opportunities, or marketing campaigns, or may adopt more aggressive pricing policies. Our competitors may develop or acquire, or have already developed or acquired, intellectual property rights that significantly limit or prevent our ability to compete effectively in the public marketplace. In addition, our competitors may have significantly greater resources than us, allowing them to identify and capitalize more efficiently upon opportunities in new markets and consumer preferences and trends, quickly transition and adapt their products and services, devote greater resources to marketing and advertising, or be better positioned to withstand substantial price competition. If we are not able to compete effectively against our competitors, they may acquire and engage customers or generate revenue at the expense of our efforts, which could have an adverse effect on our business, financial condition, and operating results.

We derive a significant majority of our revenue from sales of our Bike. A decline in sales of our Bike would negatively affect our future revenue and operating results.

Our Connected Fitness Products are sold in highly competitive markets with limited barriers to entry. Introduction by competitors of comparable products at lower price points, a maturing product lifecycle, a decline in consumer spending, or other factors could result in a decline in our revenue derived from our Connected Fitness Products, which may have an adverse effect on our business, financial condition, and operating results. Because we derive a significant majority of our revenue from the sales of our Bike, any material decline in sales of our Bike would have a pronounced impact on our future revenue and operating results.

We rely on a limited number of suppliers, contract manufacturers, and logistics partners for our Connected Fitness Products. A loss of any of these partners could negatively affect our business.

We manufacture certain components of our Connected Fitness Products in-house, and we also rely on a limited number of contract manufacturers and suppliers to manufacture and transport our Connected Fitness Products. If our internal manufacturing abilities are compromised in any way, we would be reliant on a limited number of contract manufacturers for all of our manufacturing needs. Our reliance on a limited number of contract manufacturers for each of our Connected Fitness Products increases our risks, since we do not currently have alternative or replacement contract manufacturers beyond these key parties. In the event of interruption from any of our contract manufacturers, our own manufacturing capabilities, or suppliers, we may not be able to increase capacity from other sources or develop alternate or secondary sources without incurring material additional costs and substantial delays. Furthermore, both our own and our contract manufacturers' primary facilities are located in Taiwan. Thus, our business could be adversely affected if one or more of our suppliers is impacted by a natural disaster, an epidemic such as the current COVID-19 outbreak, or other interruption at a particular location. In particular, the current COVID-19 outbreak has caused, and will likely continue to cause, interruptions in the development, manufacturing (including the sourcing of key components), and shipment of our Connected Fitness Products, which could adversely impact our revenue, gross margins, and operating results. Such interruptions may be due to, among other things, temporary closures of our facilities or those of our contract manufacturers, and other vendors in our supply chain; restrictions on travel or the import/export of goods and services from certain ports that we use; and local quarantines.

If we experience a significant increase in demand for our Connected Fitness Products that cannot be satisfied adequately through our existing supply channels, or if we need to replace an existing supplier or partner, we may be unable to supplement or replace them on terms that are acceptable to us, which may undermine our ability to deliver our products to Members in a timely manner. For example, if we require additional manufacturing support, it may take a significant amount of time to identify a manufacturer that has the capability and resources to build our products to our specifications in sufficient volume. Identifying suitable suppliers, manufacturers, and logistics partners is an extensive process that requires us to become satisfied with their quality control, technical capabilities, responsiveness and service, financial stability, regulatory compliance, and labor and other ethical practices. Accordingly, a loss of any of our significant suppliers, contract manufacturers, or logistics partners could have an adverse effect on our business, financial condition and operating results.

We have limited control over our suppliers, contract manufacturers, and logistics partners, which may subject us to significant risks, including the potential inability to produce or obtain quality products and services on a timely basis or in sufficient quantity.

We have limited control over our suppliers, contract manufacturers, and logistics partners, which subjects us to the following risks, many of which have materialized due to the COVID-19 pandemic:

- inability to satisfy demand for our Connected Fitness Products;
- reduced control over delivery timing and product reliability;
- reduced ability to monitor the manufacturing process and components used in our Connected Fitness Products;
- limited ability to develop comprehensive manufacturing specifications that take into account any materials shortages or substitutions;
- variance in the manufacturing capability of our third-party manufacturers;
- price increases;
- failure of a significant supplier, manufacturer, or logistics partner to perform its obligations to us for technical, market, or other reasons;
- variance in the quality of last mile services provided by our third-party logistics partners;
- difficulties in establishing additional supplier, manufacturer, or logistics partner relationships if we experience difficulties with our existing suppliers, manufacturers, or logistics partners;
- shortages of materials or components;
- misappropriation of our intellectual property;
- exposure to natural catastrophes, political unrest, terrorism, labor disputes, and economic instability resulting in the disruption of trade from foreign countries in which our Connected Fitness Products are manufactured or the components thereof are sourced;
- changes in local economic conditions in the jurisdictions where our suppliers, manufacturers, and logistics partners are located;
- the imposition of new laws and regulations, including those relating to labor conditions, quality and safety standards, imports, duties, tariffs, taxes, and other charges on imports, as well as trade restrictions and restrictions on currency exchange or the transfer of funds; and
- insufficient warranties and indemnities on components supplied to our manufacturers or performance by our partners.

We also rely on our logistics partners, including last mile warehouse and delivery partners, to complete a substantial percentage of our deliveries to customers, with the rest of the deliveries handled by our own last mile team. The current COVID-19 outbreak has required us to rely more heavily on our last mile delivery partners in certain markets where we have had to temporarily quarantine our in-house delivery teams due to employee illness or where our in-house delivery teams' capacity is otherwise constrained. Our primary last mile partner relies on a network of independent contractors to perform last mile services for us in many markets. If any of these independent contractors, or the last mile partner as a whole, do not perform their obligations or meet the expectations of us or our Members, our reputation and business could suffer.

The occurrence of any of these risks, especially during seasons of peak demand, could cause us to experience a significant disruption in our ability to produce and deliver our products to our customers.

We depend upon third-party licenses for the use of music in our content. An adverse change to, loss of, or claim that we do not hold necessary licenses may have an adverse effect on our business, operating results, and financial condition.

Music is an important element of the overall content that we make available to our Members. To secure the rights to use music in our content, we enter into agreements to obtain licenses from rights holders such as record labels, music publishers, performing rights organizations, collecting societies, artists, and other copyright owners or their agents. We pay royalties to such parties or their agents around the world.

The process of obtaining licenses involves identifying and negotiating with many rights holders, some of whom are unknown or difficult to identify, and implicates a myriad of complex and evolving legal issues across many jurisdictions, including open questions of law as to when and whether particular licenses are needed. Rights holders also may attempt to take advantage of their market power to seek onerous financial terms from us. Our relationship with certain rights holders may deteriorate. Artists and/or artist groups may object and may exert public or private pressure on rights holders to discontinue or to modify license terms. Additionally, there is a risk that aspiring rights holders, their agents, or legislative or regulatory bodies will create or attempt to create new rights that could require us to enter into new license agreements with, and pay royalties to, newly defined groups of rights holders, some of which may be difficult or impossible to identify.

With respect to musical compositions, in addition to obtaining publishing rights, we generally need to obtain separate public performance rights. In the United States, public performance rights are typically obtained through intermediaries known as performing rights organizations, or PROs, which (a) issue blanket licenses with copyright users for the public performance of compositions in their repertory, (b) collect royalties under those licenses, and (c) distribute such royalties to copyright owners. We have agreements with each of the following PROs in the United States: the American Society of Composers, Authors and Publishers, or ASCAP, and Broadcast Music, Inc., or BMI, Global Music Rights, and SESAC. The royalty rates available to us from the PROs today may not be available to us in the future. Licenses provided by ASCAP and BMI currently are governed by consent decrees, which were issued by the U.S. Department of Justice in an effort to curb anti-competitive conduct. Removal of or changes to the terms or interpretation of these agreements could affect our ability to obtain licenses from these PROs on current and/or otherwise favorable terms, which could harm our business, operating results, and financial condition.

In other parts of the world, including in Canada and Europe, we obtain licenses for musical compositions either through local collecting societies representing publishers, or from publishers directly, or a combination thereof. We cannot guarantee that our licenses with collecting societies and our direct licenses with publishers provide full coverage for all of the musical compositions we use in our service in the countries in which we operate, or that we may enter in the future. Publishers, songwriters, and other rights holders who choose not to be represented by major or independent publishing companies or collecting societies have, and could in the future, adversely impact our ability to secure licensing

arrangements in connection with musical compositions that such rights holders own or control, and could increase the risk of liability for copyright infringement.

Although we expend significant resources to seek to comply with the statutory, regulatory, and judicial frameworks, we cannot guarantee that we currently hold, or will always hold, every necessary right to use all of the music that is used on our service, and we cannot assure you that we are not infringing or violating any third-party intellectual property rights, or that we will not do so in the future.

These challenges, and others concerning the licensing of music on our platform, may subject us to significant liability for copyright infringement, breach of contract, or other claims. For additional information, see Note 9 of the notes to our condensed consolidated financial statements and the section titled "—Legal Proceedings" in Part II, Item 1 of this Quarterly Report on Form 10-Q.

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

We believe that our brand is important to attracting and retaining Members. Maintaining, protecting, and enhancing our brand depends largely on the success of our marketing efforts, ability to provide consistent, high-quality products, services, features, content, and support, and our ability to successfully secure, maintain, and defend our rights to use the "Peloton" mark, our "P" logo, and other trademarks important to our brand. We believe that the importance of our brand will increase as competition further intensifies and brand promotion activities may require substantial expenditures. Our brand could be harmed if we fail to achieve these objectives or if our public image were to be tarnished by negative publicity. Unfavorable publicity about us, including our products, services, technology, customer service, content, personnel, and suppliers could diminish confidence in, and the use of, our products and services. Such negative publicity also could have an adverse effect on the size, engagement and loyalty of our Member base and result in decreased revenue, which could have an adverse effect on our business, financial condition, and operating results.

Other Risks Related to Our Business and Financial Condition

We have grown rapidly in recent years and have limited operating experience at our current scale of operations. If we are unable to manage our growth effectively, our brand, company culture, and financial performance may suffer.

We have expanded our operations rapidly and have limited operating experience at our current size. For example, between June 30, 2017 and December 31, 2020, our employee headcount increased from 443 to 5,862, and we expect headcount growth to continue for the foreseeable future. Further, as we grow, our business becomes increasingly complex. To effectively manage and capitalize on our growth, we must continue to expand our sales and marketing, focus on innovative product and content development, upgrade our management information systems and other processes, and obtain more space for our expanding staff. Our continued growth could strain our existing resources, and we could experience ongoing operating difficulties in managing our business across numerous jurisdictions, including difficulties in hiring, training, and managing a diffuse and growing employee base. Failure to scale and preserve our company culture with growth could harm our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives. Moreover, the vertically integrated nature of our business, where we design our own Connected Fitness Products, develop our own software, produce original fitness and wellness programming, sell our products exclusively through our own sales teams and e-commerce site, and assemble, deliver, and service our Connected Fitness Products, exposes us to risk and disruption at many points that are critical to successfully operating our business and may make it more difficult for us to scale our business. For example, as a result of the current COVID-19 pandemic we may not be able to manage our business effectively and, in particular, we may experience difficulties in meeting consumer demand for our Connected Fitness Products and services, due to our employees becoming ill, being unable to travel to our facilities, and constraints within our supply chain. If we do not adapt to meet these evolving challenges, or if our management team does not effectively scale with our growth, we may experience erosion to our brand, the quality of our products and services may suffer, and our company culture may be harmed.

Our growth strategy contemplates a significant increase in our advertising and other marketing spending and expanding our retail showroom presence. Many of our existing retail showrooms are relatively new and we cannot assure you that these showrooms or that future showrooms will generate revenue and cash flow comparable with those generated by our more mature locations, especially as we move to new geographic markets. Moreover, certain occurrences outside of our control may result in the closure of our retail showrooms. For example, as a result of the ongoing COVID-19 pandemic, we temporarily closed all of our retail showrooms, and while we have reopened retail showrooms, it has been under new operating limitations such as shorter operating hours, mask guidelines for employees and customers, and other constraints on our previous retail sales strategies. We have also had to temporarily close certain showrooms due to employee illness, and may need to do so in the future. We are unable to predict whether consumer shopping behaviors will change as we make these changes to adjust to the COVID-19 pandemic. Further, many of our retail showrooms are leased pursuant to multi-year short-term leases, and our ability to negotiate favorable terms on an expiring lease or for a lease renewal option may depend on factors that are not within our control. We may also open additional production studios as we expand internationally, which will require significant additional investment. Successful implementation of our growth strategy will require significant expenditures before any substantial associated revenue is generated and we cannot guarantee that these increased investments will result in corresponding and offsetting revenue growth.

Because we have a limited history operating our business at its current scale, it is difficult to evaluate our current business and future prospects, including our ability to plan for and model future growth. Our limited operating experience at this scale, combined with the rapidly evolving nature of the market in which we sell our products and services, substantial uncertainty concerning how these markets may develop, and other economic factors beyond our control, reduces our ability to accurately forecast quarterly or annual revenue. Failure to manage our future growth effectively could have an adverse effect on our business, financial condition, and operating results.

Increases in component costs, long lead times, supply shortages, and supply changes could disrupt our supply chain and have an adverse effect on our business, financial condition, and operating results.

Meeting customer demand partially depends on our ability to obtain timely and adequate delivery of components for our Connected Fitness Products. All of the components that go into the manufacturing of our Connected Fitness Products are sourced from a limited number of third-party suppliers, and some of these components are provided by a single supplier. Our contract manufacturers generally purchase these components on our behalf, subject to certain approved supplier lists, and we do not have long-term arrangements with most of our component suppliers. We are therefore subject to the risk of shortages and long lead times in the supply of these components and the risk that our suppliers discontinue or modify components used in our Connected Fitness Products. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in design, quantities, and delivery schedules. Our ability to meet temporary unforeseen increases in demand has been, and may in the future be, impacted by our reliance on the availability of components from these sub-suppliers. We may in the future experience component shortages, and the predictability of the availability of these components may be limited. In the event of a component shortage or supply interruption from suppliers of these components, we may not be able to develop alternate sources in a timely manner. Developing alternate sources of supply for these components may be time-consuming, difficult, and costly and we may not be able to source these components on terms that are acceptable to us, or at all, which may undermine our ability to fill our orders in a timely manner. Any interruption or delay in the supply of any of these parts or components, or the inability to obtain these parts or components from alternate sources at acceptable prices and within a reasonable amount of time, would harm our ability to meet our scheduled Connected Fitness Product deliveries to our customers.

Moreover, volatile economic conditions may make it more likely that our suppliers and logistics providers may be unable to timely deliver supplies, or at all, and there is no guarantee that we will be able to timely locate alternative suppliers of comparable quality at an acceptable price. In addition, international supply chains may be impacted by events outside of our control and limit our ability to procure timely delivery of supplies or finished goods and services. Importing and exporting has involved more risk, since the beginning of 2018, as there has been increasing rhetoric, in some cases coupled with legislative or executive action, from several U.S. and foreign leaders regarding tariffs against foreign imports of certain materials. Several of the components that go into the manufacturing of our Connected Fitness Products are sourced internationally, including from China, where the United States has imposed tariffs on specified products imported therefrom following the U.S. Trade Representative Section 301 Investigation. These issues could be further exacerbated by the progression of the COVID-19 outbreak. We have seen, and may continue to see, increased congestion and/or new import/export restrictions implemented at ports that we rely on for our business. In many cases, we have had to secure alternative transportation, such as air freight, or use alternative routes, at increased costs to run our supply chain. These tariffs have an impact on our component costs and have the potential to have an even greater impact depending on the outcome of the current trade negotiations, which have been protracted and recently resulted in increases in U.S. tariff rates on specified products from China. Increases in our component costs could have a material effect on our gross margins. The loss of a significant supplier, an increase in component costs, or delays or disruptions in the delivery of components, could adversely impact our ability to generate future revenue and earnings and have an adverse effect on our business, financial condition, and operating results.

Our business could be adversely affected from an accident, safety incident, or workforce disruption.

Our internal manufacturing processes and related activities, as well as our in-house warehousing and last-mile logistics activities, could expose us to significant personal injury claims that could subject us to substantial liability. The COVID-19 pandemic increases our exposure to these risks; for example, various local government orders have been implemented in areas where we operate that require us to secure personal protective equipment, such as face masks and gloves, for our delivery teams, and to implement new methods of monitoring employee health, such as temperature checks. As these government orders have come down, a global shortage of personal protective equipment has resulted, and we have experienced delays and increased costs in obtaining these materials for our teams. Our inability to timely adapt to changing norms and requirements around maintaining a safe workplace during the COVID-19 pandemic could cause employee illness, accidents, or team discontent if it is perceived that we are failing to protect the health and safety of our employees. While we maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate to cover fully all claims, and we may be forced to bear substantial losses from an accident or safety incident resulting from our manufacturing, warehousing, or last-mile activities. Additionally, if our employees decide to join or form a labor union, we may become party to a collective bargaining agreement, which could result in higher employee costs and increased risk of work stoppages. It is also possible that a union seeking to organize one subset of our employee population, such as the employees in our manufacturing facility, could also mount a corporate campaign, resulting in negative publicity or other actions that require attention by our management team and our employees. Negative publicity, work stoppages, or strikes by unions could have an adverse effect on our business, prospects, financial condition, and operating results.

Our business is affected by seasonality.

Our business has historically been influenced by seasonal trends common to traditional retail selling periods, and we generate a disproportionate amount of sales activity related to our Connected Fitness Products during the period from November through February due in large part to seasonal holiday demand, New Year's resolutions, and cold weather. For example, in fiscal 2018 and 2019, our second and third quarters combined each represented 63% of our total revenue. In fiscal 2020, we saw a significant increase in demand in the fourth quarter related to COVID-19, and therefore only 54% of our total revenue was generated in our second and third quarters. Over time, we expect the seasonality of our business to return, with pronounced increases in demand during our second and third quarters. Moreover, as a result of higher sales during the period from November through February, our working capital needs are greater during the second and third quarters of the fiscal year. As a result of quarterly fluctuations caused by these and other factors, comparisons of our operating results across different fiscal quarters may not be accurate indicators of our future performance. Furthermore, our rapid growth in recent years may obscure the extent to which seasonality trends have affected our business and may continue to affect our business. Accordingly, yearly or quarterly comparisons of our operating results may not be useful and our results in any particular period will not necessarily be indicative of the results to be expected for any future period. Seasonality in our business can also be affected by introductions of new or enhanced products and services, including the costs associated with such introductions.

Our passion and focus on delivering a high-quality and engaging Peloton experience may not maximize short-term financial results, which may yield results that conflict with the market's expectations and could result in our stock price being negatively affected.

We are passionate about continually enhancing the Peloton experience with a focus on driving long-term Member engagement through innovation, immersive content, technologically advanced Connected Fitness Products, and community support, which may not necessarily maximize short-term financial results. We frequently make business decisions that may reduce our short-term financial results if we believe that the decisions are consistent with our goals to improve the Peloton experience, which we believe will improve our financial results over the long term. These decisions may not be consistent with the short-term expectations of our stockholders and may not produce the long-term benefits that we expect, in which case our membership growth and Member engagement, and our business, financial condition, and operating results could be harmed.

Our quarterly operating results and other operating metrics may fluctuate from quarter to quarter, which makes these metrics difficult to predict.

Our quarterly operating results and other operating metrics have fluctuated in the past and may continue to fluctuate from quarter to quarter. Additionally, our limited operating history makes it difficult to forecast our future results. As a result, you should not rely on our past quarterly operating results 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 operating results 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:

- the continued market acceptance of, and the growth of the connected fitness and wellness market;
- our ability to maintain and attract new Subscribers;
- our development and improvement of the quality of the Peloton experience, including, enhancing existing and creating new Connected Fitness Products, services, technology, features, and content;
- the continued development and upgrading of our proprietary technology platform;
- the timing and success of new product, service, feature, and content introductions by us or our competitors or any other change in the competitive landscape of our market;
- pricing pressure as a result of competition or otherwise;
- delays or disruptions in our supply chain;
- errors in our forecasting of the demand for our products and services, which could lead to lower revenue or increased costs, or both;
- increases in marketing, sales, and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- the ability to maintain and open new showrooms;
- the continued maintenance and expansion of last mile delivery and maintenance services for our Connected Fitness Products;
- successful expansion into international markets, including Canada, the United Kingdom, and Germany;
- seasonal fluctuations in subscriptions and usage of Connected Fitness Products by our Members, each of which may change as our products and services evolve or as our business grows;
- the diversification and growth of our revenue sources;
- our ability to maintain gross margins and operating margins;
- constraints on the availability of consumer financing or increased down payment requirements to finance purchases of our Connected Fitness Products;
- system failures or breaches of security or privacy;
- adverse litigation judgments, settlements, or other litigation-related costs, including content costs for past use;
- changes in the legislative or regulatory environment, including with respect to privacy, consumer product safety, and advertising, 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;
- changes in our effective tax rate;
- changes in accounting standards, policies, guidance, interpretations, or principles; and
- changes in business or macroeconomic conditions, including the impact of the current COVID-19 outbreak, lower consumer confidence, recessionary conditions, increased unemployment rates, or stagnant or declining wages.

Any one of the factors above or the cumulative effect of some of the factors above may result in significant fluctuations in our operating results.

The variability and unpredictability of our quarterly operating results or other operating metrics could result in our failure to meet our expectations or those of analysts that cover us or investors with respect to revenue or other operating results for a particular period. If we fail to meet or exceed such expectations, the market price of our Class A common stock could fall substantially, and we could face costly lawsuits, including securities class action suits.

We rely on access to our production studios and the creativity of our fitness instructors to generate our class content. If we are unable to access or use our studios or if we are unable to attract and retain high-quality fitness instructors, we may not be able to generate interesting and attractive content for our classes.

All of the fitness and wellness content offered on our platform is produced in one of our four production studios, three of which are located in New York City. Due to our reliance on a limited number of studios in a concentrated location, any incident involving our studios, or affecting New York City at-large, could render our studios inaccessible or unusable and could inhibit our ability to produce and deliver new fitness and wellness

content for our Members. For example, in April 2020, we decided to temporarily pause live production at both our New York and London studios to reduce the risk of exposure to our employees and their families to COVID-19. While we have since reopened our studios for live production, and taken a number of precautions in doing so, there is no guarantee that the COVID-19 pandemic will not result in future pauses to live production from our studios. Production of the fitness and wellness content on our platform is further reliant on the creativity of our fitness instructors who, with the support of our production team, plan and lead our classes. Our standard employment contract with our fitness instructors has a fixed, multi-year term, however, our instructors may leave Peloton prior to the end of their contracts. If we are unable to attract or retain creative and experienced instructors, we may not be able to generate content on a scale or of a quality sufficient to grow our business. If we fail to produce and provide our Members with interesting and attractive content led by instructors who they can relate to, then our business, financial condition, and operating results may be adversely affected.

The pending acquisition of Precor presents risks and we may not realize the strategic and financial goals that were contemplated at the time we entered into the purchase agreement.

Risks we may face in connection with the pending acquisition and subsequent integration of Precor include:

- The closing conditions to the acquisition may not be satisfied or waived, including that the expiration or termination of the applicable waiting period may not be satisfied or waived under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;
- We may not realize the benefits we expect to receive from the transaction, such as anticipated synergies;
- We may have difficulties managing Precor's technologies and lines of business or retaining key personnel from Precor;
- The acquisition may not further our business strategy as we expected, we may not successfully integrate Precor as planned, there could be unanticipated adverse impacts on Precor's business, or we may otherwise not realize the expected return on our investments, which could adversely affect our business or operating results and potentially cause impairment to assets that we record as a part of an acquisition including intangible assets and goodwill;
- Our operating results or financial condition may be adversely impacted by (i) claims or liabilities related to Precor's business including, among others, claims from government agencies, terminated employees, current or former customers, consumers or business partners, or other third parties; (ii) pre-existing contractual relationships or lines of business of Precor that we would not have otherwise entered into, the termination or modification of which may be costly or disruptive to our business; (iii) unfavorable accounting treatment as a result of Precor's practices; and (iv) intellectual property claims or disputes;
- Precor may not have been required to maintain an internal control infrastructure that would meet the standards of a public company, including the requirements of the Sarbanes-Oxley Act of 2002. The costs that we may incur to implement such controls and procedures may be substantial and we could encounter unexpected delays and challenges in this implementation. In addition, we may discover significant deficiencies or material weaknesses in the quality of Precor's financial and disclosure controls and procedures;
- The acquisition will result in us owning and operating our first U.S.-based manufacturing facilities and we may have difficultly incorporating Precor's manufacturing and supply chain operations into our existing manufacturing and supply chain infrastructure, potentially resulting in new and unexpected operational complexities and costs;
- Precor operates in segments of the commercial market that we have less experience with, including traditional gyms, multifamily residences, hotels and college and corporate campuses, and any further expansion of our operations into these segments could present various integration challenges and result in increased costs and other unforeseen challenges;
- Precor serves more than 100 countries worldwide, and the acquisition will result in an expansion of our operations into new jurisdictions, which could present significant integration challenges and result in significant increased risks and costs inherent in doing business in international markets (see "—We plan to expand into international markets, which will expose us to significant risks");
- Precor's employees in a number of countries around the world will become Peloton employees upon closing, and we may face new and unanticipated challenges in employing this significant workforce, including integrating these employees into our existing business units, providing benefits and working conditions that comply with the laws in jurisdictions in which we haven't operated before, and maintaining our One Peloton culture; and
- We may fail to identify or assess the magnitude of certain liabilities, shortcomings or other risks in Precor's business prior to finalizing the acquisition of Precor, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, a diversion of management's attention and resources, and other adverse effects on our business, financial condition, and operating results;

The occurrence of any of these risks could have a material adverse effect on our business, financial condition, and operating results. See "—We may engage in merger and acquisition activities, which could require significant management attention, disrupt our business, dilute stockholder value, and adversely affect our operating results.

We plan to expand into international markets, which will expose us to significant risks.

We are currently expanding our operations to other countries, which requires significant resources and management attention and subjects us to regulatory, economic, and political risks in addition to those we already face in the United States. There are significant risks and costs inherent in doing business in international markets, including:

- difficulty establishing and managing international operations and the increased operations, travel, infrastructure, including establishment of local delivery service and customer service operations, and legal compliance costs associated with locations in different countries or regions;
- the need to vary pricing and margins to effectively compete in international markets;

- the need to adapt and localize products for specific countries, including obtaining rights to third-party intellectual property, including music, used in each country;
- increased competition from local providers of similar products and services;
- the ability to protect and enforce intellectual property rights abroad;
- the need to offer content and customer support in various languages;
- difficulties in understanding and complying with local laws, regulations, and customs in other jurisdictions;
- compliance with anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act, or FCPA, and the U.K. Bribery Act 2010, or U.K. Bribery Act, by us, our employees, and our business partners;
- complexity and other risks associated with current and future legal requirements in other countries, including legal requirements related to consumer protection, consumer product safety, and data privacy frameworks, such as the E.U. General Data Protection Regulation;
- varying levels of internet technology adoption and infrastructure, and increased or varying network and hosting service provider costs;
- tariffs and other non-tariff barriers, such as quotas and local content rules, as well as tax consequences;
- fluctuations in currency exchange rates and the requirements of currency control regulations, which might restrict or prohibit conversion of other currencies into U.S. dollars; and
- political or social unrest or economic instability in a specific country or region in which we operate, including, for example, the effects of "Brexit," which could have an adverse impact on our operations in that location.

In addition to expanding our operations into international markets through the sale of our Connected Fitness Products and the production of our platform content, we have, and may in the future, expand our international operations through acquisitions of, or investments in, foreign entities, which may result in additional operational costs and risks. For example, as a result of our recent acquisition of Tonic, one of our manufacturing partners and a Taiwanese entity, we own and are responsible for managing a manufacturing plant in Taiwan. This acquisition requires us to, among other things, fulfill Tonic's obligations under existing service contracts that are unrelated to our current business, address the difficulties of managing a new workforce in a foreign country with different labor laws, customs, and language barriers, and successfully maintain relationships with Tonic's current suppliers and contract partners. Additionally, in December 2020, we announced our pending acquisition of Precor which serves more than 100 countries worldwide. As a result, we will need to increase our operations and efforts abroad, which could result in various integration challenges and amplify the various risks and costs of doing business in international markets described above

We have limited experience with international regulatory environments and market practices and may not be able to penetrate or successfully operate in the markets we choose to enter. In addition, we may incur significant expenses as a result of our international expansion, and we may not be successful. We may face limited brand recognition in certain parts of the world that could lead to non-acceptance or delayed acceptance of our products and services by consumers in new markets. We may also face challenges to acceptance of our fitness and wellness content in new markets. Our failure to successfully manage these risks could harm our international operations and have an adverse effect on our business, financial condition, and operating results.

We may engage in merger and acquisition activities, which could require significant management attention, disrupt our business, dilute stockholder value, and adversely affect our operating results.

As part of our business strategy, we have made and, in the future, intend to continue to make investments in other companies, products, or technologies, including acquisitions that may result in our entering markets or lines of business in which we do not currently have expertise. For example, in June 2018, we acquired Neurotic Media to develop a proprietary music platform that our instructors use to curate class playlists, and in October 2019, we acquired Tonic, one of our manufacturing partners. In December 2020, we announced our pending acquisition of Precor in order to establish U.S. manufacturing capacity, boost research and development capabilities, and accelerate our penetration of the commercial market.

We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all, in the future. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by Members, prospective Members, employees, or investors. Moreover, an acquisition, investment, or business relationship may result in unforeseen operating difficulties and expenditures, including disrupting our ongoing operations, diverting management from their primary responsibilities, subjecting us to additional liabilities, increasing our expenses, and adversely impacting our business, financial condition, and operating results. Some acquisitions may require us to spend considerable time, effort, and resources to integrate employees from the acquired business into our teams, and acquisitions of companies in lines of business in which we lack expertise may require considerable management time, oversight, and research before we see the desired benefit of such acquisitions. Therefore, we may be exposed to unknown liabilities and the anticipated benefits of any acquisition, investment, or business relationship may not be realized, if, for example, we fail to successfully integrate such acquisitions, or the technologies associated with such acquisitions, into our company.

To pay for any such acquisitions, we would have to use cash, incur debt, or issue equity securities, each of which may affect our financial condition or the value of our capital stock and could result in dilution to our stockholders. If we incur more debt it would result in increased fixed obligations and could also subject us to covenants or other restrictions that would impede our ability to manage our operations. Additionally, we may receive indications of interest from other parties interested in acquiring some or all of our business. The time required to evaluate such indications of interest could require significant attention from management, disrupt the ordinary functioning of our business, and could have an adverse effect on our business, financial condition, and operating results.

Any major disruption or failure of our information technology systems or websites, or our failure to successfully implement upgrades and new technology effectively, could adversely affect our business and operations.

Certain of our information technology systems are designed and maintained by us and are critical for the efficient functioning of our business, including the manufacture and distribution of our Connected Fitness Products, online sales of our Connected Fitness Products, and the ability of our Members to access content on our platform. Our rapid growth has, in certain instances, strained these systems. As we grow, we continue to implement modifications and upgrades to our systems, and these activities subject us to inherent costs and risks associated with replacing and upgrading these systems, including, but not limited to, impairment of our ability to fulfill customer orders and other disruptions in our business operations. Further, our system implementations may not result in productivity improvements at a level that outweighs the costs of implementation, or at all. If we fail to successfully implement modifications and upgrades or expand the functionality of our information technology systems, we could experience increased costs associated with diminished productivity and operating inefficiencies related to the flow of goods through our supply chain.

In addition, any unexpected technological interruptions to our systems or websites would disrupt our operations, including our ability to timely ship and track product orders, project inventory requirements, manage our supply chain, sell our Connected Fitness Products online, provide services to our Members, and otherwise adequately serve our Members.

Online sales of our Connected Fitness Products through www.onepeloton.com represented a significantly higher number of our units sold in the United States for fiscal 2020 versus previous years, due to the temporary closing of our retail showrooms. The operation of our direct to consumer e-commerce business through our website depends on our ability to maintain the efficient and uninterrupted operation of online order-taking and fulfillment operations. Any system interruptions or delays could prevent potential customers from purchasing our Connected Fitness Products.

Moreover, the ability of our Members to access the content on our platform could be diminished by a number of factors, including Members' inability to access the internet, the failure of our network or software systems, security breaches, or variability in Member traffic for our platform. Platform failures would be most impactful if they occurred during peak platform use periods, which generally occur before and after standard work hours. During these peak periods, there are a significant number of Members concurrently accessing our platform and if we are unable to provide uninterrupted access, our Members' perception of our platform's reliability may be damaged, our revenue could be reduced, our reputation could be harmed, and we may be required to issue credits or refunds, or risk losing Members.

In the event we experience significant disruptions, we may be unable to repair our systems in an efficient and timely manner which could have a material adverse effect on our business, financial condition, and operating results.

Our Member engagement on mobile devices depends upon effective operation with mobile and streaming device operating systems, networks, and standards that we do not control.

A significant and growing portion of our Members access our platform through the Peloton App and there is no guarantee that popular mobile devices or television streaming devices will continue to support the Peloton App or that device users will use the Peloton App rather than competing products. We are dependent on the interoperability of the Peloton App with popular mobile and television streaming operating systems that we do not control, such as Android and iOS, and any changes in such systems that degrade the functionality of our digital offering or give preferential treatment to competitors could adversely affect our platform's usage on mobile devices and televisions. Additionally, in order to deliver high-quality content, it is important that our digital offering is designed effectively and works well with a range of mobile and streaming technologies, systems, networks, and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile and streaming industry or in developing products that operate effectively with these technologies, systems, networks, or standards. In the event that it is more difficult for our Members to access and use our platform on their mobile devices or TVs, or Members find our App does not effectively meet their needs, our competitors develop products and services that are perceived to operate more effectively on mobile devices or TVs, or if our Members choose not to access or use our platform on their mobile devices or TVs or use products that do not offer access to our platform, our Member growth and Member engagement could be adversely impacted.

Our operating results could be adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory.

To ensure adequate inventory supply, we must forecast inventory needs and expenses and place orders sufficiently in advance with our suppliers and contract manufacturers, based on our estimates of future demand for particular products and services. Failure to accurately forecast our needs may result in manufacturing delays or increased costs. Our ability to accurately forecast demand could be affected by many factors, including changes in consumer demand for our products and services, changes in demand for the products and services of our competitors, unanticipated changes in general market conditions, and the weakening of economic conditions or consumer confidence in future economic conditions, such as those caused by the current COVID-19 outbreak. This risk will be exacerbated by the fact that we may not carry a significant amount of inventory and may not be able to satisfy short-term demand increases. For example, we have experienced an unexpected increase in demand for our Connected Fitness Products as a result of government shelter-in-place orders and other stay-at-home dynamics in response to the COVID-19 pandemic, which has resulted in inventory shortages, delayed delivery timelines and delays in fulfilling support requests. If we fail to accurately forecast consumer demand, we may experience excess inventory levels or a shortage of products available for sale.

Inventory levels in excess of consumer demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause our gross margins to suffer and could impair the strength and premium nature of our brand. Further, lower than forecasted demand could also result in excess manufacturing capacity or reduced manufacturing efficiencies, which could result in lower margins. Conversely, if we underestimate consumer demand, our suppliers and manufacturers may not be able to deliver products to meet our requirements or we may be subject to higher costs in order to secure the necessary production capacity. An inability to meet consumer demand and delays in the delivery of our products to our customers could result in reputational harm and damaged customer relationships and have an adverse effect on our business, financial condition, and operating results.

If we are unable to sustain pricing levels for our Connected Fitness Products and subscriptions, our business could be adversely affected.

If we are unable to sustain pricing levels for our portfolio of Connected Fitness Products and subscription services, whether due to competitive pressure or otherwise, our gross margins could be significantly reduced. Further, our decisions around the development of new products and services are grounded in assumptions about eventual pricing levels. If there is price compression in the market after these decisions are made, it could have a negative effect on our business.

Changes in how we market our products and services could adversely affect our marketing expenses and subscription levels.

We use a broad mix of marketing and other brand-building measures to attract Members. We use traditional television and online advertising, as well as third-party social media platforms such as Facebook, Twitter, and Instagram, as marketing tools. As television advertising, online, and social media platforms continue to rapidly evolve or grow more competitive, we must continue to maintain a presence on these platforms and establish a presence on new or emerging popular social media and advertising and marketing platforms. If we cannot cost effectively use these marketing tools, if we fail to promote our products and services efficiently and effectively, or if our marketing campaigns attract negative media attention, our ability to acquire new Members and our financial condition may suffer and the price of our Class A common stock could decline. In addition, an increase in the use of television, online, and social media for product promotion and marketing may increase the burden on us to monitor compliance of such materials and increase the risk that such materials could contain problematic product or marketing claims in violation of applicable regulations.

An economic downturn or economic uncertainty may adversely affect consumer discretionary spending and demand for our products and services.

Our products and services may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions, and other factors, such as consumer confidence in future economic conditions, fears of recession, the availability and cost of consumer credit, levels of unemployment, and tax rates. In particular, we believe that the current COVID-19 outbreak and its resulting global macroeconomic impact may adversely affect consumer discretionary spending and, though demand for our Connected Fitness Products and services has remained high due to government shelter-in-place orders and other stay at home trends, may result in decreased demand for our Connected Fitness Products in the long-term. In recent years, the United States and other significant economic markets have experienced cyclical downturns and worldwide economic conditions remain uncertain. As global economic conditions continue to be volatile or economic uncertainty remains, including due to the COVID-19 outbreak, trends in consumer discretionary spending also remain unpredictable and subject to reductions. To date, our business has operated almost exclusively in a relatively strong economic environment and, therefore, we cannot be sure the extent to which we may be affected by recessionary conditions. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products and services and consumer demand for our products and services may not grow as we expect. Our sensitivity to economic cycles and any related fluctuation in consumer demand for our products and services could have an adverse effect on our business, financial condition, and operating results.

Our revenue could decline due to changes in credit markets and decisions made by credit providers.

Historically, a majority of our customers have financed their purchase of our Connected Fitness Products through third-party credit providers with whom we have existing relationships. If we are unable to maintain our relationships with our financing partners, there is no guarantee that we will be able to find replacement partners who will provide our customers with financing on similar terms, and our ability to sell our Connected Fitness Products may be adversely affected. Further, reductions in consumer lending and the availability of consumer credit could limit the number of customers with the financial means to purchase our products. Higher interest rates could increase our costs or the monthly payments for consumer products financed through other sources of consumer financing. In the future, we cannot be assured that third-party financing providers will continue to provide consumers with access to credit or that available credit limits will not be reduced. Such restrictions or reductions in the availability of consumer credit, or the loss of our relationship with our current financing partners, could have an adverse effect on our business, financial conditions, and operating results.

We have a limited operating history with which to evaluate and predict the profitability of our subscription model. Additionally, we may introduce new revenue models in the future.

The majority of our Subscribers are on month-to-month subscription terms and may cancel their subscriptions at any time. We have limited historical data with respect to subscription renewals, so we may be unable to accurately predict customer renewal rates. Additionally, prior renewal rates may not accurately predict future Subscriber renewal rates for a variety of reasons, such as Subscribers' dissatisfaction with our offerings and the cost of our subscriptions, macroeconomic conditions, or new offering introductions by us or our competitors. If our Subscribers do not renew their subscriptions, our revenue may decline and our business will suffer. Moreover, while we have experienced a significant increase in our Subscriber base since the outbreak of COVID-19, it remains uncertain how the COVID-19 pandemic will impact Subscriber renewal rates in the long-term.

Furthermore, in the future, we may offer new subscription products, implement promotions, or replace or modify current subscription models, any of which could result in additional costs. It is unknown how our Subscribers will react to new models and whether the costs or logistics of implementing these models will adversely impact our business. If the adoption of new revenue models adversely impacts our Subscriber relationships, then Subscriber growth, Subscriber engagement, and our business, financial condition, and operating results could be harmed.

We track certain operational and business metrics with internal methods that are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

We track certain operational and business metrics, including Total Workouts and Average Monthly Workouts per Connected Fitness Subscription, with internal methods, which are not independently verified by any third party and, in particular for Peloton Digital, are often reliant upon an interface with mobile operating systems, networks and standards that we do not control. Our internal methods have limitations and our process for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including the metrics we report. If the internal methods we use under-count or over-count metrics related to our Total Workouts, Average Monthly Workouts per Connected Fitness Subscription or other metrics as a result of algorithm or other technical errors, the operational and business metrics that we report may not be accurate. In addition, limitations or errors with respect to how we measure certain operational and business metrics may affect our understanding of certain details of our business, which could affect our longer term strategies. If our operational and business metrics are not accurate representations of our business, market penetration, retention or engagement; if we discover material inaccuracies in our metrics; or if the metrics we rely on to track our performance do not provide an accurate measurement of our business, our reputation may be harmed, and our operating and financial results could be adversely affected.

The forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, we cannot assure you that our business will grow at a similar rate, if at all.

Growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The forecasts relating to the expected growth in the connected fitness and wellness market, including estimates based on our own internal survey data, may prove to be inaccurate. Even if the market experiences the growth we forecast, we may not grow our business at a similar rate, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties.

We or our Subscribers may be subject to sales and other taxes, and we may be subject to liabilities on past sales for taxes, surcharges, and fees.

The application of indirect taxes, such as sales and use tax, subscription sales tax, value-added tax, provincial taxes, goods and services tax, business tax, and gross receipt tax, to businesses like ours and to our Subscribers is a complex and evolving issue. Significant judgment is required to evaluate applicable tax obligations. In many cases, the ultimate tax determination is uncertain because it is not clear how existing statutes apply to our business. One or more states, the federal government, or other countries may seek to impose additional reporting, record-keeping, or indirect tax collection obligations on businesses like ours that offer subscription services and other fitness offerings. New taxes could also require us to incur substantial costs to capture data and collect and remit taxes. If such obligations were imposed, the additional costs associated with tax collection, remittance, and audit requirements could have an adverse effect on our business, financial condition, and operating results.

Covenants in the loan and security agreement governing our revolving credit facility may restrict our operations, and if we do not effectively manage our business to comply with these covenants, our financial condition could be adversely impacted.

We entered into the Amended Credit Agreement with JPMorgan Chase Bank, N.A., Bank of America, N.A., Barclays Bank PLC, Goldman Sachs Lending Partners LLC, and Silicon Valley Bank in June 2019, which amended and restated the loan and security agreement that we previously entered into in November 2017, providing for a $250.0 million secured revolving line of credit. The term loan and revolving credit facility contains various restrictive covenants, including, among other things, minimum liquidity and revenue requirements, restrictions on our ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to our stockholders, or enter into certain types of related party transactions. These restrictions may restrict our current and future operations, particularly our ability to respond to certain changes in our business or industry, or take future actions. Pursuant to the agreement, we granted the parties thereto a security interest in substantially all of our assets. See Note 8 of the notes to our consolidated financial statements and the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Amended Credit Agreement” in Part I, Item 2 of this Quarterly Report on Form 10-Q.

Our ability to meet these restrictive covenants can be impacted by events beyond our control and we may be unable to do so. Our loan and security agreement provide that our breach or failure to satisfy certain covenants constitutes an event of default. Upon the occurrence of an event of default, our lenders could elect to declare all amounts outstanding under its debt agreements to be immediately due and payable. In addition, our lenders would have the right to proceed against the assets we provided as collateral pursuant to the loan and security agreement. If the debt under our loan and security agreement was to be accelerated, we may not have sufficient cash on hand or be able to sell sufficient collateral to repay it, which would have an immediate adverse effect on our business and operating results. This could potentially cause us to cease operations and result in a complete loss of your investment in our Class A common stock.

In connection with our preparation of our annual financial statements for the year ended June 30, 2018, we and our independent registered public accounting firm identified material weaknesses in our internal control over financial reporting. Any failure to maintain effective internal control over financial reporting could harm us.

In the course of preparing our financial statements for fiscal 2018, we identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses identified related to information technology general controls, controls to address segregation of certain accounting duties, timely reconciliation and analysis of certain key accounts and the review of journal entries. We have concluded that these material weaknesses arose because, as a private company, we did not have the necessary business processes, systems, personnel and related internal controls necessary to satisfy the accounting and financial reporting requirements of a public company.

During fiscal 2020, we completed the remediation measures related to these material weaknesses and concluded that our internal control over financial reporting was effective as of June 30, 2020. Completion of remediation does not provide assurance that our remediation or other

controls will continue to operate properly. If we are unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately, and to prepare financial statements within required time periods could be adversely affected, which could subject us to litigation or investigations requiring management resources and payment of legal and other expenses, negatively affect investor confidence in our financial statements and adversely impact our stock price. If we are unable to assert that our internal control over financial reporting is effective, or when required in the future, if our independent registered public accounting firm is unable to express an unqualified opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, the market price of our Class A common stock could be adversely affected and we could become subject to litigation or investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

Furthermore, we cannot assure you that the measures we have taken to date, and actions we may take in the future, will be sufficient to remediate the control deficiencies that led to our material weaknesses in our internal control over financial reporting or that they will prevent or avoid potential future material weaknesses. Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods.

Because we ceased to be an "emerging growth company" on June 30, 2020, our independent registered public accounting firm will be required to formally attest to the effectiveness of our internal control over financial reporting beginning with our first annual report for the fiscal year ending June 30, 2021. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed, or operating. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will eventually be required to include in our periodic reports that are filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the Nasdaq Global Select Market.

Other Risks Related to Our Connected Fitness Products and Members

Our products and services may be affected from time to time by design and manufacturing defects that could adversely affect our business and result in harm to our reputation.

We offer complex hardware and software products and services that can be affected by design and manufacturing defects. Sophisticated operating system software and applications, such as those offered by us, often have issues that can unexpectedly interfere with the intended operation of hardware or software products. Defects may also exist in components and products that we source from third parties. Any such defects could make our products and services unsafe, create a risk of environmental or property damage and personal injury, and subject us to the hazards and uncertainties of product liability claims and related litigation. In addition, from time to time we may experience outages, service slowdowns, or errors that affect our fitness and wellness programming. As a result, our services may not perform as anticipated and may not meet customer expectations. There can be no assurance that we will be able to detect and fix all issues and defects in the hardware, software, and services we offer. Failure to do so could result in widespread technical and performance issues affecting our products and services and could lead to claims against us. We maintain general liability insurance; however, design and manufacturing defects, and claims related thereto, may subject us to judgments or settlements that result in damages materially in excess of the limits of our insurance coverage. In addition, we may be exposed to recalls, product replacements or modifications, write-offs of inventory, property and equipment, or intangible assets, and significant warranty and other expenses such as litigation costs and regulatory fines. If we cannot successfully defend any large claim, maintain our general liability insurance on acceptable terms, or maintain adequate coverage against potential claims, our financial results could be adversely impacted. Further, quality problems could adversely affect the experience for users of our products and services, and result in harm to our reputation, loss of competitive advantage, poor market acceptance, reduced demand for our products and services, delay in new product and service introductions, and lost revenue.

Our Members use their Connected Fitness Products, subscriptions, and fitness accessories to track and record their workouts. If our products fail to provide accurate metrics and data to our Members, our brand and reputation could be harmed and we may be unable to retain our Members.

Our Members use their Connected Fitness Products, subscriptions, and fitness accessories, such as our heart rate monitor, to track and record certain metrics related to their workouts. Examples of metrics tracked on our platform includes heart rate, calories burned, distance traveled, and, in the case of the Bike, cadence, resistance, and output, and, in the case of the Tread, pace, speed, and elevation. Taken together, these metrics assist our Members in tracking their fitness journey and understanding the effectiveness of their Peloton workouts. We anticipate introducing new metrics and features in the future. If the software used in our Connected Fitness Products or on our platform malfunctions and fails to accurately track, display, or record Member workouts and metrics, we could face claims alleging that our products and services do not operate as advertised. Such reports and claims could result in negative publicity, product liability claims, and, in some cases, may require us to expend time and resources to refute such claims and defend against potential litigation. If our products and services fail to provide accurate metrics and data to our Members, or if there are reports or claims of inaccurate metrics and data or claims of inaccuracy regarding the overall health benefits of our products and services in the future, we may become the subject of negative publicity, litigation, regulatory proceedings, and warranty claims, and our brand, operating results, and business could be harmed.

If we fail to offer high-quality Member support, our business and reputation will suffer.

Once our Connected Fitness Products are purchased, our Members rely on our high-touch delivery and set up service to deliver and install their equipment in a professional and efficient manner. Our Members also rely on our support services to resolve any issues related to the use of our Connected Fitness Products and content. Providing a high-quality Member experience is vital to our success in generating word-of-mouth referrals to drive sales and for retaining existing Members. Due to the COVID-19 pandemic, our ability to provide high-quality Member support has been significantly impacted. For example, due to COVID-19, we have at times been unable to provide in-home servicing of our Connected Fitness Products, we have at times had to pause and temporarily suspend the sale, delivery, and installation of the Tread, and delivery procedures for the Bike are still limited in some locations where we are unable to provide in-home delivery and set up services. In addition, the closure of our offices has forced our Member support staff to work from home, which may result in work-productivity issues or a decrease in efficiencies, particularly during times of high call volume as we have seen when delivery lead times get longer. The importance of high-quality support will increase as we expand our business and introduce new products and services. If we do not help our Members quickly resolve issues and provide effective ongoing support, our reputation may suffer and our ability to retain and attract Members, or to sell additional products and services to existing Members, could be harmed.

We may be subject to warranty claims that could result in significant direct or indirect costs, or we could experience greater product returns than expected, either of which could have an adverse effect on our business, financial condition, and operating results.

We generally provide a minimum 12-month limited warranty on all of our Connected Fitness Products. In addition, we permit returns of our Bike by first-time purchasers for a full refund within 30 days of delivery. The occurrence of any defects in our Connected Fitness Products could result in an increase in returns or make us liable for damages and warranty claims in excess of our current reserves, which could result in an adverse effect on our business prospects, liquidity, financial condition, and cash flows if returns or warranty claims were to materially exceed anticipated levels. Due to the current COVID-19 pandemic, we may experience higher product returns as consumer discretionary spending decreases. Moreover, in light of changes we have made to our delivery procedures in connection with the current COVID-19 outbreak, it is possible that warranty claims may increase above historical rates, and we may be unable to satisfactorily validate and resolve warranty claims where the COVID-19 pandemic prevents us from performing in-home service appointments. For example, if we are unable to resolve warranty claims through in-home service appointments, in some cases we have sent the Member a replacement Bike frame and have requested that they hold the impaired Bike frame until a later date when we can safely retrieve it. In addition, we have been, and in the future could be, subject to costs related to product recalls, and we could incur significant costs to correct any defects, warranty claims, or other problems. Any negative publicity related to the perceived quality and safety of our products could affect our brand image, decrease consumer and Member confidence and demand, and adversely affect our financial condition and operating results. Also, while our warranty is limited to repairs and returns, warranty claims may result in litigation, the occurrence of which could have an adverse effect on our business, financial condition, and operating results.

In addition to warranties supplied by us, we also offer the option for customers to purchase third-party extended warranty and services contracts in some markets, which creates an ongoing performance obligation over the warranty period. Extended warranties are regulated in the United States on a state level and are treated differently by state. Outside the United States, regulations for extended warranties vary from country to country. Changes in interpretation of the insurance regulations or other laws and regulations concerning extended warranties on a federal, state, local, or international level may cause us to incur costs or have additional regulatory requirements to meet in the future. Our failure to comply with past, present, and future similar laws could result in reduced sales of our products, reputational damage, penalties, and other sanctions, which could have an adverse effect on our business, financial condition, and operating results.

Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our products.

We are subject to requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which will require us to conduct due diligence on and disclose whether or not our products contain conflict minerals. The implementation of these requirements could adversely affect the sourcing, availability, and pricing of the materials used in the manufacture of components used in our products. In addition, we will incur additional costs to comply with the disclosure requirements, including costs related to conducting diligence procedures to determine the sources of minerals that may be used or necessary to the production of our products and, if applicable, potential changes to products, processes, or sources of supply as a consequence of such due diligence activities. It is also possible that we may face reputational harm if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to alter our products, processes, or sources of supply to avoid such materials.

Risks Related to Laws, Regulation, and Legal Proceedings

From time to time, we may be subject to legal proceedings, regulatory disputes, and governmental inquiries that could cause us to incur significant expenses, divert our management's attention, and materially harm our business, financial condition, and operating results.

From time to time, we may be subject to claims, lawsuits, government investigations, and other proceedings involving products liability, competition and antitrust, intellectual property, privacy, consumer protection, securities, tax, labor and employment, commercial disputes, and other matters that could adversely affect our business operations and financial condition. As we have grown, we have seen a rise in the number and significance of these disputes and inquiries. Litigation and regulatory proceedings, and particularly the intellectual property infringement matters that we are currently facing or could face, may be protracted and expensive, and the results are difficult to predict. Certain of these matters include speculative claims for substantial or indeterminate amounts of damages and include claims for injunctive relief. Additionally, our litigation costs could be significant. Adverse outcomes with respect to litigation or any of these legal proceedings may result in significant settlement costs or judgments, penalties and fines, or require us to modify our products or services, make content unavailable, or require us to stop offering certain features, all of which could negatively affect our membership and revenue growth. See Note 9 of the notes to our condensed consolidated financial statements and the section titled "—Legal Proceedings" in Part II, Item 1 of this Quarterly Report on Form 10-Q.

The results of litigation, investigations, claims, and regulatory proceedings cannot be predicted with certainty, and determining reserves for pending litigation and other legal and regulatory matters requires significant judgment. There can be no assurance that our expectations will prove correct, and even if these matters are resolved in our favor or without significant cash settlements, these matters, and the time and resources necessary to litigate or resolve them, could harm our business, financial condition, and operating results.

We collect, store, process, and use personal information and other Member data, which subjects us to legal obligations and laws and regulations related to security and privacy, and any actual or perceived failure to meet those obligations could harm our business.

We collect, process, store, and use a wide variety of data from current and prospective Members, including personal information, such as home addresses and geolocation. Federal, state, and international laws and regulations governing privacy, data protection, and e-commerce transactions require us to safeguard our Members' personal information. Although we have established security procedures to protect Member information, our or our third-party service providers' security and testing measures may not prevent security breaches. Further, advances in computer capabilities, new discoveries in the field of cryptography, inadequate facility security, or other developments may result in a compromise or breach of the technology we use to protect Member data. Any compromise of our security or breach of our Members' privacy could harm our reputation or financial condition and, therefore, our business.

In addition, a party who circumvents our security measures or exploits inadequacies in our security measures, could, among other effects, misappropriate Member data or other proprietary information, cause interruptions in our operations, or expose Members to computer viruses or other disruptions. Actual or perceived vulnerabilities may lead to claims against us. To the extent that the measures we or our third-party business partners have taken prove to be insufficient or inadequate, we may become subject to litigation, breach notification obligations, or regulatory or administrative sanctions, which could result in significant fines, penalties, or damages and harm to our reputation. Depending on the nature of the information compromised, in the event of a data breach or other unauthorized access to our Member data, we may also have obligations to notify Members about the incident and we may need to provide some form of remedy, such as a subscription to a credit monitoring service, for the individuals affected by the incident. A growing number of legislative and regulatory bodies have adopted consumer notification requirements in the event of unauthorized access to or acquisition of certain types of personal data. Such breach notification laws continue to evolve and may be inconsistent from one jurisdiction to another. Complying with these obligations could cause us to incur substantial costs and could increase negative publicity surrounding any incident that compromises Member data.

Furthermore, we may be required to disclose personal data pursuant to demands from individuals, privacy advocates, regulators, government agencies, and law enforcement agencies in various jurisdictions with conflicting privacy and security laws. This disclosure or refusal to disclose personal data may result in a breach of privacy and data protection policies, notices, laws, rules, court orders, and regulations and could result in proceedings or actions against us in the same or other jurisdictions, damage to our reputation and brand, and inability to provide our products and services to consumers in certain jurisdictions. Additionally, changes in the laws and regulations that govern our collection, use, and disclosure of Member data could impose additional requirements with respect to the retention and security of Member data, could limit our marketing activities, and have an adverse effect on our business, financial condition, and operating results.

We are subject to governmental export and import controls and economic sanction laws that could subject us to liability and impair our ability to compete in international markets.

The United States and various foreign governments have imposed controls, export license requirements, and restrictions on the import or export of certain technologies. Our products may be subject to U.S. export controls, which may require submission of a product classification and annual or semi-annual reports. Compliance with applicable regulatory requirements regarding the export of our products and services may create delays in the introduction of our products and services in international markets, prevent our international Members from accessing our products and services, and, in some cases, prevent the export of our products and services to some countries altogether.

Furthermore, U.S. export control laws and economic sanctions prohibit the provision of products and services to countries, governments, and persons targeted by U.S. sanctions. Even though we take precautions to prevent our products from being provided to targets of U.S. sanctions, our products and services, including our firmware updates, could be provided to those targets or provided by our Members. Any such provision could have negative consequences, including government investigations, penalties, reputational harm. Our failure to obtain required import or export approval for our products could harm our international and domestic sales and adversely affect our revenue.

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

Failure to comply with anti-corruption and anti-money laundering laws, including the FCPA and similar laws associated with our activities outside of the United States, could subject us to penalties and other adverse consequences.

We operate a global business and may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the U.K. Bribery Act, and possibly other anti-bribery and anti-money laundering laws in countries in which we conduct activities. These laws that prohibit companies and their employees and third-party intermediaries from corruptly promising, authorizing, offering, or providing, directly or indirectly, improper payments or anything of value to foreign government officials, political parties, and private-sector recipients for the purpose of obtaining or retaining business, directing business to any person, or securing any advantage. In addition, U.S. public companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. In many foreign countries, including countries in which we may conduct business, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. We face significant risks if we or any of our directors, officers, employees, agents or other partners or representatives fail to comply with these laws and governmental authorities in the

United States and elsewhere could seek to impose substantial civil and/or criminal fines and penalties which could have a material adverse effect on our business, reputation, operating results and financial condition.

We have implemented an anti-corruption compliance program and policies, procedures and training designed to foster compliance with these laws, however, our employees, contractors, and agents, and companies to which we outsource certain of our business operations, may take actions in violation of our policies or applicable law. Any such violation could have an adverse effect on our reputation, business, operating results and prospects.

Any violation of the FCPA, other applicable anti-corruption laws, or anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracts, any of which could have a materially adverse effect on our reputation, business, operating results, and prospects. In addition, responding to any enforcement action may result in a significant diversion of management's attention and resources and significant defense costs and other professional fees.

Changes in legislation in U.S. and foreign taxation of international business activities or the adoption of other tax reform policies, as well as the application of such laws, could adversely impact our financial position and operating results.

Recent or future changes to U.S., U.K. and other foreign tax laws could impact the tax treatment of our foreign earnings. We generally conduct our international operations through wholly owned subsidiaries, branches, or representative offices and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Further, we are in the process of implementing an international structure that aligns with our financial and operational objectives as evaluated based on our international markets, expansion plans, and operational needs for headcount and physical infrastructure outside the United States. The intercompany relationships between our legal entities are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. Although we believe we are compliant with applicable transfer pricing and other tax laws in the United States, the United Kingdom, and other relevant countries, changes in such laws and rules may require the modification of our international structure in the future, which will incur costs, may increase our worldwide effective tax rate, and may adversely affect our financial position and operating results. In addition, significant judgment is required in evaluating our tax positions and determining our provision for income taxes.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in foreign currency exchange rates, or by changes in the relevant tax, accounting, and other laws, regulations, principles, and interpretations. As we operate in numerous taxing jurisdictions, the application of tax laws can be subject to diverging and sometimes conflicting interpretations by tax authorities of these jurisdictions. It is not uncommon for taxing authorities in different countries to have conflicting views with respect to, among other things, the manner in which the arm's-length standard is applied for transfer pricing purposes, or with respect to the valuation of intellectual property.

If U.S., U.K., or other foreign tax laws further change, if our current or future structures and arrangements are challenged by a taxing authority, or if we are unable to appropriately adapt the manner in which we operate our business, we may have to undertake further costly modifications to our international structure and our tax liabilities and operating results may be adversely affected.

Risks Related to Intellectual Property

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services, and brand.

Our success depends in large part on our proprietary technology and our patents, trade secrets, trademarks, and other intellectual property rights. We rely on, and expect to continue to rely on, a combination of trademark, trade dress, domain name, copyright, trade secret and patent laws, as well as confidentiality and license agreements with our employees, contractors, consultants, and third parties with whom we have relationships, to establish and protect our brand and other intellectual property rights. However, our efforts to protect our intellectual property rights may not be sufficient or effective, and any of our intellectual property rights may be challenged, which could result in them being narrowed in scope or declared invalid or unenforceable. There can be no assurance that our intellectual property rights will be sufficient to protect against others offering products, services, or technologies that are substantially similar to ours and that compete with our business.

Effective protection of patents, trademarks, and domain names is expensive and difficult to maintain, both in terms of application and registration costs as well as the costs of defending and enforcing those rights. As we have grown, we have sought to obtain and protect our intellectual property rights in an increasing number of countries, a process that can be expensive and may not always be successful. For example, the U.S. Patent and Trademark Office and various foreign governmental patent agencies require compliance with a number of procedural requirements to complete the patent application process and to maintain issued patents, and noncompliance or non-payment could result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in a relevant jurisdiction. Further, intellectual property protection may not be available to us in every country in which our products and services are available. For example, some foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. In addition, many countries limit the enforceability of patents against certain third parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit.

In order to protect our brand and intellectual property rights, we spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights can be costly, time-consuming, and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. Accordingly, we may not be

able to prevent third parties from infringing upon or misappropriating our intellectual property. Our failure to secure, protect, and enforce our intellectual property rights could seriously damage our brand and our business.

We have been, and in the future may be, sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our market, and litigation, based on allegations of infringement or other violations of intellectual property, is frequent in the fitness and technology industries. Furthermore, it is common for individuals and groups to purchase patents and other intellectual property assets for the purpose of making claims of infringement to extract settlements from companies like ours. Our use of third-party content, including music content, software, and other intellectual property rights may be subject to claims of infringement or misappropriation. We cannot guarantee that our internally developed or acquired technologies and content do not or will not infringe the intellectual property rights of others. From time to time, our competitors or other third parties may claim that we are infringing upon or misappropriating their intellectual property rights, and we may be found to be infringing upon such rights. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our platform or services or using certain technologies, force us to implement expensive work-arounds, or impose other unfavorable terms. We expect that the occurrence of infringement claims is likely to grow as the market for fitness products and services grows and as we introduce new and updated products and offerings. Accordingly, our exposure to damages resulting from infringement claims could increase and this could further exhaust our financial and management resources. Further, during the course of any litigation, we may make announcements regarding the results of hearings and motions, and other interim developments. If securities analysts and investors regard these announcements as negative, the market price of our Class A common stock may decline. Even if intellectual property claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and require significant expenditures. Any of the foregoing could prevent us from competing effectively and could have an adverse effect on our business, financial condition, and operating results.

We cannot compel third parties to license their music to us, and our business may be adversely affected if our access to music is limited. The concentration of control of content by major music licensors means that the actions of one or a few licensors may adversely affect our ability to provide our service.

We enter into license agreements to obtain rights to use music in our service, including with major record companies (Sony Music Entertainment, Universal Music Group, and Warner Music Group), independent record labels, major music publishers (Sony/ATV Music Publishing, Universal Music Publishing Group, and Warner/Chappell Music), and independent music publishers and administrators who collectively hold the rights to a significant number of sound recordings and musical compositions.

Comprehensive and accurate ownership information for the musical compositions embodied in sound recordings is sometimes unavailable, or in some cases, impossible to obtain if withheld by the owners or administrators of such rights. In some cases, we obtain ownership information directly from music publishers, and in other cases we rely on the assistance of third parties to determine ownership information.

If the information provided to us or obtained by such third parties does not comprehensively or accurately identify the ownership of musical compositions, or if we are unable to determine which musical compositions correspond to specific sound recordings, it becomes difficult or impossible to identify the appropriate rights holders to whom to pay royalties. This may make it difficult to comply with the obligations of any agreements with those rights holders or to secure the appropriate licenses with all necessary parties.

Given the high level of content concentration in the music industry, the market power of a few licensors, and the lack of transparent ownership information for compositions, we may be unable to license a large amount of music or the music of certain popular artists, and our business, financial condition, and operating results could be materially harmed.

We are a party to many music license agreements that are complex and impose numerous obligations upon us that may make it difficult to operate our business, and a breach of such agreements could adversely affect our business, operating results, and financial condition.

Our license agreements are complex and impose numerous obligations on us, including obligations to, among other things:

- calculate and make payments based on complex royalty structures, which requires tracking usage of content in our service that may have inaccurate or incomplete metadata necessary for such calculation;
- provide periodic reports on the exploitation of the content in specified formats;
- represent that we will obtain all necessary publishing licenses and consents and pay all associated fees, royalties, and other amounts due for the licensing of musical compositions;
- comply with certain marketing and advertising restrictions;
- grant the licensor the right to audit our compliance with the terms of such agreements; and
- comply with certain security and technical specifications.

Certain of our license agreements also contain minimum guarantees or require that we make minimum guarantee or advance payments, which are not always tied to our number of Subscribers or stream counts for music used in our service. Accordingly, our ability to achieve and sustain profitability and operating leverage in part depends on our ability to increase our revenue through increased sales of Subscriptions on terms that maintain an adequate gross margin. Our license agreements that contain minimum guarantees typically have terms of between one and three years, but our Subscribers may cancel their subscriptions at any time. We rely on estimates to forecast whether such minimum guarantees and advances against royalties could be recouped against our actual content costs incurred over the term of the license agreement. To the extent

that our estimates underperform relative to our expectations, and our content costs do not exceed such minimum guarantees and advance payments, our margins may be adversely affected.

Some of our license agreements also include so-called “most-favored nations” provisions, which require that certain terms (including material financial terms) are no less favorable than those provided to any similarly situated licensor. If agreements are amended or new agreements are entered into on more favorable terms, these most-favored nations provisions could cause our payment or other obligations to escalate substantially. Additionally, some of our license agreements require consent to undertake new business initiatives utilizing the licensed content (e.g., alternative distribution models), and without such consent, our ability to undertake new business initiatives may be limited and our competitive position could be impacted.

If we breach any obligations in any of our license agreements, or if we use content in ways that are found to exceed the scope of such agreements, we could be subject to monetary penalties or claims of infringement, and our rights under such agreements could be terminated.

In the past, we have entered into agreements that required us to make substantial payments to licensors to resolve instances of past use at the same time that we enter into go-forward licenses. These agreements may also include most-favored nations provisions. If triggered, these most favored nations provisions could cause our payments or other obligations under those agreements to escalate substantially. If we need to enter into additional similar agreements in the future, it could have a material adverse effect on our business, financial condition, and operating results.

We face risks, such as unforeseen costs and potential liability in connection with content we produce, license, and distribute through our platform.

As a producer and distributor of content, we face potential liability for negligence, copyright, and trademark infringement, or other claims based on the nature and content of materials that we produce, license, and distribute. We also may face potential liability for content used in promoting our service, including marketing materials. We may decide to remove content from our service, not to place certain content on our service, or to discontinue or alter our production of certain types of content if we believe such content might not be well received by our Members or could be damaging to our brand and business.

To the extent we do not accurately anticipate costs or mitigate risks, including for content that we obtain but ultimately does not appear on or is removed from our service, or if we become liable for content we produce, license or distribute, our business may suffer. Litigation to defend these claims could be costly and the expenses and damages arising from any liability could harm our results of operations. We may not be indemnified against claims or costs of these types and we may not have insurance coverage for these types of claims.

Some of our products and services contain open source software, which may pose particular risks to our proprietary software, technologies, products, and services in a manner that could harm our business.

We use open source software in our products and services and anticipate using open source software in the future. Some open source software licenses require those who distribute open source software as part of their own software product to publicly disclose all or part of the source code to such software product or to make available any derivative works of the open source code on unfavorable terms or at no cost. The terms of many open source licenses to which we are subject have not been interpreted by U.S or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our products or services. Additionally, we could face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we 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, purchase a costly license, or cease offering the implicated products or services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require us to expend significant additional research and development resources, and we cannot guarantee that we will be successful.

Additionally, the use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of software. There is typically no support available for open source software, and we cannot ensure that the authors of such open source software will implement or push updates to address security risks or will not abandon further development and maintenance. Many of the risks associated with the use of open source software, such as the lack of warranties or assurances of title or performance, cannot be eliminated, and could, if not properly addressed, negatively affect our business. We have processes to help alleviate these risks, including a review process for screening requests from our developers for the use of open source software, but we cannot be sure that all open source software is identified or submitted for approval prior to use in our products and services. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could have an adverse effect on our business, financial condition, and operating results.

Risks Related to Service Providers and Our Employees

We rely heavily on third parties for most of our computing, storage, processing, and similar services. Any disruption of or interference with our use of these third-party services could have an adverse effect on our business, financial condition, and operating results.

We have outsourced our cloud infrastructure to third-party providers, and we currently use these providers to host and stream our services and content. We are therefore vulnerable to service interruptions experienced by these providers and we expect to experience interruptions, delays, or outages in service availability in the future due to a variety of factors, including infrastructure changes, human, hardware or software errors, hosting disruptions, and capacity constraints. Outages and capacity constraints could arise from a number of causes such as technical failures, natural disasters and global pandemics, fraud, or security attacks. The level of service provided by these providers, or regular or prolonged

interruptions in that service, could also affect the use of, and our Members' satisfaction with, our products and services and could harm our business and reputation. In addition, hosting costs will increase as membership engagement grows, which could harm our business if we are unable to grow our revenue faster than the cost of using these services or the services of similar providers.

Furthermore, our providers have broad discretion to change and interpret the terms of service and other policies with respect to us, and those actions may be unfavorable to our business operations. Our providers may also take actions beyond our control that could seriously harm our business, including discontinuing or limiting our access to one or more services, increasing pricing terms, terminating or seeking to terminate our contractual relationship altogether, or altering how we are able to process data in a way that is unfavorable or costly to us. Although we expect that we could obtain similar services from other third parties, if our arrangements with our current providers were terminated, we could experience interruptions on our platform and in our ability to make our content available to Members, as well as delays and additional expenses in arranging for alternative cloud infrastructure services.

Any of these factors could further reduce our revenue, subject us to liability, and cause our Subscribers to decline to renew their subscriptions, any of which could have an adverse effect on our business, financial condition, and operating results.

In addition, customers of certain of our providers have been subject to litigation by third parties claiming that the service and basic HTTP functions infringe their patents. If we become subject to such claims, although we expect our provider to indemnify us with respect to at least a portion of such claims, the litigation may be time consuming, divert management's attention, and, if our provider failed to indemnify us, adversely impact our operating results.

Our future success depends on the continuing efforts of our key employees and our ability to attract and retain highly skilled personnel and senior management.

Our future success depends, in part, on our ability to continue to identify, attract, develop, integrate, and retain qualified and highly skilled personnel, including senior management, engineers, producers, designers, product managers, logistics and supply chain personnel, retail managers, and fitness instructors. In particular, we are highly dependent on the services of John Foley, our Chief Executive Officer and co-founder, who is critical to the development of our business, future vision, and strategic direction. We also heavily rely on the continued service and performance of our senior management team, which provides leadership, contributes to the core areas of our business and helps us to efficiently execute our business. If members of our senior management team become ill due to the current COVID-19 pandemic, we may not be able to manage our business effectively and, as a result, our business and operating results could be harmed.

Also imperative to our success are our fitness instructors, who we rely on to bring new, exciting, and innovative fitness and wellness content to our platform, and who act as brand ambassadors. If the senior management team, including any new hires that we make, fails to work together effectively and to execute our plans and strategies on a timely basis then our business and future growth prospects could be harmed.

Additionally, the loss of any key personnel could make it more difficult to manage our operations and research and development activities, reduce our employee retention and revenue, and impair our ability to compete. Although we have entered into employment offer letters with our key personnel, these agreements have no specific duration and constitute at-will employment. We do not maintain key person life insurance policies on any of our employees.

Competition for highly skilled personnel is often intense, especially in New York City, where we have a substantial presence and need for highly skilled personnel. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our Class A common stock declines, it may adversely affect our ability to hire or retain highly skilled employees. In addition, we may periodically change our equity compensation practices, which may include reducing the number of employees eligible for equity awards or reducing the size of equity awards granted per employee. If we are unable to attract, integrate, or retain the qualified and highly skilled personnel required to fulfill our current or future needs, our business and future growth prospects could be harmed.

If we cannot maintain our "One Peloton" culture as we grow, we could lose the innovation, teamwork, and passion that we believe contribute to our success and our business may be harmed.

We believe that a critical component of our success has been our corporate culture. We have invested substantial time and resources in building our "One Peloton" culture, which is based on the idea that if we work together, we will be more efficient and perform better because of one another. As we continue to grow, including geographically expanding our presence outside of our headquarters in New York City, and developing the infrastructure associated with being a public company, we will need to maintain our "One Peloton" culture among a larger number of employees, dispersed across various geographic regions. The widespread stay-at-home orders and other limitations requiring work from home resulting from the COVID-19 pandemic have required us to make substantial changes to the way that the vast majority of our employee population does their work, and we have faced new and unforeseen challenges arising from the management of remote, geographically dispersed teams. Our response to the changing work environment has included a number of employee-focused benefits initiatives, such as child care and work from home technology reimbursements, which are aimed at increasing productivity and employee morale and which have increased our costs. Any failure to preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives.

Our management team has limited experience managing a public company.

Most members of our management team have limited experience managing a publicly traded company, interacting with public company investors, and complying with the increasingly complex laws pertaining to public companies. We are subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These obligations and constituents require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial condition, and operating results.

Other General Risk Factors

We may require additional capital to support business growth and objectives, and this capital might not be available to us on reasonable terms, if at all, and may result in stockholder dilution.

We expect that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for the foreseeable future. However, we intend to continue to make investments to support our business growth and may require additional capital to fund our business and to respond to competitive challenges, including the need to promote our products and services, develop new products and services, enhance our existing products, services, and operating infrastructure, and potentially to acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. There can be no assurance that such additional funding will be available on terms attractive to us, or at all. Our inability to obtain additional funding when needed could have an adverse effect on our business, financial condition, and operating results. If additional funds are raised through the issuance of equity or convertible debt securities, holders of our Class A common stock could suffer significant dilution, and any new shares we issue could have rights, preferences, and privileges superior to those of our Class A common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

We are subject to payment processing risk.

Our customers pay for our products and services using a variety of different payment methods, including credit and debit cards, gift cards, and online wallets. We rely on internal systems as well as those of third parties to process payment. Acceptance and processing of these payment methods are subject to certain rules and regulations and require payment of interchange and other fees. To the extent there are disruptions in our payment processing systems, increases in payment processing fees, material changes in the payment ecosystem, such as large re-issuances of payment cards, delays in receiving payments from payment processors, or changes to rules or regulations concerning payment processing, our revenue, operating expenses and results of operation could be adversely impacted. We leverage our third-party payment processors to bill Subscribers on our behalf. If these third parties become unwilling or unable to continue processing payments on our behalf, we would have to find alternative methods of collecting payments, which could adversely impact Subscriber acquisition and retention. In addition, from time to time, we encounter fraudulent use of payment methods, which could impact our results of operation and if not adequately controlled and managed could create negative consumer perceptions of our service.

Cybersecurity risks could adversely affect our business and disrupt our operations.

Threats to network and data security are increasingly diverse and sophisticated. Despite our efforts and processes to prevent breaches, our products and services, as well as our servers, computer systems, and those of third parties that we use in our operations are vulnerable to cybersecurity risks, including cyber-attacks such as viruses and worms, phishing attacks, denial-of-service attacks, physical or electronic break-ins, third-party or employee theft or misuse, and similar disruptions from unauthorized tampering with our servers and computer systems or those of third parties that we use in our operations, which could lead to interruptions, delays, loss of critical data, unauthorized access to Member data, and loss of consumer confidence. In addition, we may be the target of email scams that attempt to acquire personal information or company assets. Despite our efforts to create security barriers to such threats, we may not be able to entirely mitigate these risks. Additionally, due to the current COVID-19 pandemic, there is an increased risk that we may experience cybersecurity related incidents as a result of our employees, service providers, and third parties working remotely on less secure systems during government mandated shelter-in-place orders. Any cyber-attack that attempts to obtain our or our Members' data and assets, disrupt our service, or otherwise access our systems, or those of third parties we use, if successful, could adversely affect our business, and financial condition and operating results, be expensive to remedy, and damage our reputation. In addition, any such breaches may result in negative publicity, and adversely affect our brand, impacting demand for our products and services, and could have an adverse effect on our business, financial condition, and operating results.

Our ability to use our net operating loss to offset future taxable income may be subject to certain limitations.

As of June 30, 2020, we had U.S. federal net operating loss carryforwards, or NOLs, and state NOLs of approximately $191.1 million and $99.6 million, respectively, due to prior period losses which if not utilized will begin to expire for federal and state tax purposes beginning in 2036 and 2021, respectively. Realization of these NOLs depends on future income, and there is a risk that our existing NOLs could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our operating results.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs to offset future taxable income. We have undergone three ownership changes on November 30, 2015 and April 18, 2017 and February 24, 2020 and our NOLs arising before those dates are subject to one or more Section 382 limitations which may materially limit the use of such NOLs to offset our future taxable income. In addition, future changes in our stock ownership, the causes of which may be outside of our control, could result in an additional ownership change under Section 382 of the Code. Our NOLs may also be impaired under state laws. In addition, under the 2017 Tax Cuts and Jobs Act, or Tax Act, tax losses generated in taxable years beginning after December 31, 2017 may be utilized to offset no more than 80% of taxable income annually. This change may require us to pay federal income taxes in future years despite generating a loss for federal income tax purposes. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security, or CARES Act, was signed into law.

The CARES Act changes certain provisions of the Tax Act. Under the CARES Act, NOLs arising in taxable years beginning after December 31, 2017 and before January 1, 2021 may be carried back to each of the five taxable years preceding the tax year of such loss, but NOLs arising in taxable years beginning after December 31, 2020 may not be carried back. In addition, the CARES Act eliminates the limitation on the deduction of NOLs to 80% of current year taxable income for taxable years beginning before January 1, 2021. It is uncertain if and to what extent various states will conform to the Tax Act, as modified by the CARES Act. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability.

We may face exposure to foreign currency exchange rate fluctuations.

While we have historically transacted in U.S. dollars with the majority of our Subscribers and suppliers, we have transacted in some foreign currencies, such as the Euro, Canadian Dollar and U.K Pound Sterling, and may transact in more foreign currencies in the future. Further, certain of our manufacturing agreements provide for fixed costs of our Connected Fitness Products and hardware in Taiwanese dollars but provide for payment in U.S. dollars based on the then-current Taiwanese dollar to U.S. dollar spot rate. Accordingly, changes in the value of foreign currencies relative to the U.S. dollar can affect our revenue and operating results. As a result of such foreign currency exchange rate fluctuations, it could be more difficult to detect underlying trends in our business and operating results. In addition, to the extent that fluctuations in currency exchange rates cause our operating results to differ from our expectations or the expectations of our investors, the trading price of our Class A common stock could be lowered. We use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place and may introduce additional risks if we are unable to structure effective hedges with such instruments.

The requirements of being a public company, including maintaining adequate internal control over our financial and management systems, may strain our resources, divert management's attention, and affect our ability to attract and retain executive management and qualified board members.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the rules subsequently implemented by the SEC, the rules and regulations of the listing standards of The Nasdaq Stock Market LLC and other applicable securities rules and regulations. Compliance with these rules and regulations has increased our legal and financial compliance costs and strains our financial and management systems, internal controls, and employees.

The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results. Moreover, the Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures, and internal control, over financial reporting. We will be required to make a formal assessment and provide an annual management report on the effectiveness of our internal control over financial reporting beginning with our annual report for the fiscal year ended June 30, 2021. In order to maintain and, if required, improve our disclosure controls and procedures, and internal control over, financial reporting to meet this standard, significant resources and management oversight may be required. In the course of preparing our financial statements for fiscal 2018, we identified material weaknesses in our internal control over financial reporting. If, in the future, we have material weaknesses or deficiencies in our internal control over financial reporting, we may not detect errors on a timely basis and our consolidated financial statements may be materially misstated. Effective internal control is necessary for us to produce reliable financial reports and is important to prevent fraud.

In addition, we ceased to be an "emerging growth company" on June 30, 2020, and therefore, pursuant to Sections 302 and 404 of the Sarbanes-Oxley Act, we will be required to evaluate and determine the effectiveness, provide a management report and that we will be subject to attestation by our independent registered public accounting firm of our internal control over financial reporting beginning with our annual report for the fiscal year ending June 30, 2021. We expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management's attention may be diverted from other business concerns, which could harm our business, operating results, and financial condition. Although we have already hired additional employees to assist us in complying with these requirements, our finance team is small and we may need to hire more employees in the future, or engage outside consultants, which will increase our operating expenses.

The new rules and regulations applicable to public companies, and stockholder litigation brought recently against public companies, have made it more expensive for us to obtain and maintain director and officer liability insurance, and we may be required to incur substantially higher costs to obtain and maintain the same or similar coverage. These factors could also make it more difficult for us to attract and retain qualified members on our board of directors, or our Board of Directors, and qualified executive officers.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in Part I, Item 2 of this Quarterly Report on Form 10-Q. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and stockholders' equity/deficit, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue related reserves, the realizability of inventory, content costs for past use reserve, fair value measurements including common stock valuations, the incremental borrowing rate associated with lease liabilities, useful lives of property and equipment, product warranty, goodwill and finite-lived intangible assets, accounting for income taxes, stock-based compensation expense and commitments and contingencies. Our operating results may be

adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our Class A common stock.

Our reported financial results may be negatively impacted by changes in GAAP.

GAAP is a combination of accepted ways of recording and reporting accounting information and authoritative standards set by the Financial Accounting Standards Board, or FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and may even affect the reporting of transactions completed before the announcement or effectiveness of a change.

Our business is subject to the risk of earthquakes, fire, power outages, floods, public health crises, including the current COVID-19 pandemic, and other catastrophic events, and to interruption by man-made problems such as terrorism.

Our business is vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war, human errors, break-ins, public health crises, including the COVID-19 pandemic, and similar events. The third-party systems and operations and contract manufacturers we rely on are subject to similar risks. Our insurance policies may not cover losses from these events or may provide insufficient compensation that does not cover our total losses. For example, a significant natural disaster, such as an earthquake, fire, or flood, could have an adverse effect on our business, financial condition and operating results, and our insurance coverage may be insufficient to compensate us for losses that may occur. Another example is the effect of the COVID-19 pandemic on major construction projects, including our New York headquarters and London studio projects, both of which have been delayed due to local government orders. Acts of terrorism, which may be targeted at metropolitan areas that have higher population density than rural areas, could also cause disruptions in our or our suppliers' and contract manufacturers' businesses or the economy as a whole. We may not have sufficient protection or recovery plans in some circumstances, such as natural disasters affecting locations that store significant inventory of our products, that house our servers, or from which we generate content. As we rely heavily on our computer and communications systems, and the internet to conduct our business and provide high-quality customer service, these disruptions could negatively impact our ability to run our business and either directly or indirectly disrupt suppliers' and our contract manufacturers' businesses, which could have an adverse effect on our business, financial condition, and operating results.

Risks Related to the Ownership of Our Class A Common Stock

The stock price of our Class A common stock has been, and will likely continue to be, volatile and you could lose all or part of your investment.

The market price of our Class A common stock has been, and will likely continue to be, volatile. Since shares of our Class A common stock were sold in our IPO in September 2019 at a price of $29.00 per share, our stock price has ranged from $17.70 to $171.09 through January 29, 2021. In addition, the trading prices of securities of technology companies in general have been highly volatile. Moreover, while the market price of the common stock of many technology companies have fallen significantly since the outbreak of the COVID-19 pandemic, the trading price of our Class A common has increased. There are no assurances that the trading price of our Class A common stock will continue at this level for any period of time and the extent to which, and for how long, the COVID-19 pandemic may impact the market price of our Class A common stock is unclear. Moreover, the trading price of our Class A common stock could experience a significant decrease once the longer-term scope and impact of COVID-19 is better understood.

In addition to the factors discussed in this Quarterly Report on Form 10-Q, the market price of our Class A common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- the COVID-19 outbreak and any associated economic downturn;
- overall performance of the equity markets and the performance of technology companies in particular;
- variations in our operating results, cash flows, and other financial metrics and non-financial metrics, and how those results compare to analyst expectations;
- changes in the financial projections we may provide to the public or our failure to meet these projections;
- failure of securities analysts to 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;
- recruitment or departure of key personnel;
- the economy as a whole and market conditions in our industry;
- the pending acquisition of Precor;
- negative publicity related to problems in our manufacturing or the real or perceived quality of our products, as well as the failure to timely launch new products or services that gain market acceptance;
- rumors and market speculation involving us or other companies in our industry;
- announcements by us or our competitors of new products, services, features and content, significant technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- lawsuits threatened or filed against us, litigation involving our industry, or both;
- developments or disputes concerning our or other parties' products, services, or intellectual property rights;
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events;
- the expiration of contractual lock-up or market standoff agreements; and

- sales of shares of our Class A common stock by us or our stockholders.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

Sales of a substantial amount of our Class A common stock in the public markets, or the perception that such sales might occur, could cause the price of our Class A common stock to decline.

The market price of our Class A common stock could decline as a result of sales of a substantial number of shares of our Class A common stock in the public market in the near future, or the perception that these sales might occur. Many of our existing security holders have substantial unrecognized gains on the value of the equity they hold, and may take, or attempt to take, steps to sell, directly or indirectly, their shares or otherwise secure, or limit the risk to, the value of their unrecognized gains on those shares.

There were a total of 294,273,083 shares of our Class A common stock and Class B common stock outstanding as of December 31, 2020. All shares of our Class A common stock and Class B common stock are freely tradable, except for any shares purchased by our “affiliates” as defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act.

Further, certain holders of our common stock have rights, subject to some conditions, to require us to file registration statements for the public resale of the Class A common stock issuable upon conversion of such shares or to include such shares in registration statements that we may file for us or other stockholders. Sales of our shares pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the trading price of our Class A common stock to fall and make it more difficult for you to sell shares of our Class A common stock.

In addition, as of December 31, 2020, we had options outstanding that, if fully exercised, would result in the issuance of 49,395,498 shares of Class B common stock and 12,903,323 shares of Class A common stock. Subject to the satisfaction of applicable vesting requirements, the shares issued upon exercise of outstanding stock options will be available for immediate resale in the open market.

The dual class structure of our common stock has the effect of concentrating voting control with our directors, executive officers, and certain other holders of our Class B common stock; this will limit or preclude your ability to influence corporate matters, including the election of directors and the approval of any change of control transaction.

Our Class B common stock has 20 votes per share and our Class A common stock has one vote per share. As of December 31, 2020, our directors, executive officers, and holders of more than 5% of our common stock, and their respective affiliates, held a majority of the voting power of our capital stock. Because of the twenty-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively control a substantial majority of the combined voting power of our common stock and therefore are able to control all matters submitted to our stockholders for approval until the earlier of (i) the date specified by a vote of the holders of 66 2/3% of the then outstanding shares of Class B common stock, (ii) ten years from the closing of the IPO, and (iii) the date the shares of Class B common stock cease to represent at least 1% of all outstanding shares of our common stock. This concentrated control limits or precludes your ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interest as one of our stockholders.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain permitted transfers effected for estate planning purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term.

The dual class structure of our common stock may adversely affect the trading market for our Class A common stock.

Certain stock index providers, such as S&P Dow Jones, exclude companies with multiple classes of shares of common stock from being added to certain stock indices, including the S&P 500. In addition, several stockholder advisory firms and large institutional investors oppose the use of multiple class structures. As a result, the dual class structure of our common stock may prevent the inclusion of our Class A common stock in such indices, may cause stockholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure, and may result in large institutional investors not purchasing shares of our Class A common stock. Any exclusion from stock indices could result in a less active trading market for our Class A common stock. Any actions or publications by stockholder advisory firms or institutional investors critical of our corporate governance practices or capital structure could also adversely affect the value of our Class A common stock.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, the price of our Class A common stock and trading volume could decline.

The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business, our market, and our competitors. We do not have control over these securities analysts. If industry analysts cease coverage of us, the trading price for our Class A common stock would be negatively affected. If one or more of the analysts who cover us downgrade our

Class A common stock or publish inaccurate or unfavorable research about our business, our Class A common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Class A common stock could decrease, which might cause our Class A common stock price and trading volume to decline.

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

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. Additionally, our ability to pay dividends on our common stock is limited by the restrictions under the terms of our loan and security agreement. We anticipate that for the foreseeable future we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our Board of Directors. Accordingly, investors must rely on sales of their Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may limit attempts by our stockholders to replace or remove our current management.

Provisions in our restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a merger, acquisition or other change of control of our company that the stockholders may consider favorable. In addition, because our Board of Directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors. Among other things, our restated certificate of incorporation and amended and restated bylaws include provisions that:

- provide that our Board of Directors is classified into three classes of directors with staggered three-year terms;
- permit the Board of Directors to establish the number of directors and fill any vacancies and newly-created directorships;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and restated bylaws;
- authorize the issuance of “blank check” preferred stock that our Board of Directors could use to implement a stockholder rights plan;
- provide that only the chairman of our Board of Directors, our chief executive officer, or a majority of our Board of Directors will be authorized to call a special meeting of stockholders;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit cumulative voting;
- provide that directors may only be removed “for cause” and only with the approval of two-thirds of our stockholders;
- provide for a dual class common stock structure in which holders of our Class B common stock may have the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the outstanding shares of our common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the Board of Directors is expressly authorized to make, alter, or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

Moreover, Section 203 of the Delaware General Corporation Law, or DGCL, may discourage, delay, or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our common stock.

Our restated certificate of incorporation and amended and restated bylaws contain exclusive forum provisions for certain claims, which may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our restated certificate of incorporation provides that the Court of Chancery of the State of Delaware, to the fullest extent permitted by law, will be 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 pursuant to the DGCL, our restated certificate of incorporation, or our amended and restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine.

Moreover, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all claims brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. In April 2020, we amended and restated our restated bylaws to provide that the federal district courts of the United States of America will, to the fullest extent permitted by law, be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (a Federal Forum Provision). Our decision to adopt a Federal Forum Provision followed a decision by the Supreme Court of the State of Delaware holding that such provisions are facially valid under Delaware law. While there can be no assurance that federal or state courts will follow the holding of the Delaware Supreme Court or determine that the Federal Forum Provision should be enforced in a particular case, application of the Federal Forum Provision means that suits brought by our stockholders to enforce any duty or liability created by the Securities Act must be brought in federal court and cannot be brought in state court.

Section 27 of the Exchange Act creates exclusive federal jurisdiction over all claims brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. In addition, neither the exclusive forum provision nor the Federal Forum Provision applies to suits brought to enforce any duty or liability created by the Exchange Act. Accordingly, actions by our stockholders to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder must be brought in federal court.

Our stockholders will not be deemed to have waived our compliance with the federal securities laws and the regulations promulgated thereunder.

Any person or entity purchasing or otherwise acquiring or holding any interest in any of our securities shall be deemed to have notice of and consented to our exclusive forum provisions, including the Federal Forum Provision. These provisions may limit a stockholders' ability to bring a claim in a judicial forum of their choosing for disputes with us or our directors, officers, or employees, which may discourage lawsuits against us and our directors, officers, and employees. Alternatively, if a court were to find the choice of forum provision contained in our restated certificate of incorporation and/or amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, financial condition, and operating results.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On September 25, 2019, our Registration Statement on Form S-1, as amended (Reg. No. 333-233482), was declared effective in connection with the IPO of our Class A common stock.

There has been no material change in the planned use of proceeds from our IPO as described in the Prospectus relating to that offering dated September 25, 2019.

Item 6. Exhibits

Exhibit Number	Exhibit Title	Incorporated by Reference				Filed or Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Stock and Asset Purchase Agreement, dated December 21, 2020, by and between Peloton Interactive, Inc. and Amer Sports Corporation					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					X
104	Cover Page Interactive Data File (formatted in iXBRL and contained in Exhibit 101)					X

** The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and are not deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act of the Exchange Act.*

SIGNATURES

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

Date : February 4, 2021

PELOTON INTERACTIVE, INC.

By: /s/ John Foley

John Foley
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jill Woodworth

Jill Woodworth
Chief Financial Officer
(Principal Financial Officer)

EXECUTION VERSION

STOCK AND ASSET PURCHASE AGREEMENT

by and between

PELOTON INTERACTIVE, INC.

and

AMER SPORTS CORPORATION

Dated as of December 21, 2020

TABLE OF CONTENTS

EXHIBITS

SCHEDULES

STOCK AND ASSET PURCHASE AGREEMENT

This STOCK AND ASSET PURCHASE AGREEMENT (this "Agreement"), dated as of December 21, 2020, is by and between Amer Sports Corporation, a corporation incorporated under the laws of Finland ("Parent"), and Peloton Interactive, Inc., a Delaware corporation ("Purchaser").

RECITALS

WHEREAS, Parent holds, directly and indirectly, through certain of its Subsidiaries (each such Subsidiary listed on Schedule I, a "Seller," and, collectively, the "Sellers"), the Equity Interests of the entities listed on Schedule II hereto (each of the companies listed on Schedule II, a "Transferred Company," and, collectively, the "Transferred Companies" and together with each of the companies listed on Schedule II under the heading "Transferred Subsidiaries," each a "Transferred Entity" and collectively the "Transferred Entities");

WHEREAS, the Sellers desire to sell, transfer and assign, and Purchaser, through itself and one or more of its direct or indirect Subsidiaries, desires to purchase and assume, and all of the Sellers' right, title and interest in and to the Equity Interests of the Transferred Companies (the "Shares") for the consideration set forth in Section 2.2, subject to the terms and conditions of this Agreement;

WHEREAS, concurrently with the execution of this Agreement, and as an inducement to Purchaser's willingness to enter into this Agreement, each Key Employee shall have accepted and delivered to Purchaser an executed copy of an offer letter to be entered into with Purchaser, together with Purchaser's form of proprietary information and invention assignment agreement; and

WHEREAS, the parties desire to make certain representations, warranties, covenants and agreements in connection with this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual representations, warranties, covenants and agreements set forth herein, and subject to the terms and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE I

DEFINITIONS; INTERPRETATION

Section 1.1 Defined Terms. For the purposes of this Agreement, the following terms shall have the following meanings:

"Accounting Principles" means (i) the specific policies set forth on Exhibit A ("Specific Policies"), (ii) to the extent not addressed in clause (i), the accounting principles, methods, policies, practices, procedures, classifications, categorizations and definitions actually applied in preparing the Business Financial Statements and (iii) to the extent not addressed in clauses (i) or (ii), IFRS.

For the avoidance of doubt, clause (i) shall take precedence over clauses (ii) and (iii), and clause (ii) shall take precedence over clause (iii).

"Action" means any judicial or administrative claim, action, suit, arbitration, litigation or proceeding by or before any Governmental Entity.

"Affiliate" means, with respect to any Person, any other Person that directly, or through one or more intermediaries, controls, is controlled by or is under common control with such Person; provided that, from and after the Closing, (a) none of the Transferred Entities shall be considered an Affiliate of the Sellers or any of the Sellers' Affiliates and (b) none of the Sellers nor any of the Sellers' Affiliates shall be considered an Affiliate of any Transferred Entity.

"AML Laws" mean all applicable Laws, Orders, executive orders, ordinances, directives, regulations, statutes, case law or treaties concerning or related to terrorism financing or money laundering, including the Bank Secrecy Act, 31 U.S.C. §§ 5311 et seq., as amended by the USA PATRIOT Act, and its implementing regulations, the Money Laundering Control Act, 18 U.S.C. §§ 1956 and 1957, and any related or similar rules, regulations or guidelines, which in each case are issued, administered or enforced by any relevant Governmental Entity.

"Ancillary Agreements" means any agreement or other executed document necessary for the completion of the Transactions, including the Transition Services Agreement, Intellectual Property Assignment and each Business Transfer Agreement.

"Antitrust Laws" means the HSR Act, the Sherman Antitrust Act of 1890, the Clayton Antitrust Act of 1914, the Federal Trade Commission Act of 1914 and any other United States federal or state or foreign statutes, rules, regulations, Orders, decrees, administrative or judicial doctrines or other Laws that are designed to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening competition through merger or acquisition.

"Benefit Plan" means each "employee benefit plan" (as defined in Section 3(3) of ERISA, whether or not subject to ERISA), and each employment agreement, individual consulting or independent contractor agreement, cash or equity-based bonus incentive or commission arrangement, termination or unemployment arrangement, change in control, severance or retention arrangement, vacation or paid time off plan, policy or agreement, deferred compensation, pension or retirement plan, or accrued leave, health or welfare plan, policy or agreement or other similar plan, policy, agreement or arrangement (whether written or unwritten, insured or self-insured) that is sponsored, maintained or contributed to or required to be contributed to by any of the Transferred Entities or by a member of the Parent Group for the benefit of any Transferred Entity Employee or their beneficiaries (excluding any plan, program, or arrangement sponsored by a Governmental Entity).

"Business" means the business of manufacturing, distributing, providing, servicing and selling of cardiovascular and strength-building exercise machines, fitness equipment, fitness structures, and associated fitness accessories, technical and digital services, which includes Precor-, Queenax-, Icarian- and Cardio Theater-branded products, Preva-branded services, and products under other third-party brands set forth on Section 1.1(a) of the Parent Disclosure

Schedule pursuant to Third Party Intellectual Property Rights, in each case, as conducted and as proposed to be conducted as of the Closing by the Transferred Entities.

"Business Day" means any day that is not a Saturday, a Sunday or other day on which commercial banks in the City of New York, New York or Helsinki, Finland are required or authorized by Law to be closed.

"Business Employee" means each (i) employee of the Transferred Entities and (ii) each employee of Parent, the Sellers, any of their Affiliates (other than the Transferred Entities), in each case, that is primarily dedicated to the Business; provided, that, notwithstanding the foregoing, in no event shall any of the individuals set forth on Section 1.1(b) of the Parent Disclosure Schedule be a "Business Employee".

"Business Intellectual Property" means any and all Owned Intellectual Property and any and all Third Party Intellectual Property Rights used in or necessary for the operation of the Business.

"Business Material Adverse Effect" means any effect, change, event, state of fact, development, circumstance or condition which when considered individually or in the aggregate with all other effects, changes, events, state of facts, developments, circumstances or conditions has materially and adversely affected the business, condition (financial or otherwise) or results of operations of the Transferred Entities, taken as a whole; provided, however, that none of the following (or the results thereof) shall be deemed in themselves, either alone or in combination, to constitute, and none of the following shall be taken into account in determining whether there has been, or may be, a Business Material Adverse Effect: (i) the effect of any change in the United States or foreign economies or securities, financial, banking or credit markets (including changes in interest or exchange rates) or geopolitical conditions in general; (ii) the effect of any change that generally affects any industry in which any of the Transferred Entities operates; (iii) the effect of any change arising in connection with natural disasters or acts of nature, hostilities, acts of war, sabotage, riots or terrorism or military actions or any escalation or worsening of any such hostilities, acts of war, sabotage, riots or terrorism or military actions; (iv) the effect of any epidemic, pandemic or disease outbreak (including the COVID-19 Pandemic) or any COVID-19 Measures, curfews or other restrictions that relate to, or arise out of, any epidemic, pandemic or disease outbreak (including the COVID-19 Pandemic) or material worsening of such conditions threatened or existing as of the date of this Agreement; (v) the failure of the Transferred Entities to meet any of their internal projections (provided that any underlying reason for such failure shall be taken into account in determining whether a Business Material Adverse Effect has occurred); (vi) any effect resulting from the announcement of this Agreement (including by reason of the identity of Purchaser), compliance with the terms of this Agreement or the consummation of the Transactions; (vii) the effect of any changes or proposed changes in IFRS or applicable Laws, or standards, interpretations or enforcement thereof; (viii) any actual or potential sequester, stoppage, shutdown, default or similar event or occurrence by or involving any Governmental Entity affecting a national or federal government as a whole; or (ix) any actual or potential break-up of any existing political or economic union of or within any country or countries or any actual or potential exit by any country or countries from, or suspension or termination of its or their membership in, any such political or economic union; provided, however, that with respect to the foregoing clauses (i) through (iii) and (vii) through (ix), any such effect shall not be disregarded

in determining whether a "Business Material Adverse Effect" has occurred if (and then only to the extent) it disproportionately impacts the Transferred Entities and their respective businesses in comparison to other participants in the industries and geographic regions in which the Transferred Entities operate.

"Business Products" means all products and services that are manufactured, distributed, provided, sold or offered for sale in connection with the operation of the Business by or on behalf of the Sellers and/or the Transferred Entities.

"Business Registered IP Rights" means any United States, international and foreign (a) Patents, (b) Marks, (c) domain names, (d) Copyrights, and (e) any other intellectual property rights, in each case of (a) through (e), that are the subject of an application, certificate, filing, registration or other document issued, filed with, or recorded by any Governmental Entity and that are included in the Owned Intellectual Property.

"Business Source Code" means any source code included in the Business Products or otherwise in the Owned Intellectual Property.

"Calculation Time" means immediately prior to the Closing.

"Cash" means, as of any time of determination, without duplication, (i) the aggregate amount of all cash and cash equivalents of the Transferred Entities (including freely marketable securities, short-term investments and other liquid investments), plus (ii) all deposits in transit or amounts held for deposit that have not yet cleared, other wire transfers and drafts deposited or received and available for deposit, minus (iii) outstanding checks, transfers and drafts.

"Closing Cash Amount" means the amount of Cash as of the Calculation Time.

"Closing Indebtedness Amount" means the amount of Indebtedness as of the Calculation Time.

"Closing Transaction Expense Amount" means the amount of Transaction Expenses, to the extent unpaid as of the Calculation Time.

"Closing Working Capital Amount" means the amount of Working Capital as of the Calculation Time.

"Code" means the U.S. Internal Revenue Code of 1986.

"Collective Bargaining Agreement" means any collective bargaining agreement or other Contract with a labor union, works council or labor organization that covers any Business Employee in connection with their employment with Parent, the Sellers, the Transferred Entities or any of their Affiliates.

"Confidentiality Agreement" means the confidentiality agreement, dated as of August 27, 2020, by and between Parent and Purchaser.

"Contract" means any legally binding lease, contract, license, arrangement, option, instrument, purchase order or other agreement, other than a Permit or Benefit Plan.

"Control" means, as to any Person, the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by Contract or otherwise (and the terms "controlled by," "controls," "controlling" and "under common control with" shall have correlative meanings).

"Controlled Group Liability" means any and all liabilities (a) under Title IV of ERISA, (b) under Section 302 of ERISA, (c) under Sections 412 and 4971 of the Code, and (d) as a result of a failure to comply with the continuation coverage requirements of Section 601 et seq. of ERISA and Section 4980B of the Code, , other than such liabilities that arise solely out of, or relate solely to, plans directly sponsored by Parent, the Sellers and their respective Affiliates.

"COVID-19" means the novel coronavirus disease 2019 caused by SARS-CoV-2.

"COVID-19 Measures" means any quarantine, "shelter in place," "stay at home," workforce reduction, social distancing, shut down, closure, sequester, safety or similar Law, directive, guidelines or recommendations promulgated by any industry group or any Governmental Entity, including the Centers for Disease Control and Prevention and the World Health Organization, in each case, in connection with or response to the COVID-19 Pandemic, including the CARES Act and Families First Act.

"COVID-19 Pandemic" means the COVID-19 pandemic, including any future resurgence or evolutions or mutations thereof and/or any related or associated disease outbreaks, epidemics and/or pandemics.

"Environmental, Health and Safety Laws" means all Laws in effect on or prior to the Closing Date concerning worker/occupational health and safety or pollution or protection of the environment, including all those relating to the presence, use, manufacturing, refining, production, generation, handling, transportation, treatment, recycling, transfer, storage, disposal, distribution, importing, labeling, testing, processing, discharge, release, threatened release, control or other action or failure to act involving cleanup of any Hazardous Materials. For the avoidance of doubt, Environmental, Health and Safety Laws shall not cover the COVID-19 Pandemic.

"Equity Interest" means, with respect to any Person, (a) any capital stock, partnership or membership interest, unit of participation or other similar interest (however designated) in such Person and (b) any option, warrant, purchase right, conversion right, exchange right or other contractual obligation which would entitle any other Person to acquire any such interest in such Person or otherwise entitle any other Person to share in the equity, profits, earnings, losses or gains of such Person (including any interest, the value of which is in any way based on, linked to or derived from any interest described in (a), including stock appreciation, phantom stock, profit participation or other similar rights).

"ERISA" means the Employee Retirement Income Security Act of 1974 and the regulations promulgated, and rulings issued thereunder.

"ERISA Affiliate" means, with respect to any entity, trade or business, any other entity, trade or business that is, or was at the relevant time, a member of a group described in Section 414(b), (c), (m) or (o) of the Code or Section 4001(b)(1) of ERISA that includes or included the first entity, trade or business or that is, or was at the relevant time, a member of the same "controlled group" as the first entity, trade or business pursuant to Section 4001(a)(14) of ERISA.

"Fraud" means an actual and intentional fraud committed by a party to this Agreement with respect to any statement made in this Agreement or an Ancillary Agreement, as applicable, with specific intent to deceive and mislead another party hereto and to induce such party to enter into this Agreement; provided, that such party had actual knowledge (as opposed to any claim based on constructive knowledge, negligent or reckless misrepresentation or similar theory) of the falsity of any statement made in this Agreement or an Ancillary Agreement, as applicable, with a specific intention to induce another party to act or refrain from acting in reliance upon it and causing that party to rely thereon and causing such party to suffer actual damages by reason of such reliance.

"Government Official" means (a) any official, employee, agent or Representative of, or any Person acting in an official capacity for or on behalf of, any Governmental Entity, (b) any political party, political party official or candidate for political office, (c) any official, employee, agent or Representative of, or any Person acting in an official capacity for or on behalf of, a company, business, enterprise or other entity owned, in whole or in part, or controlled by any Governmental Entity or (d) any official, employee, agent or Representative of, or any Person acting in an official capacity for or on behalf of, a public international organization.

"Governmental Entity" means any foreign, domestic, supranational, federal, territorial, state or local governmental entity, quasi-governmental entity, court, tribunal, judicial or arbitral body, commission, board, bureau, agency or instrumentality, or any regulatory, administrative or other department, agency, or any political or other subdivision, department or branch of any of the foregoing.

"Governmental Plan" means any plan, program, or arrangement sponsored by a Governmental Entity and to which a Transferred Entity is required to make contributions.

"Hazardous Material" means any substance, material or waste that is defined, listed or classified under Environmental, Health and Safety Law as a "contaminant", "pollutant", "toxic substance", "toxic material", "hazardous waste" or "hazardous substance" or words of similar meaning and regulatory effect thereunder. For the avoidance of doubt, Hazardous Material shall not include the COVID-19 Pandemic.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the rules and regulations promulgated thereunder.

"IFRS" means International Financial Reporting Standards, International Accounting Standards and interpretations of those standards issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee and their predecessor bodies as applied in Finland.

"Indebtedness" means, without duplication, all obligations of the Transferred Entities (including all principal, accrued or unpaid interest, unpaid fees or expenses, prepayment and

redemption premiums or penalties and breakage costs and other monetary obligations, in each case, to the extent actually payable in connection with the Closing) in respect of: (a) any indebtedness for money borrowed from Persons other than the Transferred Entities, (b) any obligations of any Transferred Entity in respect of letters of credit, surety bonds, performance bonds or bank guarantees, in each case to the extent funds have been drawn and are payable thereunder, (c) all obligations under finance leases by any Transferred Entity as lessee that are required to be classified as a finance lease in accordance with IFRS 16, but excluding any obligations associated with leases classified as operating leases in the Business Financial Statements, (d) any unfunded, underfunded, exit or penalty or other liabilities of any Transferred Entity pursuant to any severance, retirement, gratuity, termination indemnity, pension or deferred compensation plan or arrangement, (e) the deferred or unpaid purchase price under conditional sale of property, assets, securities, services or other similar agreements, including any and all Tax-related contingent purchase price payments, sellers notes, earn-outs or other contingent purchase price obligations, calculated as the maximum amount payable under or pursuant to such obligation, (f) any employment Taxes deferred pursuant to Section 2302 of the CARES Act or IRS Notice 2020-65 and (g) all guaranties, endorsements, and assumptions of the Transferred Entities in respect of, or to purchase or to otherwise acquire, any of the obligations of the kind described in any of the clauses (a) through (f) appertaining to third parties; provided that Indebtedness shall not include (1) any intercompany accounts between Transferred Entities, (2) any intercompany accounts between a Transferred Entity and any member of the Parent Group, to the extent settled or eliminated as of the Closing (but shall include any such amounts to the extent not so settled or eliminated), (3) any Liabilities included in the calculation of Working Capital or Transaction Expenses and (4) any Lease Recourse Liabilities and the Guarantees listed on Section 6.10(a) of the Parent Disclosure Schedule.

"Intellectual Property" means any intellectual property rights arising out of the following: (i) patents and patent applications and all reissues, divisionals, re-examinations, renewals, extensions, revisions, continuations and continuations-in-part thereof (collectively, "Patents"); (ii) trademarks, service marks, trade names, brands, corporate names, logos, slogans and other indicia of source or origin, including all registrations, applications for registration and renewals thereof, and all goodwill associated with any of the foregoing (collectively, "Marks"); (iii) copyrights, mask works, and other works of authorship, moral rights, and registrations and applications for registration thereof (collectively, "Copyrights"); (iv) domain names; (v) trade secrets and other confidential or proprietary information, including confidential or proprietary know-how, processes, techniques, technologies, methods, algorithms, industrial models, research and development information, drawings, specifications, designs, molds, plans, proposals, technical data, financial and marketing plans, pricing and cost information and customer and supplier lists and information; and (vi) rights in computer software, data, and databases.

"Intellectual Property Assignment" means the Intellectual Property Assignment to be entered into at the Closing, substantially in the form of Exhibit D hereto.

"International Transferred Entity Benefit Plan" means a Transferred Entity Benefit Plan that covers Transferred Entity Employees located primarily outside the United States.

"IRS" means the U.S. Internal Revenue Service.

"Key Employees" means the Business Employees listed on Schedule 1.1(K-1).

"Knowledge of Purchaser" means the actual (and not deemed, imputed or constructive) knowledge, without inquiry or investigation, of the Persons listed on Section 1.1(K) of the Purchaser Disclosure Schedule, none of whom, for the sake of clarity and the avoidance of doubt, shall have any personal liability or obligations regarding such knowledge.

"Knowledge of Sellers" means the knowledge, without inquiry or investigation, of each of the Persons listed on Schedule 1.1(K-2), none of whom, for the sake of clarity and the avoidance of doubt, shall have any personal liability or obligations regarding such knowledge.

"Law" means any federal, state, local, foreign or supranational law, statute, regulation, ordinance, rule, Order or decree by any Governmental Entity.

"Liability" means all indebtedness, obligations and other liabilities, whether absolute, accrued, matured, contingent (or based upon any contingency), known or unknown, fixed or otherwise, or whether due or to become due, including any fines, penalties, losses, costs, interest, charges, expenses, damages, assessments, deficiencies, judgments, awards or settlements.

"Liens" means all liens, mortgages, pledges, deeds of trusts, charges, security interests, easements, covenants, restrictions on transfer (other than restrictions on transfer arising under applicable securities Laws) or other similar encumbrances, adverse claims or interests of any kind.

"Order" means any judgment, writ, injunction, stipulation, award, determination, decision, rule, preliminary or permanent injunction, temporary restraining order, decree, or other order.

"Ordinary Course of Business" means the ordinary course of operations of the Business.

"Organizational Documents" means, with respect to a Person, the certificate of incorporation, bylaws or equivalent governing documents, as applicable, of such Person.

"Owned Intellectual Property" means any and all Intellectual Property that is owned, or purported to be owned, by the Transferred Entities, which includes the Transferred Intellectual Property.

"Parent Group" means Parent and the Sellers and their respective Affiliates (other than any Transferred Entity).

"Permits" means all licenses, permits, franchises, approvals, certificates, permissions, clearances, qualifications, registrations, authorizations, consents or other authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Entity or pursuant to any Law.

"Permitted Liens" means (a) statutory Liens of landlords and mechanics', carriers', workmen's, repairmen's, warehousemen's, materialmen's or other like Liens arising or incurred in the Ordinary Course of Business, (b) Liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the Ordinary Course of Business, (c) Liens for Taxes that are not yet due and payable or that are being contested in good

faith by appropriate Actions and for which there are adequate reserves on the Business Financial Statements, (d) leases, subleases and similar agreements with respect to the Business Leased Real Property, (e) easements, covenants, rights-of-way, restrictions of record and other similar charges not materially interfering with the Business as a whole, (f) Liens incurred or deposits made in connection with workers' compensation, unemployment insurance or other types of social security, (g) Liens not created by Parent or any of its Subsidiaries that affect the underlying fee interest of any Business Leased Real Property, (h) non-exclusive licenses granted in respect of Intellectual Property in the Ordinary Course of Business, and (i) purchase money security interests, equipment leases or similar financing arrangements.

"Person" means an individual, partnership (general or limited), corporation, limited liability company, joint venture, association or other form of business organization (whether or not regarded as a legal entity under applicable Law), trust or other entity or organization, including a Governmental Entity or works council.

"Personal Information" means, (a) any definition provided by Seller for any similar term (e.g., "personally identifiable information" or "PII") in any Seller Privacy Policies, and (b) all information regarding or reasonably capable of being associated with an individual person or device, including (i) information relating to an identified or identifiable individual, including name, identification number (including customer rewards number), physical address, telephone number, email address, financial account number or government-issued identifier (including Social Security number and driver's license number), medical, health or insurance information, economic data, gender, date of birth, educational or employment information, religious or political views or affiliations, marital or other status, and any other data used or intended to be used to identify, contact or precisely locate an individual (e.g., geolocation data), (ii) any data regarding an individual's activities online or on a mobile device or other application and (iii) internet protocol addresses, unique device identifiers or other persistent identifiers. "Personal Information" may relate to any individual, including a current, prospective or former customer or employee of any Person. Personal Information includes information in any form, including paper, electronic and other forms.

"PI Databases" means the sale, transfer, assignment, conveyance, and delivery to Purchaser of (a) Personal Information or (b) any data or information in electronic or other database containing (in whole or in part) Personal Information, in each case, collected and maintained by or for the Sellers as of the Closing Date.

"Post-Closing Tax Period" means any taxable period beginning after the Closing Date, and, in the case of any Straddle Period, the portion of such period beginning after the Closing Date.

"Pre-Closing Tax Period" means any taxable period ending on or before the Closing Date and, for any Straddle Period, the portion through the end of the Closing Date.

"Privacy Laws" means all applicable Laws applicable to Personal Information, including but not limited to the General Data Protection Regulation (EU) 2016/679, the California Consumer Protection Act, Gramm Leach Bliley, Children's On-Line Privacy Protection Act, biometric laws, PCI rules, NIST Privacy Framework, and Laws relating to direct marketing and advertising, profiling and tracking, e-mail, messaging and/or telemarketing.

"Process" or "Processing" means, with respect to data, any operation or set of operations such as collection, recording, organization, structuring, storage, adaptation, enhancement, enrichment or alteration, retrieval, consultation, analysis, use, disclosure by transmission, dissemination or otherwise making available, alignment or combination, restriction, erasure or destruction.

"Purchaser Material Adverse Effect" means any event, change, development or effect that is or would reasonably be expected to, individually or in the aggregate, prevent or materially delay or materially impair the consummation by Purchaser of the Sale.

"Release" means, with respect to Hazardous Materials, any spill, emission, leaking, pumping, pouring, injection, escaping, disposal, discharge, dumping or leaching into the environment.

"Representatives" of a Person means any Affiliate of such Person and its and their respective officers, directors, employees, agents, financial advisors, attorneys, accountants and other advisors and representatives.

"Retained Businesses" means the businesses of the Parent Group and its Affiliates (other than the Business).

"Retained Intellectual Property" means all Intellectual Property of the Parent Group that is not Business Intellectual Property.

"Sanctioned Person" means any Person: (a) listed on any Sanctions Laws-related list of designated or blocked persons, including the OFAC list of "Specially Designated Nationals and Blocked Persons"; (b) resident in or organized under the Laws of a country or territory that is the subject of comprehensive restrictive Sanctions Laws from time to time (which includes, as of the date of this Agreement, Cuba, Iran, North Korea, Syria, and the Crimea region); (c) that is the subject or target of any Sanctions; (d) with which any party is prohibited from dealing or otherwise engaging in any transaction by any Sanctions; or (e) majority-owned by any of the foregoing.

"Sanctions" means all applicable U.S. and non-U.S. Laws relating to economic sanctions, financial sanctions, sectoral sanctions, trade sanctions, trade embargoes, anti-terrorism Laws and other sanctions Laws, regulations or embargoes, including, without limitation, the Laws administered or enforced by the United States (including by OFAC, the U.S. Department of State, the U.S. Department of Commerce, or through any existing executive order), the United Nations Security Council, the European Union or any European Union member state, Her Majesty's Treasury of the United Kingdom or any other relevant Governmental Entity.

"Seller Benefit Plan" means each Benefit Plan that is not a Transferred Entity Benefit Plan.

"Seller Data" means all data collected, generated, or received in connection with the operation of the Business, including Seller-Licensed Data, Seller-Owned Data and Personal Information.

"Seller Data Agreement" means any Contract involving Seller Data to which Sellers are a party or is bound by.

"Seller Material Adverse Effect" means any event, change, development or effect that is or would reasonably be expected to, individually or in the aggregate, prevent or materially delay or materially impair the consummation by the Sellers of the Transactions.

"Seller Privacy Policies" means, collectively, any and all (a) of the data protection, data usage, data privacy and security policies of Sellers, whether applicable internally, or published on Seller websites or otherwise made available by Sellers to any Person and (b) industry self-regulatory obligations.

"Seller-Licensed Data" means all data that is Processed by Sellers which is owned, held, collected, or purported to be owned, held or collected by a third party.

"Seller-Owned Data" means each element of data collected, generated, or received and that Sellers own, hold or control or purport to own, hold or control. Seller-Owned Data includes all data provided to Sellers by distributors.

"Straddle Period" means any taxable period that begins on or before the Closing Date and ends after the Closing Date.

"Subsidiary" means, with respect to any Person, any corporation, entity or other organization, whether incorporated or unincorporated, of which (a) such first Person directly or indirectly owns or controls at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions, or (b) such first Person is a general partner or managing member.

"Target Working Capital" means $60,000,000.

"Tax" means any tax of any kind, including any federal, state, local or foreign income, profits, license, severance, occupation, windfall profits, capital gains, capital stock, transfer, registration, social security (or similar), production, franchise, gross receipts, payroll, sales, employment, use, property, net proceeds, turnover, user, fuel, excess profits, interest equalization, unitary, unclaimed property, escheat, environmental, disability, registration, estimated, employees' income withholding, excise, value added, estimated, stamp, alternative or add-on minimum or withholding tax and all other taxes of any kind whatsoever, whether disputed or not, together with all interest penalties, assessment or additions to tax imposed with respect to such amounts.

"Tax Proceeding" means any audit, examination, contest, litigation or other proceeding with or against any taxing authority.

"Tax Return" means any return, declaration, report, claim for refund or information return or statement filed or required to be filed with any taxing authority relating to Taxes, including any schedule or attachment thereto and any amendment thereof.

"Third Party Intellectual Property Rights" means any Intellectual Property owned (or purported to be owned) by a third party, but not including any member of the Parent Group.

"Transaction Expenses" means all unpaid fees, costs, payments, and expenses (including commissions and finders fees) incurred prior to or at the Closing or subject to reimbursement (whether accrued for or not) and payable by the Transferred Entities in connection with the negotiation, documentation and consummation of the Transactions (for the avoidance of doubt, including the Pre-Closing Restructuring), including: (i) any fees, costs expenses, payments and expenditures of legal counsel, accountants and financial advisors, including those costs and fees incurred with respect to the services provided by K&E, PricewaterhouseCoopers, Citigroup or any other advisors (including brokers), (ii) any amounts paid to third parties in connection with obtaining consents or approvals in connection with the Sale and the other Transactions, including one-time separation costs, (iii) any such fees, costs, expenses, payments and expenses incurred by the Sellers for which the Transferred Entities are liable, (iv) any change of control payments, severance payments or retention bonuses, in each case, payable as a result of the consummation of the Transactions (including any amounts payable in connection with the transfer of each applicable Business Employee to his or her respective Transferred Entity pursuant to the Pre-Closing Restructuring and any amounts payable in connection with Section 7.9), together with the employer-portion of any employment or payroll Taxes in respect thereof; provided that this clause (iv) shall not include any change of control payments, severance payments or retention bonuses triggered solely as a result of any actions made or directed by Purchaser or its Subsidiaries.

"Transaction Tax Deductions" means all deductions for income Tax purposes attributable to the payment of Transaction Expenses, the repayment of Indebtedness or payment of any similar amounts in connection with the Closing. The parties shall apply the 70 percent safe harbor election set forth in IRS Revenue Procedure 2011-29 to determine the deductible portion of any "success based fees" for purposes of this definition.

"Transactions" means the transactions contemplated by this Agreement and the Ancillary Agreements.

"Transfer Claim" means a claim made within the 12-month period immediately following the Closing Date (i) by any current or former employee of the Parent Group, an alleged current or former employee of the Parent Group or a third party contractor or other person performing, directly or indirectly, services for Parent, the Sellers or any of their Affiliates, in each case who is not a Business Employee, that such individual should have transferred to Purchaser or a Transferred Entity by operation of applicable Law in connection with the Pre-Closing Restructuring or the Sale or (ii) by any Transferred Business Employee or other individual employed by a Transferred Entity as of immediately prior to the Closing, in each case who is not a Business Employee, that such individual should not have transferred to Purchaser or a Transferred Entity by operation of applicable Law in connection with the Pre-Closing Restructuring or the Sale.

"Transferred Entity Benefit Plan" means each Benefit Plan that is (a) sponsored, maintained or contributed to solely by one or more Transferred Entities, or (b) an individual agreement entered into by a Transferred Entity with a Transferred Entity Employee.

"Transferred Entity Employee" means each Business Employee who is an employee of a Transferred Entity as of immediately prior to the Closing (including any such employee who is on

sick leave, military leave, vacation, holiday, short-term or long-term disability or other similar leave of absence).

"Transferred Intellectual Property" means any and all Intellectual Property primarily related to the Business that is owned or purported to be owned by Parent or any of its Affiliates as of the date hereof, and which will be assigned to the Purchaser or one or more Designated Purchaser Affiliate(s) on the Closing Date in connection with the Transactions.

"Transition Services Agreement" means the Transition Services Agreement to be entered into at the Closing, substantially in the form of Exhibit C hereto, with such changes as may be mutually agreed upon in writing between the parties hereto pursuant Section 6.19.

"United States" means the United States of America, including any State thereof and the District of Columbia.

"Working Capital" means (a) only the line item categories of current assets of the Transferred Entities on a consolidated basis specifically identified on Exhibit B, as of the Calculation Time less (b) only the line item categories of current liabilities of the Transferred Entities on a consolidated basis specifically identified on Exhibit B, as of the Calculation Time; and in each case, without duplication and without giving effect to the Sale, and calculated in accordance with the Accounting Principles; provided that in no event shall "Working Capital" include any amounts to the extent included in or with respect to (i) Indebtedness, Transaction Expenses or Cash or (ii) amounts outstanding pursuant to intercompany accounts, arrangements, understandings or Contracts, in each case, that are settled or eliminated at or prior to the Closing pursuant to Section 6.8 or Section 6.9 or taken into account in Indebtedness; provided, further, that in no event shall "Working Capital" include any amounts with respect to current or deferred income Tax assets or current or deferred income Tax liabilities.

Section 1.2 Other Definitions. The following terms shall have the meanings defined in the Section indicated:

Term	Section / Article
338(h)(10) Election	8.10(a)
Accrued PTO	7.7
Agreement	Preamble
Allocated Balance Sheets	4.6(a)
Allocation	8.1(b)
Anticorruption Laws	4.9(b)
Available Insurance Policies	6.11(a)(ii)
Balance Sheet Date	4.6(a)
Business Employee List	4.12(f)
Business Financial Statements	4.6
Business Leased Real Property	4.17(b)
Business Material Contract	4.10(a)
CARES Act	4.13(m)
Closing Date	2.3(a)

ARTICLE II

THE SALE

Section 2.1 Sale and Purchase.

(a) Upon the terms and subject to the conditions set forth in this Agreement, at the closing of the Transactions (the "Closing"), Parent shall, and shall cause the other Sellers to, transfer, convey, assign and deliver to Purchaser (and/or a Subsidiary or Subsidiaries of Purchaser, in each case, as identified to Parent by Purchaser prior to the Closing, each a "Designated Purchaser Affiliate"), and Purchaser shall, and shall cause each such applicable Designated Purchaser Affiliate to, purchase and acquire from the Sellers, all of the Sellers' right, title and interest in and to the Shares free and clear of all Liens (the "Share Sale").

(b) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, Parent shall, and shall cause the other Sellers to, as applicable, transfer, convey, assign and deliver to Purchaser or a Designated Purchaser Affiliate, and Purchaser shall, and shall cause each such applicable Designated Purchaser Affiliate to, purchase and acquire from the Sellers, all of the Sellers' right, title and interest in and to the Transferred Intellectual Property, including the Transferred Intellectual Property set forth on Section 2.1(b) of the Parent Disclosure Schedule, free and clear of all Liens (the "Intellectual Property Sale", and together with the Share Sale, the "Sale").

(c) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, Purchaser and/or each Designated Purchaser Affiliate, as applicable, shall assume and be liable for, effective as of the Closing, any and all Liabilities of the Sellers arising out of or relating to the Transferred Intellectual Property, whether prior to, on or after the Closing.

(d) For the avoidance of doubt, the parties hereto expressly acknowledge and agree that (i) none of Parent, any Seller nor any of their respective Affiliates are transferring, conveying, assigning or delivering to Purchaser or a Designated Purchaser Affiliate any right, title or interest in and to the Retained Intellectual Property and (ii) neither Purchaser nor any of its Affiliates shall assume or be liable for, any and all Liabilities of Parent or the Sellers arising out of or relating to the Retained Intellectual Property, whether prior to, on or after the Closing.

Section 2.2 Closing Purchase Price. In consideration for the Shares and the Transferred Intellectual Property, at the Closing, Purchaser (on behalf of itself and one or more Designated Purchaser Affiliates, as applicable) shall deliver to Parent (and/or one or more of Parent's designees as specified to Purchaser prior to the Closing), in cash, an aggregate amount of (a) $420,000,000, plus (b) the amount, if any, by which the Estimated Working Capital Amount is greater than the Target Working Capital (or minus the amount, if any, by which the Estimated Working Capital Amount is less than the Target Working Capital), plus (c) the Estimated Closing Cash Amount, minus (d) the Estimated Closing Indebtedness Amount, minus (e) the Estimated Transaction Expense Amount (the aggregate amount determined pursuant to this Section 2.2, the "Closing Purchase Price").

Section 2.3 Closing.

(a) On the terms and subject to the conditions set forth in this Agreement, the Closing will take place by conference call and electronic (i.e., email of PDF documents) delivery of documents, at a time and on a date to be designated by Seller and Purchaser, which shall be not later than the second (2nd) Business Day following the satisfaction or waiver of each of the conditions set forth in Article IX (other than those conditions that are to be satisfied at the Closing, but subject to satisfaction or waiver of such conditions at the Closing), or on such other time, date or location as Seller and Purchaser mutually agree (the date upon which the Closing actually occurs being referred to herein as the "Closing Date").

(b) At the Closing:

(i) Parent shall, or shall cause the applicable Sellers to:

(A) deliver to Purchaser certificates evidencing the Shares to the extent that such Shares are in certificate form, duly endorsed in blank or with stock powers duly executed in proper form for transfer and with any required stock transfer stamps affixed thereto, and to the extent that such Shares are not in certificate form, evidence of book-entry transfer of such Shares;

(B) deliver to Purchaser a duly executed counterpart to each of the Ancillary Agreements to which any member of the Parent Group or any Transferred Entity is a party;

(C) (1) for each Seller that is a U.S. person, within the meaning of Section 7701(a)(30) of the Code, deliver to Purchaser a properly completed and duly executed Internal Revenue Service Form W-9 and (2) for each Seller that is not a U.S. person, within the meaning of Section 7701(a)(30) of the Code, deliver

to Purchaser a properly completed and duly executed applicable Internal Revenue Service Form W-8;

(D) deliver to Purchaser payoff letters or similar instruments in form and substance reasonably satisfactory to Purchaser with respect to the Closing Indebtedness Amount, which letters or instruments provide for the full payoff and discharge of the Closing Indebtedness Amount set forth on the Estimated Closing Statement;

(E) deliver to Purchaser final invoices with respect to the Closing Transaction Expense Amount from the Persons to whom such amounts are owed; and

(F) deliver to Purchaser documentation containing reasonable detail as to the actions required to be taken within 120 days following the Closing Date in order to avoid prejudice to, impairment or abandonment of Business Registered IP Rights (including all office actions, provisional conversions, annuity or maintenance fees or re-issuances).

(ii) Purchaser shall:

(A) deliver or cause to be delivered to Parent (or to any Affiliate designated by Parent prior to the Closing) on behalf of the Sellers by wire transfer, to an account or accounts designated by Parent (or by such Affiliate) prior to the Closing, immediately available funds in an aggregate amount equal to the Closing Purchase Price; and

(B) deliver to Parent on behalf of the Sellers a duly executed counterpart to each of the Ancillary Agreements to which Purchaser or any of its Subsidiaries is a party.

Section 2.4 Closing Statement. Not less than five (5) Business Days prior to the Closing Date, Parent shall provide Purchaser with a statement that contains Parent's good faith estimate of each of (i) the Closing Working Capital Amount (the "Estimated Working Capital Amount"), (ii) the Closing Cash Amount (the "Estimated Closing Cash Amount"), (iii) the Closing Indebtedness Amount (the "Estimated Closing Indebtedness Amount"), and (iv) the Closing Transaction Expense Amount (the "Estimated Transaction Expense Amount"), in each case, together with reasonable supporting detail and calculations (such statement, the "Estimated Closing Statement"), which shall be accompanied by a notice that sets forth (i) Parent's determination of the Closing Purchase Price based on such estimates and (ii) the account or accounts to which Purchaser shall transfer the Closing Purchase Price pursuant to Section 2.3. The Estimated Closing Statement shall be prepared in accordance with the Accounting Principles. Parent shall consider in good faith any reasonable comments on the Estimated Closing Statement proposed by Purchaser prior to the Closing Date and update the Estimated Closing Statement if and to the extent so agreed with Purchaser in response to such comments; provided, that if Parent and Purchaser are unable to resolve any comments provided by Purchaser, then without limiting Purchaser's or Parent's rights under Section 2.5, the Estimated Closing Statement originally delivered pursuant to this Section

2.4, and if applicable, as updated to the extent so agreed by Parent and Purchaser on any comments, shall constitute the Estimated Closing Statement for all purposes of this Agreement.

Section 2.5 Post-Closing Statements.

(a) Within one hundred twenty (120) days after the Closing Date, Purchaser shall prepare in good faith and deliver to Parent a reasonably detailed statement, that sets forth (i) the Closing Working Capital Amount, (ii) the Closing Cash Amount, (iii) the Closing Indebtedness Amount, and (iv) the Closing Transaction Expense Amount, together with reasonable detail of Purchaser's calculations of such amounts (such statement, the "Initial Closing Statement"). The Initial Closing Statement shall (A) be prepared based upon the books and records of the Transferred Entities as of the Calculation Time in accordance with the Accounting Principles and the definitions as provided in this Agreement, (B) not include any changes in assets or liabilities as a result of purchase accounting adjustments (including those arising from Accounting Standards Codification section 805 (i.e., Business Combinations)) and (C) be based on the facts and circumstances as they exist as of the Calculation Time and shall consider the effect of information available up until the date on which the Initial Closing Statement is delivered by the Purchaser to the Parent but solely to the extent such information relates to facts and circumstances as they existed as of the Calculation Time.

(b) Following Purchaser's delivery of the Initial Closing Statement through the date that the Initial Closing Statement has become final and binding in accordance with Section 2.6(c), the Sellers and their Representatives shall be permitted to access and review the books, records and work papers (subject to their execution of a customary release agreements) of the Transferred Entities and Purchaser that are necessary to review the calculations of the Closing Working Capital Amount, the Closing Cash Amount and the Closing Indebtedness Amount set forth in the Initial Closing Statement, and Purchaser shall, and shall cause its Subsidiaries (including the Transferred Entities) and its and their respective employees, accountants and other Representatives to, reasonably cooperate with and assist the Sellers and their Representatives in connection with such review, including by providing access to such books, records and work papers and making available personnel to the extent requested, in each case, upon reasonable notice and during normal business hours.

Section 2.6 Reconciliation of Initial Closing Statement.

(a) Parent shall notify Purchaser in writing no later than forty-five (45) days after Parent's receipt of the Initial Closing Statement if Parent disagrees with the Initial Closing Statement, which notice shall describe the basis for such disagreement (the "Notice of Disagreement"). If no Notice of Disagreement is delivered to Purchaser within such forty-five (45) day period, then the Initial Closing Statement shall become final and binding upon the parties in accordance with Section 2.6(c). If a Notice of Disagreement is delivered to Purchaser within such forty-five (45) day period, then only such portions of the Initial Closing Statement that Parent does not disagree with in the Notice of Disagreement shall become final and binding upon the parties in accordance with Section 2.6(c).

(b) During the thirty (30) days immediately following the delivery of a Notice of Disagreement (the "Resolution Period"), Parent and Purchaser shall seek in good faith to resolve

any differences that they may have with respect to the matters identified in the Notice of Disagreement.

(c) If, at the end of the Resolution Period, Parent and Purchaser have been unable to resolve any differences that they may have with respect to the matters identified in the Notice of Disagreement, Parent and Purchaser shall submit all matters that remain in dispute with respect to the Notice of Disagreement to (i) an independent certified public accounting firm in the United States of national reputation mutually acceptable to Parent and Purchaser, or (ii) if Parent and Purchaser are unable to agree upon another such firm within ten (10) Business Days after the end of the Resolution Period, then within an additional ten (10) Business Days, Parent and Purchaser shall each select one such firm and those two firms shall, within ten (10) Business Days after their selection, select a third (3rd) such firm (the firm selected in accordance with clause (i) or the firm selected in accordance with clause (ii), as applicable, the "Independent Accounting Firm"). Within thirty (30) days after the Independent Accounting Firm's selection, the Independent Accounting Firm shall make a final determination in accordance with the Accounting Principles and based solely on the written submissions of the parties and not an independent review, binding on the parties to this Agreement, of the appropriate amount of each of the matters that remain in dispute solely to the extent indicated in the Notice of Disagreement that Parent and Purchaser have submitted to the Independent Accounting Firm. With respect to each disputed matter, such determination, if not in accordance with the position of either Parent or Purchaser, shall not be in excess of the higher, or less than the lower, of the amounts advocated by Parent in the Notice of Disagreement or by Purchaser in the Initial Closing Statement with respect to such disputed matter. For the avoidance of doubt, the Independent Accounting Firm shall not review or make any determination with respect to any matter other than the matters that remain in dispute to the extent indicated in the Notice of Disagreement. The Initial Closing Statement as finally determined either through agreement of the parties pursuant to Section 2.6(a) or Section 2.6(b) or through the action of the Independent Accounting Firm pursuant to this Section 2.6(c), shall be the "Final Closing Statement."

(d) The fees and expenses of the Independent Accounting Firm shall be allocated to be paid by Purchaser, on the one hand, and Parent, on the other, based upon the percentage that the portion of the contested amount not awarded to each party bears to the amount actually contested by such party, as determined by the Independent Accounting Firm. For example, if Parent claims in a Notice of Disagreement that the Closing Working Capital Amount is $1,000 greater than the amount determined by Purchaser in the Initial Closing Statement, and if the Independent Accounting Firm ultimately resolves the dispute by awarding Parent $600 of the $1,000 contested, then the costs and expenses of the Independent Accounting Firm will be allocated 60% (i.e., 600 ÷ 1,000) to Purchaser and 40% (i.e., 400 ÷ 1,000) to Parent. Absent fraud or manifest error, all determinations made by the Independent Accounting Firm will be final, conclusive and binding on all parties to this Agreement in all respects. During the review by the Independent Accounting Firm, each of Purchaser and Parent shall, and shall cause its respective Subsidiaries (including, in the case of Purchaser, the Transferred Entities) and its and their respective employees, accountants and other Representatives to, each make available to the Independent Accounting Firm such information, books and records and work papers (subject to their execution of customary release agreements), as may be reasonably requested by the Independent Accounting Firm to fulfill its obligations under Section 2.6(c). In acting under this Agreement, the Independent Accounting Firm shall be entitled to the privileges and immunities of

an arbitrator, it being understood that in acting under this Agreement, the Independent Accounting Firm shall be functioning as an expert and not as an arbitrator.

(e) The process set forth in Section 2.5 and this Section 2.6 shall be the sole and exclusive remedy of any of the parties and their respective Affiliates for any disputes related to the Closing Working Capital Amount, the Closing Cash Amount, the Closing Indebtedness Amount, the Closing Transaction Expense Amount, the Post-Closing Adjustment, and the calculations and amounts on which they are based or set forth in the related statements and notices delivered in connection therewith, whether or not the underlying facts and circumstances constitute a breach of any representations or warranties contained in this Agreement.

Section 2.7 Post-Closing Adjustment. The "Post-Closing Adjustment" may be either a positive or negative amount, and shall be equal to (a) (i) the Closing Working Capital Amount set forth in the Final Closing Statement, minus (ii) the Closing Working Capital Amount set forth in the Estimated Closing Statement, plus (b) (i) the Closing Indebtedness Amount set forth in the Estimated Closing Statement, minus (ii) the Closing Indebtedness Amount set forth in the Final Closing Statement, plus (c) (i) the Closing Cash Amount set forth in the Final Closing Statement, minus (ii) the Closing Cash Amount set forth in the Estimated Closing Statement, plus (d) (i) the Closing Transaction Expense Amount set forth in the Estimated Closing Statement, minus (ii) the Closing Transaction Expense Amount set forth in the Final Closing Statement. If the Post-Closing Adjustment is a positive amount, then Purchaser shall pay, or cause to be paid, in cash to Parent (or one or more Affiliates designated by Parent) the amount of the Post-Closing Adjustment. If the Post-Closing Adjustment is a negative amount, then Parent (or an Affiliate designated by Parent) shall pay in cash to Purchaser the absolute value of the amount of the Post-Closing Adjustment. The Closing Purchase Price, as adjusted by the Post-Closing Adjustment, shall be the "Final Purchase Price." Any such payment pursuant to this Section 2.7 shall be made by wire transfer of immediately available funds within five (5) Business Days after the determination of the Final Closing Statement to an account designated in writing by the party entitled to such payment within three (3) Business Days after the determination of the Final Closing Statement.

Section 2.8 Withholding. Purchaser and its designated Subsidiaries, as applicable, shall be entitled to deduct and withhold from any amounts payable pursuant to this Agreement such amounts as are required to be deducted and withheld under applicable Law. Purchaser shall timely pay the full amount so deducted or withheld to the relevant Governmental Entity in accordance with applicable Law. As soon as practicable after any such payment, Purchaser shall deliver to Parent (or the applicable Seller) a copy of a receipt issued by the relevant Governmental Entity (if any) evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to Parent. Except in the case of compensatory payments, in the event that Purchaser determines that withholding from any payment contemplated hereunder is required under applicable Law and permitted under this Agreement, Purchaser will notify the applicable recipient at least five (5) Business Days prior to the Closing Date or any subsequent date that the applicable payment is to be made. Each party shall, and shall cause its respective Subsidiaries to, cooperate in good faith to minimize any withholding that may be applied to any payments described in this Section 2.8. To the extent such amounts are so deducted or withheld under this Section 2.8, such amounts shall be treated for all purposes of this Agreement as having been paid by Purchaser to Parent (or the applicable Seller) to the extent so paid to the appropriate Governmental Entity.

ARTICLE III

REPRESENTATIONS AND WARRANTIES REGARDING THE SELLERS

Except as set forth in the disclosure schedule delivered to Purchaser prior to the execution of this Agreement (the "Parent Disclosure Schedule"), it being agreed that disclosure of any item in any section or subsection of the Parent Disclosure Schedule shall also be deemed disclosure with respect to any other section or subsection of this Agreement to which the relevance of such item is reasonably apparent on its face, Parent hereby represents and warrants to Purchaser, as of the date hereof and as of the Closing, as follows:

Section 3.1 Organization and Qualification. Parent and each other Seller is a legal entity duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization (to the extent good standing is a legal principle applicable in such jurisdiction), and Parent and each other Seller has all requisite corporate or other organizational power and authority to carry on its businesses as now being conducted and is qualified to do business and is in good standing (to the extent good standing is a legal principle applicable in such jurisdiction) as a foreign corporation or other legal entity in each jurisdiction where the conduct of its business requires such qualification, except where the failure to be so qualified, licensed or in good standing would not adversely affect Parent's or such Seller's performance under this Agreement or the consummation of the Transactions in any material respect.

Section 3.2 Authority Relative to this Agreement.

(a) Parent and each other Seller has all necessary corporate or similar power and authority, and has taken all corporate or similar action necessary, to execute, deliver and perform this Agreement and the Ancillary Agreements, in each case to the extent such Person is a party to such Contract, and to consummate the Transactions and the Ancillary Agreements, in each case to the extent such Person is a party to such Contract, in accordance with the terms hereof and thereof. This Agreement and each Ancillary Agreement have been (or will be) duly and validly executed and delivered by Parent and any other Sellers party thereto, assuming the due authorization, execution and delivery of this Agreement and such Ancillary Agreement by the Purchaser or its Affiliate party thereto, will constitute, valid, legal and binding agreements of Parent and/or the other applicable Sellers, enforceable against Parent and/or such Sellers in accordance with its terms, subject to the, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar Laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity (collectively, the "Enforceability Exceptions").

(b) The board of directors (or equivalent governing body) of Parent and each Seller has unanimously (i) determined that this Agreement and the Transactions are fair to, and in the best interests of, Parent and each of Sellers and their respective equityholders and (ii) approved and declared advisable the execution, delivery, and performance of this Agreement and the consummation of the Transactions. All actions relating to the solicitation and obtainment of requisite corporate or other entity approvals with respect to this Agreement and the Transactions have been and will be taken in compliance with applicable Law.

Section 3.3 No Conflicts. No filing with or notice to, and no permit, authorization, registration, consent or approval of, any Governmental Entity is required on the part of any Seller for the execution, delivery and performance by such Seller of this Agreement or any Ancillary Agreement to which such Seller is a party, or the consummation by such Seller, as applicable, of the Transactions, except (a) compliance with any applicable requirements of any Antitrust Laws or (b) any such filings, notices, permits, authorizations, registrations, consents or approvals, the failure to make or obtain would not reasonably be expected to have, individually or in the aggregate, a Seller Material Adverse Effect. Assuming compliance with the items described in clauses (a) and (b) of the preceding sentence, neither the execution, delivery and performance of this Agreement or any Ancillary Agreement to which a Seller is a party, nor the consummation by the Sellers, as applicable, of the Transactions, as applicable, will (i) conflict with or result in any material breach, violation or infringement of any provision of the Organizational Documents of such Seller, (ii) result in a material breach, violation or infringement of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to the creation of any Lien, except for Permitted Liens, or any right of termination, amendment, cancellation or acceleration), or give rise to any payment under or any increased, additional, accelerated or guaranteed rights or entitlements under, any of the terms, conditions or provisions of any material Contract to which such Seller or any of its respective properties or assets are bound, or (iii) violate any Law applicable to such Seller or any of its properties or assets in any material respect.

Section 3.4 Ownership of Shares; Title. Each Seller is the record and beneficial owner of the Shares set forth opposite such Seller's name on Section 3.4 of the Parent Disclosure Schedule, and each Seller has good and valid title to the Shares it owns, free and clear of all Liens other than Permitted Liens. Each Seller has full right, power and authority to transfer and deliver to Purchaser good and valid title to the Shares held by such Seller, free and clear of all Liens other than Permitted Liens. Immediately following the Closing, Purchaser or its designee, as applicable, will be the record and beneficial owner of the Shares, and have good and valid title to the Shares, free and clear of all Liens, except as are imposed by Purchaser or its Affiliates.

Section 3.5 No Additional Representation or Warranties. Except as provided in this Article III and Section 4.28, Parent is not making and none of its directors, officers, managers, employees, equityholders, partners, members or Representatives has made, or is making, any representation or warranty whatsoever to Purchaser or its Affiliates regarding the Sellers and no such party shall be liable in respect of the accuracy or completeness of any information provided to Purchaser or its Affiliates.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES RELATED TO THE TRANSFERRED ENTITIES

Except as disclosed in the Parent Disclosure Schedule, it being agreed that disclosure of any item in any section or subsection of the Parent Disclosure Schedule shall also be deemed disclosure with respect to any other section or subsection of this Agreement to which the relevance of such item is reasonably apparent on its face, Parent hereby represents and warrants to Purchaser, as of the date hereof and as of the Closing, as follows:

Section 4.1 Organization of the Transferred Entities. Each Transferred Entity is a legal entity (a) duly organized and validly existing and in good standing under the Laws of the jurisdiction of its organization, as set forth on Section 4.1(a) of the Parent Disclosure Schedule and (b) duly qualified or licensed to do business and is in good standing in each jurisdiction where the character of the properties owned, leased or licensed by it or the nature of its business makes such qualification, licensing or good standing necessary, which are the only jurisdictions in which such qualification is necessary for the Transferred Entities, except where the failure to be so qualified, licensed or in good standing is not material to such Transferred Entity, as applicable.

Section 4.2 Due Authorization. Each Transferred Entity has all necessary corporate or similar power and authority to execute, deliver and perform each Ancillary Agreement to which it is a party in accordance with the terms thereof. At the Closing, each Ancillary Agreement executed and delivered by the Transferred Entity party thereto shall be duly authorized by all necessary corporate and/or limited liability company action on the part of each of the Transferred Entities and shall be validly executed and delivered by such Transferred Entity, and, assuming the due authorization, execution and delivery of each Ancillary Agreement by Purchaser or its applicable Subsidiaries, will constitute a valid, legal and binding agreement of the applicable Transferred Entity, enforceable against them in accordance with the terms thereof, subject to the Enforceability Exceptions.

Section 4.3 No Conflict. Except for applicable Antitrust Laws, subject to the receipt of the consents, approvals, authorizations and other requirements set forth in Section 4.4 below, the execution and delivery of this Agreement by Parent and the consummation by Parent and its applicable Affiliates of the Transactions do not and will not (a) violate any provision of, or result in the material breach of, any applicable Law to which any Transferred Entity is subject or by which any property or asset of any Transferred Entity is bound, (b) conflict with the Organizational Documents of any of the Transferred Entities, (c) violate any provision of or result in a material breach of, or require a consent under, any Business Material Contract, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation or to a loss of a material benefit under any such Business Material Contract, or result in the creation of any Lien under any such Business Material Contract or upon any of the properties or assets of the Transferred Entities, or constitute an event which, after notice or lapse of time or both, would result in any such violation, breach, termination or creation of a Lien, (d) result in a material violation or revocation of any required license, permit or approval from any Governmental Entity or (e) otherwise require any material consent, authorization, assignment, amendments or Permit of any Person.

Section 4.4 Governmental Consents. Assuming the truth and completeness of the representations and warranties of Purchaser contained in this Agreement, and except as may result from any facts or circumstances relating solely to Purchaser and its Affiliates, no consent, approval, qualification, or authorization of, registration, or designation, declaration or filing with, any Governmental Entity is required on the part of Parent, the Transferred Entities or any of their respective Affiliates with respect to the Parent's execution or delivery of this Agreement or the consummation by Parent, the Transferred Entities or any of their respective Affiliates of the transactions contemplated hereby, except for (a) applicable requirements of any Antitrust Laws, (b) any consents, approvals, authorizations, designations, declarations, Permits or filings or (c) compliance with any applicable requirements of the Securities Act and any other applicable

securities Laws, except to the extent that the foregoing items described in clauses (a) through (c) would not reasonably be expected to be material to the Transferred Entities, taken as a whole.

Section 4.5 Capitalization of the Transferred Entities.

(a) The Shares are duly authorized, validly issued, fully paid and non-assessable and owned by the Sellers, as applicable and as set forth on Section 4.5 of the Parent Disclosure Schedule, and upon the consummation of the Closing, free and clear of any Liens (other than as may arise under applicable securities Laws). No Transferred Entity has any Liability for the payment of any dividend or distribution. None of the Transferred Entities is under any obligation to register under the Securities Act or any other applicable Law the Shares or any other securities of the Transferred Entities, whether currently outstanding or that may subsequently be issued prior to the Closing. All issued and outstanding Shares were issued in compliance with applicable Law and all requirements set forth in any of the Organizational Documents of the Transferred Entities, and in compliance with any applicable Contracts to which any of the Transferred Entities is a party or by which any of the Transferred Entities or any of its assets are bound.

(b) Except for the Shares, (i) there are no Equity Interests of any Transferred Entity issued or outstanding, (ii) there are no preemptive or other outstanding rights, share schemes, subscriptions, options, warrants, stock appreciation rights, redemption rights, repurchase rights, convertible, exercisable, or exchangeable securities or other ownership interest in any Transferred Entity or any other securities or obligations convertible or exchangeable into or exercisable for, or giving any Person a right to subscribe for or acquire, any securities of any Transferred Entity, (iii) none of the Transferred Entities has any obligation to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any Equity Interests of the Transferred Entities or other rights to purchase or otherwise subscribe for or acquire any Equity Interests or other securities of the Transferred Entities, whether vested or unvested, and (iv) none of the Transferred Entities has agreed to grant, extend, accelerate the vesting and/or repurchase rights of, change the price of, or otherwise amend or enter into any such Contract. No securities evidencing any of the rights described in the preceding sentenced are issued or outstanding, and no Transferred Entity has committed or agreed to issue any such security. Except for the Transferred Entities as set forth in Section 4.5 of the Parent Disclosure Schedule, no Transferred Entity (x) owns, directly or indirectly, any equity interest in any Person or (y) is a party to any joint venture, partnership or similar relationship, or buy-sell agreement, stockholders' agreement or similar Contract.

Section 4.6 Financial Statements.

(a) Section 4.6(a) of the Parent Disclosure Schedule sets forth the combined financial statements of the Business consisting of (i) income statements for the year ending December 31, 2019 and the nine (9) month period ending September 30, 2020 (the "Balance Sheet Date"), (ii) balance sheets for the Transferred Entities formed in the United States and Israel, and (iii) allocated global balance sheet accounts for other countries in which the Business operates (the "Allocated Balance Sheets"), in each case of clauses (ii) and (iii), as of December 31, 2019 and the Balance Sheet Date (collectively, the "Business Financial Statements"). The Business Financial Statements have been extracted from the books and records of the Parent Group. The

Business Financial Statements fairly present in all material respects the combined financial position and the combined results of operations of the Business for the periods then ended in accordance with IFRS, and on that basis are true, correct and complete; provided that (A) the Business has not operated on a separate stand-alone basis and has historically been reported within Parent's combined financial statements, (B) the Business does not have stand-alone balance sheets other than for the Transferred Entities formed in the United States and Israel, (C) the Business Financial Statements may not reflect certain corporate charges that are set forth on Section 4.6(a) of the Parent Disclosure Schedule, (D) the Allocated Balance Sheet represents the financial position of the Transferred Entities noted therein based on reasonable internal allocation methodologies and may not be indicative of the financial position of the Transferred Entities had the Business operated on a stand-alone basis, (E) the Business Financial Statements do not contain footnotes and (F) the Business Financial Statements as of the Balance Sheet Date do not include year-end adjustments, in each case, none of which will be material individually or in the aggregate.

(b) All of the accounts and notes receivable of each of the Transferred Entities outstanding as of the date of this Agreement (i) have been validly recorded in accordance with IFRS, (ii) are valid and existing accounts receivable made from bona fide sales in the Ordinary Course of Business, or advances or loans made by each of he Transferred Entities, (iii) are not subject to any setoffs or counterclaims, and (iv) are owned free and clear of any Liens (other than Permitted Liens).

(c) All inventory of the Transferred Entities is of a quality and quantity usable and, with respect to finished goods, saleable in the Ordinary Course of Business, except as reserved for in the Business Financial Statements as of the Balance Sheet Date. Except as reflected in such reserves, none of such inventory is obsolete, damaged, defective or below standard quality (in each case, other than ordinary wear and tear). Inventory is recorded at the lower of cost or market in accordance with IFRS; provided, that inventory is recorded at book value for any inventory of the Business located in Europe.

(d) All Contracts containing contingent recourse Liabilities of the Transferred Entities in favor of a financing source arising from the leasing of Business Products to end customers (the "Lease Recourse Liabilities") in excess of $350,000 individually as of the date of the Agreement are set forth on Section 4.6(d) of the Parent Disclosure Schedule. Such Lease Recourse Liabilities have been calculated in accordance with IFRS, and no Transferred Entity is obligated by any such Lease Recourse Liabilities that would be required to be reflected on a balance sheet prepared in accordance with IFRS, other than Lease Recourse Liabilities specifically set forth on and adequately reserved against on the Business Financial Statements as of the Balance Sheet Date.

(e) All reserves that are set forth in or reflected in the Business Financial Statements as of the Balance Sheet Date (including the reserves related to Lease Recourse Liabilities) have been established in accordance with IFRS as consistently applied by the Transferred Entities for pre-Closing periods and are adequate.

Section 4.7 Undisclosed Liabilities.

(a) There is no liability, debt or obligation of the Transferred Entities of any type (regardless of whether required to be reflected or reserved for on a balance sheet prepared in accordance with IFRS), except for liabilities and obligations (i) related to the Business, and (ii)(A) specifically reflected and adequately reserved for on the Business Financial Statements as of the Balance Sheet Date or disclosed in the notes thereto, (B) that have arisen since the Balance Sheet Date in the Ordinary Course of Business and, individually or in the aggregate, are not material in nature or amount and do not result from any breach of a Business Material Contract, warranty, infringement, tort or violation of applicable Law, (C) incurred in connection with the Transactions, (D) specifically disclosed in this Agreement (including the Schedules hereto), (E) arising under the terms of any Business Material Contract to which a Transferred Entity is a party and that was provided or made available to Purchaser or (F) which would not reasonably be expected to be material (individually or in the aggregate) to the Transferred Entities.

(b) Each of the Transferred Entities has established and maintains a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions, receipts and expenditures of each of the Transferred Entities are executed in accordance with appropriate authorizations of management and its board of directors (as applicable), (ii) transactions are recorded as necessary (A) to permit the preparation of the Business Financial Statements in conformity with IFRS and (B) to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's authorization and (iv) the amount recorded accountability for assets is maintained at reasonable intervals and appropriate action is taken with respect to any differences. There has been no incidence of Fraud or allegation of Fraud committed by any current or former employee of each Transferred Entity, consultant or director who has a role in the preparation of the Business Financial Statements. None of the Transferred Entities has received any material complaint, allegation, assertion or claim regarding deficient accounting or auditing practices, procedures, methodologies or methods of each of the Transferred Entities or its internal accounting controls or any material inaccuracy in the financial statements of each of the Transferred Entities. There has been no change in any of the Transferred Entities' accounting policies in the past five (5) years, except as described in the Business Financial Statements.

(c) Except for Liabilities reflected in the Business Financial Statements, no Transferred Entity has any off-balance sheet liability of any nature to, or any financial interest in, any third parties or entities, the purpose or effect of which is to defer, postpone, reduce or otherwise avoid or adjust the recording of expenses incurred by each of the Transferred Entities.

Section 4.8 Litigation and Proceedings. There are no pending or, to the Knowledge of Sellers, threatened, Actions at Law or in equity or, to the Knowledge of Sellers, investigations before or by any Governmental Entity against any Transferred Entity or any of its assets or properties (or against any officer, director, employee, consultant, contractor or agent of such Transferred Entity in their capacity as such or relating to their employment, services or relationship to or with such Transferred Entity) and, to the Knowledge of Sellers there is no reasonable basis for any such Action, in each case, that, if resolved adversely for such Transferred Entity, would be expected to be material to the Transferred Entities, taken as a whole. There is no Order outstanding against any of the Transferred Entities or any of its material assets or material properties (or against any officer, director, employee, consultant, contractor or agent of such Transferred Entity in their capacity as such or relating to their employment, services or relationship to or with such

Transferred Entity) and, to the Knowledge of the Sellers, there is no reasonable basis for any such Order. None of the Transferred Entities has any Action pending against any Governmental Entity or other Person or, to the Knowledge of the Sellers, intends to commence any such Action. Without limiting the foregoing, to the Knowledge of the Sellers, there is no reasonable basis for any Person to assert a claim against any Transferred Entity or any of their respective assets or directors, officers or employees (in their capacities as such or relating to their employment, services or relationship with such Transferred Entity) based upon: (i) such Transferred Entity entering into this Agreement, any of the Transactions or the Ancillary Agreements, including a claim that such director, officer or employee breached a fiduciary duty in connection therewith, (ii) any confidentiality or similar agreement entered into by such Transferred Entity regarding its assets or (iii) any claim that such Transferred Entity has agreed to sell or dispose any of its assets to any Person other than Purchaser, whether by way of merger, consolidation, sale of assets or otherwise. No D&O Indemnified Person has a pending, or has asserted in writing, a claim for indemnification or advancement of expenses under an Indemnity Agreement, and, to the Knowledge of the Sellers, there is no reasonable basis therefor.

Section 4.9 Legal Compliance.

(a) None of the Transferred Entities or, solely with respect to the Business, Parent or its other Subsidiaries, is, or since the date that is five (5) years prior to the date hereof has been, in violation in any material respect of any Laws or Order issued by a Governmental Entity, and neither Parent nor any of its Subsidiaries has, since the date that is five (5) years prior to the date hereof, received any written notice alleging any such violation in connection with the Business.

(b) Neither Parent, any of its Subsidiaries nor any of the Transferred Entities has in the past five (5) years violated any applicable Law relating to anti-bribery or anticorruption, including the U.S. Foreign Corrupt Practices Act of 1977 and the U.K. Bribery Act 2010, in each case, as in effect at the time of such action, and any other applicable Law that prohibits the corrupt payment, offer, promise or authorization of the payment or transfer of anything of value (including gifts or entertainment), directly or indirectly, to any Person, including any Government Official (all such Laws, "Anticorruption Laws") (ii) no director, officer, agent, employee, Representative, consultant or other Person authorized to act and acting for or on behalf of Parent, any of its Subsidiaries or any Transferred Entity has in the past five (5) years violated any Anticorruption Law, (iii) through the date hereof, neither Parent nor any of its Subsidiaries has, with respect to the Business, received any written notice alleging any such violation of any Anticorruption Law, or (iv) in the past five (5) years, offered, given, promised to give or authorized the giving of money or anything of value, to any Government Official or to any other Person: (A) for the purpose of (I) corruptly or improperly influencing any act or decision of any Government Official in their official capacity, (II) inducing any Government Official to do or omit to do any act in violation of their lawful duties, (III) securing any improper advantage or (IV) inducing any Government Official to use his or her respective influence with a Governmental Entity to affect any act or decision of such Governmental Entity in order to, in each case of clauses (I) through (IV), assist Parent, any of its Subsidiaries or any of the Transferred Entities in obtaining or retaining business for or with, or directing business to, any Person, in each case, in violation of any Anticorruption Law in any material respect or (B) in a manner that would constitute or have the purpose or effect of public or commercial bribery, acceptance of, or acquiescence in, extortion, kickbacks or other unlawful or

improper means of obtaining business or any improper advantage, in each case, in violation of any Anticorruption Law in any material respect.

(c) Each of Parent, its Subsidiaries and Transferred Entities has maintained true, correct and complete records of payments to any agents, consultants, Representatives, third parties and Government Officials, in accordance with IFRS. There have been no false or fictitious entries made in the books and records of the Parent or any of its Subsidiaries relating to the Business, or of the Transferred Entities, relating to any unlawful offer, payment, promise to pay or authorization of the payment of any money, or unlawful offer, gift, promise to give, or authorization of the giving of anything of value, including any bribe, kickback or other illegal or improper payment. Neither the Parent nor any of its Subsidiaries in respect of the Business, nor any of the Transferred Entities, has established or maintained a secret or unrecorded fund or account.

(d) None of Parent, any of its Subsidiaries, or any of the Transferred Entities or, to the Knowledge of Sellers, any of their respective Representatives (acting in their capacities as such) has, in connection with the business of the Transferred Entities, in the past five (5) years, been convicted of violating any Anticorruption Laws, Sanctions or AML Laws, or, in connection with the business of the Transferred Entities, in the past five (5) years, been subjected to any investigation or proceeding by a Governmental Entity for potential corruption, Fraud or violation of any Anticorruption Laws, Sanctions or AML Law.

(e) None of Parent, any of its Subsidiaries, or any of the Transferred Entities, or, to the Knowledge of Sellers, any of their respective Affiliates, Representatives, directors, officers, employees or any of their respective agents, consultants or other third parties authorized to act on their behalf is (i) a Person that is a Sanctioned Person, (ii) a non U.S. shell bank, or (iii) a bank of primary money laundering concern as defined in Section 311 of the Patriot Act. The Transferred Entities, as well as their respective directors, officers, or employees and Affiliates are, and at all times since the inception of the Transferred Entities have been, in compliance in all material respects with any applicable Sanctions and AML Laws.

Section 4.10 Contracts; No Defaults.

(a) Except as set forth on Section 4.10(a) of the Parent Disclosure Schedule and except for purchase orders and invoices (other than Top Customer Purchase Orders and Top Supplier Purchase Orders) Benefit Plans and Contracts relating to insurance policies set forth on Section 4.15 of the Parent Disclosure Schedule, no Transferred Entity is a party to or bound by any of the following Contracts as of the date hereof (each such Contract, a "Business Material Contract"):

(i) any Contract that Parent reasonably anticipates will involve annual payments or consideration furnished by or to a Transferred Entity of more than $350,000 and which are not cancelable (without penalty, cost or other liability) within ninety (90) days;

(ii) any Contract for any note, debenture, other evidence of indebtedness, guarantee, loan, credit or financing agreement or instrument or other contract

for money borrowed by the Transferred Entities (other than intercompany indebtedness owing by one Transferred Entity to another Transferred Entity), in each case, having an outstanding principal amount in excess of $350,000;

(iii) any Contract giving rise to a Lease Recourse Liability having an outstanding principal amount in excess of $350,000;

(iv) any Contract for the acquisition of any Person or any business unit thereof or the disposition of any assets of the Transferred Entities (other than in the Ordinary Course of Business), in each case, involving payments in excess of $100,000, other than Contracts in which the applicable acquisition or disposition has been consummated and there are no material obligations ongoing;

(v) any lease, rental or occupancy agreement, real property license, installment and conditional sale agreement or other Contract that, in each case, (x) provides for the ownership of, leasing of, title to, use of, or any leasehold or other interest in, any real or personal property and (y) involves annual payments in excess of $350,000;

(vi) any joint venture Contract, partnership agreement or limited liability company agreement with a third party (in each case, other than with respect to wholly owned Subsidiaries of Parent);

(vii) any Contract requiring capital expenditures after the date of this Agreement in an annual amount in excess of $100,000;

(viii) any Contract with respect to the settlement of any Action to which any Transferred Entity or, to the extent relating to the Business, any member of the Parent Group, is a party and under which there are continuing Liabilities on the part of any Transferred Entity;

(ix) any Contract with any Governmental Entity;

(x) any Contract containing covenants expressly limiting in any material respect the freedom of the Transferred Entities to compete with any Person in a product line or line of business or to operate in any geographic area or any Contract granting most favored nation pricing, exclusive sales, distribution, marketing, or other exclusive rights, rights of refusal, rights of first negotiation or similar rights;

(xi) any Contract to which a Transferred Entity or any member of the Parent Group has agreed to any restriction on the right of the Transferred Entity or any member of the Parent Group to use or enforce any Owned Intellectual Property or exclusively-licensed Business Intellectual Property in any material respect or pursuant to which a Transferred Entity or any member of the Parent Group agrees to encumber, transfer, or sell rights in or with respect to any Owned Intellectual Property or exclusively-licensed Business Intellectual Property in any material respect;

(xii) any Contract authorizing any third party to manufacture or reproduce any Business Products or for the development of any Intellectual Property rights

for the Transferred Entities or, to the extent relating to the Business, any member of the Parent Group;

(xiii) any Contract requiring a Transferred Entity or any member of the Parent Group to manufacture, supply, and/or maintain in inventory any minimum number of Business Products in annual amount in excess of $350,000;

(xiv) any Contract requiring a Transferred Entity or any member of the Parent Group to accept future purchase orders, work orders, invoices, or other requests for the supply of Business Products;

(xv) any Contract involving or incorporating any guaranty, pledge, performance or completion bond, indemnity (other than in Contracts entered into in the Ordinary Course of Business) or surety arrangement for an amount in excess of $350,000;

(xvi) any mortgage, pledge, security agreement, deed of trust or other Contract granting a Lien on any material property or assets of a Transferred Entity other than for capital equipment in the Ordinary Course of Business;

(xvii) any Contract with a Material Customer or a Material Supplier;

(xviii) any purchase order from any customer for Business Products with an open value in excess of $350,000 (the "Top Customer Purchaser Orders");

(xix) any purchase order after January 1, 2020 for any supplier of the Business Products with an open value in excess of $350,000 (the "Top Supplier Purchase Orders");

(xx) any Contract pursuant to which a Transferred Entity or, to the extent relating to the Business, any member of the Parent Group, licenses Intellectual Property (x) from a third party, other than click-wrap, shrink-wrap and off-the-shelf software licenses, and any other software licenses (excluding off-the-shelf software licenses that are incorporated into the Business Products) that are commercially available on reasonable terms to the public generally with license, maintenance, support and other fees less than $350,000 per year or (y) to a third party, except for non-exclusive licenses granted to service providers, customers, manufacturers, distributors, or resellers in connection with their use or resale of the Business Products, as applicable, and in the Ordinary Course of Business; and

(xxi) any Contract listed on Section 6.9 of the Parent Disclosure Schedule.

(b) All of the Contracts listed on Section 4.10 of the Parent Disclosure Schedule have been made available to Purchaser and are (i) in full force and effect, subject to the Enforceability Exceptions, and (ii) represent the valid and binding obligations of the Transferred Entity or member of the Parent Group party thereto and represent the valid and binding obligations of the other parties thereto. None of the Transferred Entities or any member of the Parent Group, nor any other party thereto, is in breach of or default under any such Contract in any material respect, (y) no member of the Parent Group nor any Transferred Entity has received any written

claim or notice of material breach of or material default under any such Contract, and (z) no event has occurred which individually or together with other events would reasonably be expected to result in a breach of or a default under any such Contract in any material respect (in each case, with or without notice or lapse of time or both).

(c) No Transferred Entity has renewed the Contract set forth on Section 4.10(c) of the Parent Disclosure Schedule or entered into any replacement or standalone Contract with the counterparty thereto or any of its Affiliates.

Section 4.11 Benefit Plans.

(a) Section 4.11(a) of the Parent Disclosure Schedule sets forth a true, correct and complete list of each material Seller Benefit Plan and each Transferred Entity Benefit Plan, and separately identifies with an "*" each such Benefit Plan that is a Transferred Entity Benefit Plan. With respect to each material Seller Benefit Plan, the Sellers have delivered or made available copies of the most recent summary plan description (or, if no such document exists, a written summary of such plan's material terms). The Sellers have delivered or made available to Purchaser copies of (or, to the extent no such copy exists, a description of) each Transferred Entity Benefit Plan and (if applicable): (i) the most recent plan, adoption agreement document and any related trust agreement and insurance policies, (ii) the most recent summary plan description, (iii) the most recent annual report on Form 5500 and all attachments thereto filed with the IRS or other Governmental Entity with respect to such Benefit Plan, (iv) the most recent determination or opinion letter, if any, issued by the IRS with respect to any Transferred Entity Benefit Plan and (v) any amendment thereto. Notwithstanding the foregoing, any Transferred Entity Benefit Plan that (A) relates to an employee who performs services primarily outside of the United States and whose base salary and target bonus does not exceed $150,000 on an annualized basis as of the date of this Agreement, (B) is in all material respects in a form of agreement or arrangement of the type that is identified on Section 4.11(a) of the Parent Disclosure Schedule and has been made available to Purchaser and (C) does not provide any severance or notice period in excess of ninety (90) days or such longer period as may be required by applicable Laws will not be specifically set forth on Section 4.11(a) of the Parent Disclosure Schedule.

(b) (i) each Transferred Entity Benefit Plan has been maintained and administered in all material respects in accordance with its terms and all applicable Laws, including ERISA and the Code, and the Transferred Entities and, to the Knowledge of Sellers, each fiduciary have performed all material obligations required to be performed by them under, and are not in default, in any material respect, under or in violation of, any Transferred Entity Benefit Plan; (ii) all contributions required to be made with respect to any Transferred Entity Benefit Plan on or before the date hereof have been made on or before their due dates and a reasonable amount has been accrued for contributions to each Transferred Entity Benefit Plan for the current plan year (and no further contributions will be due or will have accrued thereunder as of the Closing Date, other than contributions accrued in the Ordinary Course of Business after the date of the most recent balance sheet included in the Business Financial Statements); (iii) each Transferred Entity Benefit Plan which is intended to be qualified within the meaning of Section 401(a) of the Code has received a favorable determination or opinion letter as to its qualification and nothing has occurred since the issuance of such letter that could reasonably be expected to cause the loss of the tax-qualified status of any such Transferred Entity Benefit Plan; (iv) each

International Transferred Entity Benefit Plan that is intended to qualify for special tax treatment meets all material requirements for such treatment; and (v) each International Transferred Entity Benefit Plan that is intended to be funded and/or book reserved is fully funded and/or book reserved, as applicable, in all material respects, based upon reasonable actuarial assumptions; and (vi) all required contributions to any Governmental Plan have been timely made in all material respects. No Transferred Entity Benefit Plan is maintained through a human resources and benefits outsourcing entity or professional employer organization.

(c) No Transferred Entity has any material Controlled Group Liability by reason of at any time being treated as an ERISA Affiliate of Parent or the Sellers or any of their respective ERISA Affiliates. No Transferred Entity sponsors, maintains or has any material liability (including, any contingent liability by reason of being treated as an ERISA Affiliate with any other Person) with respect to any employee benefit plan that is a multiemployer pension plan (as defined in Section 3(37) of ERISA) or "defined benefit plan" (as defined in Section 3(35) of ERISA), in each case, that is subject to Title IV of ERISA.

(d) Section 4.11(d) of the Parent Disclosure Schedule sets forth a true, correct and complete list of each International Transferred Entity Benefit Plan that provides for defined benefit or termination indemnity benefits to Business Employees and, with respect to each such plan, indicates the funded status of such plan as of the last day of the fiscal year ended December 31, 2019.

(e) With respect to the Transferred Entity Benefit Plans or any trusts related thereto, as of the date hereof, no actions, suits, claims, investigations or audits (other than routine claims for benefits in the Ordinary Course of Business) are pending or, to the Knowledge of Sellers, threatened.

(f) Neither the execution and delivery of this Agreement nor the consummation of the Transactions (either alone or in conjunction with any other event) would reasonably be expected to (i) increase any benefits under any Seller Benefit Plan or Transferred Entity Benefit Plan, (ii) result in the acceleration of the time of payment, funding or vesting, or an increase in the amount, of any compensation or benefits due to any Transferred Entity Employee, (iii) constitute a breach of any Transferred Entity Benefit Plan, limit a Transferred Entity's ability to amend or terminate a any Transferred Entity Benefit Plan, or result in an increase in the notice period required to terminate the engagement of any Business Employee or (iv) result in any "excess parachute payment" (as defined in Section 280G(b)(1) of the Code) being made by the Sellers or any of the Transferred Entities to any Transferred Entity Employee who is a "disqualified individual" within the meaning of Section 280G of the Code. The consummation of the Transactions will not constitute a change in ownership or control of the Sellers or Parent or any affiliated group of which the Sellers or Parent are a part within the meaning of Section 280G of the Code.

(g) No Transferred Entity Benefit Plan provides benefits, including death or medical benefits (whether or not insured), with respect to current or former service providers beyond their retirement or other termination of service, other than coverage mandated by the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, or comparable applicable Law.

(h) No Transferred Entities located outside of the United States sponsors, maintains or contributes to any Benefit Plan. Purchaser shall have no liability in respect of any Seller Benefit Plan following the Closing.

(i) Each arrangement subject to Section 409A of the Code maintained by the Transferred Entities complies with Section 409A of the Code by its terms and has been operated in compliance in all respects therewith. None of the Transferred Entities are under an obligation to gross up any Taxes under Section 409A, Section 4999 or Section 280G of the Code.

Section 4.12 Employees; Labor Matters.

(a) Section 4.12 of the Parent Disclosure Schedule lists each Collective Bargaining Agreement.

(b) During the past five (5) years, no material labor dispute, strikes or stoppages have occurred or, to the Knowledge of Sellers, have been threatened with respect to any Business Employees.

(c) To the Knowledge of Sellers, there are no organizational efforts with respect to the formation of a collective bargaining unit presently being made or threatened involving any Business Employees.

(d) The Transferred Entities are, and during the past five (5) years through the date hereof have been, in compliance in all material respects with all applicable Laws relating to employment of labor, immigration, fair employment practices, terms and conditions of employment, workers' compensation, occupational safety, plant closings, mass layoffs, worker classification, exempt and non-exempt status, compensation and benefits, wages and hours and Worker Adjustment and Retraining Notification Act of 1988, as amended or any similar state or local Law. None of the Transferred Entities, nor to the knowledge of Sellers, any of their respective Representatives or employees, has in the past five (5) years committed any material unfair labor practice in connection with the operation of the Business, and there is no unfair labor practice charge or complaint against the Transferred Entities by the National Labor Relations Board or any comparable Governmental Entity pending or, to the knowledge of Sellers, threatened. No independent contractor (nor any individual leased from or hired through another employer or third party via an agreement with such employer or third party to provide services to the Transferred Entities) is required by applicable Laws to be classified as an employee of the Transferred Entities.

(e) Each Business Employee has been primarily dedicated to the Business since January 1, 2020 (or, for any such Business Employee hired after January 1, 2020, since the date of such Business Employee's hire). Since January 1, 2020, no individual who was primarily dedicated to the Business has been transferred to any division or business unit of the Parent Group other than the Business. No offer of employment or engagement has been made to any individual who would be a Business Employee which is outstanding for acceptance, or which has been accepted but has not yet commenced, and which provides for an annual base salary of $100,000 or more.

(f) The Sellers have provided to Purchaser a true, correct and complete list of each Business Employee as of the date of such list (such list, as updated in accordance with Section

7.1) (the "Business Employee List") and, with respect to each such individual, the following information, if applicable, to the extent permitted under applicable Law: (A) name, (B) position, (C) employing entity, (D) work location, (E) date of hire, (F) annual salary or hourly rate (as applicable), (G) status as exempt/non-exempt from the overtime requirements of the Fair Labor Standards Act (for U.S. employees) and full time/part time, (H) whether the individual is on short-term or long-term disability or other leave status, (I) the individual's bonus target for the current fiscal year and bonus paid or payable for the most recently completed fiscal year, and the annual incentive compensation plan in which the individual is eligible to participate, (J) whether the individual has been placed on furlough or reduced hours or their employment costs are being met (in whole or in part) by a state subsidy scheme, (K) accrued vacation, paid-time off, sick and holiday pay, (L) work authorization/visa information (and expiration dates, if applicable). The information set forth in clauses (H), (I) and (J) may be provided in one or more separate lists, each of which shall be deemed to constitute a part of the Business Employee List for purposes of this Agreement. The Sellers have made available to Purchaser copies, templates or detailed descriptions of all material handbooks applicable to all Business Employees.

(g) The Sellers have provided to Purchaser a true, correct and complete list of each natural person independent contractor providing material services to the Business and for each the initial date of the engagement, whether the engagement has been terminated by written notice by either party thereto, annual fees and any notice requirements.

(h) The Sellers and the Transferred Entities are each in compliance in all material respects with the Worker Adjustment Retraining Notification Act of 1988, as amended (the "WARN Act"), or any similar state or local Law. In the past two years, (i) neither the Sellers nor any Transferred Entity has effectuated a "plant closing" (as defined in the WARN Act) affecting any site of employment or one or more facilities or operating units within any site of employment or facility of its business, (ii) there has not occurred a "mass layoff" (as defined in the WARN Act) affecting any site of employment or facility of the Sellers or any Transferred Entity and (iii) neither the Sellers nor any Transferred Entity has engaged in layoffs or employment terminations sufficient in number to trigger notice obligations under any similar applicable Law.

(i) No individual shall have a reasonable basis to bring any material Transfer Claim in connection with the Pre-Closing Restructuring following the Closing Date.

Section 4.13 Taxes.

(a) All Tax Returns required to be filed by or with respect to the Transferred Entities have been filed, and the Transferred Entities have fully paid all Taxes due and owing whether or not shown on any Tax Return. All such Tax Returns were true, correct and complete in all material respects and have been prepared in substantial compliance with all applicable Law. Parent has made available to Purchaser true, correct and complete copies of all income and other material Tax Returns and any examination reports, statements of deficiencies, adjustments or proposed deficiencies and adjustments in respect of Precor Incorporated and its Subsidiaries filed or received, as the case may be, after 12/31/16.

(b) There are no Liens for Taxes (other than Permitted Liens) upon any assets of the Transferred Entities.

(c) Since the Balance Sheet Date, no Transferred Entity has incurred a liability for Taxes outside the Ordinary Course of Business.

(d) There is (i) no deficiency for any income Taxes has been asserted or assessed by any Governmental Entity in writing against the Transferred Entities (or, to the Knowledge of Sellers, has been threatened or proposed), except for deficiencies which have been satisfied, settled or withdrawn and (ii) as of the date hereof, no tax audit or other proceeding by any Governmental Entity is pending or threatened in writing with respect to any income Taxes due from the Transferred Entities. Neither Parent nor any Transferred Entity has received written notice from any taxing authority (including in jurisdictions where the applicable Person has not filed Tax Returns) that it intends to commence such an audit, examination, or proceeding.

(e) There are no outstanding agreements, waivers or arrangements extending the statutory period of limitation applicable to any claim for, or the period for the collection or assessment of, Taxes due from or with respect to the Transferred Entities for any taxable period, or any extension of time for any Transferred Entity to file a Tax Return (excluding, for this purpose, automatic extensions of time granted in the ordinary course which did not involve the discretionary exercise of authority by a tax authority). No power of attorney has been executed with respect to any Taxes owed by the Transferred Entities that is currently in force.

(f) None of the Transferred Entities (i) has been a member of an "affiliated group" within the meaning of Code 1504(a) filing a consolidated federal income Tax Return, other than an affiliated group of which the common parent was Parent or one of its Subsidiaries, or (ii) has liability for the Taxes of another Person (other than any of the Transferred Entities) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or foreign Tax Law), as a transferee or successor, under any other applicable Law or by contract (other than (x) customary agreements with customers, vendors, lessors or lenders entered into in the ordinary course business that do not relate primarily to Taxes and (y) the Transition Services Agreement).

(g) None of the Transferred Entities has constituted either a "distributing corporation" or a "controlled corporation" in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code in the two years prior to the date of this Agreement.

(h) None of the Transferred Entities has entered into any "reportable transaction" that has given rise to a disclosure obligation under Section 6011 of the Code and the Treasury Regulations promulgated thereunder.

(i) None of the Transferred Entities is or has been within five year period prior to the date of this Agreement a "United States real property holding corporation" within the meaning of Section 897 of the Code.

(j) Each Transferred Entity has withheld all Taxes required to be withheld with respect to the Transferred Business Employees or any other person and paid over to the appropriate Taxing authority all such Taxes required to be withheld or paid.

(k) No Transferred Entity will be required to include any material item of income in, or exclude any material item of deduction from, Taxable income for any Taxable period (or portion thereof) ending after the Closing as a result of any (i) change in method of accounting

for a Taxable period ending on or prior to the Closing, (ii) "closing agreement" described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign Tax Law), (iii) installment sale or open transaction disposition made on or prior to the Closing, (iv) prepaid amount received on or prior to the Closing, (v) election under Section 108(i) of the Code made on or prior to the Closing, or (vi) intercompany transaction or excess loss account described in Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local or non-U.S. income Tax Law) with respect to a transaction occurring on or prior to the Closing Date. None of the Transferred Entities has made an election pursuant to Section 965(h) of the Code.

(l) Each Transferred Entity has at all times been classified in accordance with the U.S. federal (and applicable state and local) income tax classification set forth next to its name on Section 4.13(l) of the Parent Disclosure Schedule.

(m) None of the Transferred Entities has, except as set forth on Section 4.13(m) of the Parent Disclosure Schedule, deferred any Taxes or has claimed any employee retention or other Tax credits pursuant to the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136), signed into law on March 27, 2020 ("CARES Act") or any other corresponding or similar provision of state, local or non-U.S. Tax Laws.

(n) Each Transferred Entity has properly (i) collected and remitted sales, use, value-added and similar Taxes with respect to sales made to its customers and (ii) for all sales that are exempt from sales, use, value-added and similar Taxes and that were made without charging or remitting sales, use, value-added or similar Taxes, received and retained any appropriate Tax exemption certificates and other documentation qualifying such sale as exempt.

(o) None of the Transferred Entities has received or applied for a Tax ruling that would be binding upon any Transferred Entity after the Closing Date.

Section 4.14 Sufficiency of Assets.

(a) After giving effect to the Pre-Closing Restructuring, each of the Transferred Entities will be the true and lawful owner and has good and valid title to each asset that such Transferred Entity purports to own, including all the assets reflected on the Business Financial Statements or thereafter acquired for use in the Business (whether real or personal and whether tangible or intangible), except those sold or otherwise disposed of or consumed in the Ordinary Course of Business since the Balance Sheet Date, in each case, free and clear of all Liens, other than Permitted Liens. Such assets include all rights, properties and other assets used by or necessary for such Transferred Entity to conduct the Business.

(b) At the Closing, taking into account and giving effect to all of the Ancillary Agreements (including the rights, benefits and services contemplated under the Transition Services Agreement), the Transferred Entities will own or have the right to use (including by means of ownership of rights pursuant to licenses or other Contracts) all of the material assets, properties and rights (excluding the Parent Names and Cash of the Transferred Entities) necessary to conduct the Business in substantially the same manner as conducted and as proposed to be conducted by the Transferred Entities as of the date of this Agreement.

Section 4.15 Insurance. Section 4.15 of the Parent Disclosure Schedule contains a list of all policies of property, fire and casualty, product liability, workers' compensation, and other forms of insurance held by, or for the benefit of, the Business as of the date of this Agreement, but exclusive of those addressed in Section 4.10. Except as set forth in Section 4.15 of the Parent Disclosure Schedule, as of the date of this Agreement (a) none of Parent or any of the Transferred Entities has received any written notice from any insurer under any such insurance policies, canceling or materially adversely amending any such policy or denying renewal of coverage thereunder, and (b) all premiums on such insurance policies due and payable as of the date hereof have been timely paid and Parent and each of the Transferred Entities are otherwise in compliance with the terms of such policies in all material respects. True, correct and complete copies of all such policies have been made available to Purchaser. There is no claim pending under any of such policies as to which coverage has been questioned, denied or disputed by the underwriters of such policies. All such policies remain in full force and effect, and to the Knowledge of Sellers, there is no threatened termination of, or material premium increase with respect to, any of such policies.

Section 4.16 Licenses, Permits and Authorizations.

(a) Section 4.16 of the Parent Disclosure Schedule identifies each material Permit held by each of the Transferred Entities (indicating, in each case, the holder of such Permit). The Permits held by each of the Transferred Entities are valid and in full force and effect, and constitute all Permits necessary to enable each of the Transferred Entities to conduct the Business in the manner in which the Business is currently being conducted and as planned to be conducted as of the date of this Agreement, in each case, as would not reasonably be expected to be material to the Transferred Entities, taken as a whole. None of the Transferred Entities has received any written notice or other written communication (or to the Knowledge of the Sellers, otherwise) from any Governmental Entity regarding (i) any actual or possible violation of or failure to comply with any term or requirement of any Permits or (ii) any actual or possible revocation, withdrawal, suspension, cancellation, termination or modification of any Permits.

(b) Except as set forth on Section 4.16 of the Parent Disclosure Schedule, the Transferred Entities have obtained, and are in compliance with, all Permits necessary under applicable Laws to permit the Transferred Entities to own, operate, use and maintain their assets in the manner in which they are now operated and maintained and to conduct the Business as currently conducted, except where the absence of, or the failure to be in compliance with, any such Permit would not reasonably be expected to be material to the Transferred Entities, taken as whole. As of the date hereof, none of the Transferred Entities has received any written notice or other written communication (or to the Knowledge of the Sellers, otherwise) from any Governmental Entity or have any Actions or reasonably apparent investigations by or before any Governmental Entity pending or threatened in writing (or to the Knowledge of the Sellers, otherwise), in each case which would reasonably be expected to result in the revocation, withdrawal, suspension, cancellation, termination or modification of any such Permit, except for any such revocation or termination that would not reasonably be expected to be material to such Transferred Entity.

Section 4.17 Real Property.

(a) None of the Transferred Entities owns any real property.

(b) Section 4.17(b) of the Parent Disclosure Schedule lists, as of the date of this Agreement, all real property leased by any Transferred Entity, in each case, as the lessee (the "Business Leased Real Property"). Each of the applicable Transferred Entities has good, valid and enforceable leasehold estate in, and enjoy peaceful and undisturbed possession of, the Business Leased Real Property leased by such Transferred Entities, subject to the Enforceability Exceptions and any Permitted Liens, and, as of the date of this Agreement, neither Parent, any Subsidiary nor any Transferred Entity has received any written notice from any lessor of such Business Leased Real Property of, nor does there exist, any default, event or circumstance that, with notice or lapse of time, or both, would constitute a default by the party that is the lessee or lessor of such Business Leased Real Property. True, correct and complete copies of all leases and subleases, including all modifications, amendments and supplements thereto have been provided or made available to Purchaser.

(c) No Person other than a Transferred Entity, subleases, licenses or otherwise has the right to use or occupy the Business Leased Real Property or any portion thereof.

(d) Section 4.17(d) of the Parent Disclosure Schedule lists, as of the date of this Agreement, all leases warehousing agreements under which each of the Transferred Entities currently uses or occupies or has the right to use or occupy any real property or facility.

Section 4.18 Intellectual Property.

(a) Section 4.18(a) of the Parent Disclosure Schedule sets forth a true, correct and complete list as of the date hereof of all (i) Business Registered IP Rights, including, as applicable, the application and registration number, the jurisdiction, the record owner and, if different, the legal owner, and (ii) material unregistered trademarks and service marks (including logos and other indicia of source) included in the Owned Intellectual Property. Each item of Business Registered IP Rights is valid, subsisting, and to the Knowledge of Sellers, enforceable (or in the case of applications, applied for), and all necessary registration, maintenance and renewal fees currently due in connection with the Business Registered IP Rights have been paid and all documents, recordations and certificates in connection with such Business Registered IP Rights currently required to be filed have been filed with the relevant Governmental Entities in the United States or foreign jurisdictions, as the case may be, for the purposes of prosecuting, maintaining and perfecting such Business Registered IP Rights and recording the Transferred Entities' and/or any member of the Parent Group's ownership interests therein.

(b) The Transferred Entities and members of the Parent Group, as applicable, own, or have independently developed or acquired and have good, valid and exclusive title to each material item of Owned Intellectual Property free and clear of any Liens, other than Permitted Liens. The Business Intellectual Property, including Intellectual Property licensed to the Transferred Entities pursuant to the Ancillary Agreements, constitutes all Intellectual Property used in, sufficient, and necessary for the Business as presently conducted and as proposed to be conducted as of the date of this Agreement. As of the Closing, the Transferred Entities or a Designated Purchaser Affiliate, as applicable, will independently own and have good, valid and exclusive title to all Owned Intellectual Property.

(c) Except as would not reasonably be expected to be material to the Transferred Entities, taken as a whole: (i) none of the Owned Intellectual Property or, to the Knowledge of the Sellers, any Third Party Intellectual Property is subject to any Order adversely affecting the use thereof or rights thereto by or of the Transferred Entities or any member of the Parent Group; (ii) there is no opposition or cancellation Action pending against the Transferred Entities or any member of the Parent Group concerning the ownership, validity or enforceability of any Owned Intellectual Property; (iii) (A) to the Knowledge of Sellers, there is no infringement or misappropriation, unauthorized use, unauthorized disclosure, or other violation, of any Owned Intellectual Property by any third party (including any current or former employee, consultant or contractor of any Transferred Entity or any member of the Parent Group) or (B) or any written allegation made or action, suit, or proceeding brought by any Transferred Entity or any member of the Parent Group with respect to the foregoing; and (iv) the operation of the Business as previously conducted, as conducted as of the date hereof and as of the Closing, and as proposed to be conducted as of the date hereof by the Transferred Entities, the Business Products, and any Owned Intellectual Property do not, and have not within the six (6) years prior to the date hereof, infringe, misappropriate, violate or otherwise conflict with the Intellectual Property of any other Person and there is no reasonable basis for a claim that any of the foregoing is infringing, violating, or misappropriating, or has in the last (6) years has infringed, violated or misappropriated upon any Intellectual Property of any other Person. In the past six (6) years, none of the Transferred Entities or members of the Parent Group, to the extent related to the Business, have received any communication that involves an offer to license or grant any other rights or immunities under any Third Party Intellectual Property Right (other than sales calls from third parties in the Ordinary Course of Business).

(d) Each of the Transferred Entities and members of the Parent Group, as applicable, has taken commercially reasonable steps to protect and maintain the confidentiality of all confidential, proprietary, material trade secrets, or non-public information included in the Owned Intellectual Property and any Third Party Intellectual Property under which the Transferred Entities and members of the Parent Group, as applicable, are subject to written confidentiality obligations or confidentiality obligations arising from an established course of dealing ("Confidential Information"). All use, disclosure or appropriation of Confidential Information of each of the Transferred Entities and members of the Parent Group by or to a third party has been pursuant to the terms of a written Contract between the relevant Transferred Entity or member of the Parent Group and such third party (or such third party otherwise has a professional duty to maintain the confidentiality of such Confidential Information).

(e) Neither the execution and delivery or effectiveness of this Agreement or the Ancillary Agreements nor the performance of the Transferred Entities' or any member of the Parent Group's obligations hereunder or thereunder will (i) cause the forfeiture or termination of, or give rise to a right of forfeiture or termination of any material Business Intellectual Property or (ii) cause any grant of Intellectual Property owned by or licensed to Purchaser and its Affiliates to any third party. The consummation of the Transactions will not result in the modification, cancellation, termination, suspension of, or acceleration of any payments with respect to any Contract governing any material Business Intellectual Property or give any party that is not the applicable Transferred Entity or member of the Parent Group the right to do any of the foregoing. At and after the Closing, the Transferred Entities (as wholly owned subsidiaries of the Purchaser) will be permitted to exercise all of the rights of any Transferred Entity or any member of the Parent

Group immediately prior to the Closing under any Contract governing any material Business Intellectual Property to the same extent in which the Transferred Entities and the members of the Parent Group would have been able to had the Transaction not occurred and without the payment of additional amounts or consideration other than ongoing fees, royalties, or payments that the Transferred Entities or members of the Parent Group would have otherwise been required to pay.

(f) Each current and former employee, consultant and contractor who contributed independently or jointly in the creation or development of material Owned Intellectual Property for the Transferred Entities or members of the Parent Group, as applicable, has executed a valid and enforceable written agreement pursuant to which such Person has granted to the Transferred Entities or members of the Parent Group, as applicable, all of such Person's right, title and interest in and to such Intellectual Property (to the extent such Intellectual Property did not otherwise vest with the Transferred Entities or members of the Parent Group, as applicable, automatically by operation of law). There are no royalties, honoraria, fees, inventor remuneration, or other payments payable by the Transferred Entities or members of the Parent Group to any Person (other than salaries payable to employees, consultants and independent contractors not contingent on or related to use of their work product) as a result of the ownership, use, possession, license-in, license-out, sale, marketing, advertising or disposition of any material Owned Intellectual Property.

(g) The Transferred Entities and the members of the Parent Group do not use Open Source Materials in the Owned Intellectual Property or otherwise in the Business Products in a way that (i) creates or purports to create, obligations for the Transferred Entities and the members of the Parent Group with respect to any Business Source Code or grant, or purport to grant, to any third party, any rights or immunities under any Business Source Code (including using any Open Source Materials that require, as a condition of use, modification and/or distribution of such Open Source Materials that other software incorporated into, derived from or distributed with such Open Source Materials be disclosed or distributed in source code form), or (ii) breaches the terms and conditions of any licenses for the Open Source Materials. "Open Source Materials" means all software or other material that is distributed as "free software", or "open source software" or under similar freeware licensing or distribution terms.

(h) In the past six (6) years, the Transferred Entities have implemented any and all security patches or upgrades that are generally available for any Business Products or material Transferred Entities IT Systems. The Transferred Entities and members of the Parent Group have in the past six (6) years taken commercially reasonable steps to implement commercially reasonable procedures to ensure that no Owned Intellectual Property or Business Product contains any code that is a "back door," "drop dead device," "time bomb," "Trojan horse," "virus," "worm" (as such terms are commonly understood in the software industry) or other harmful or malicious code.

(i) The Transferred Entities, and as of the Closing, will own or have valid rights to access and use all material information technology systems (including computer systems, networks, hardware, databases, and equipment) used in the Business (the "Transferred Entities' IT Systems"). The Transferred Entities' IT Systems operate and perform in all material respects as required in connection with the operation of the Business and are designed to not allow for unauthorized access to the Transferred Entities' IT Systems by any Person. The members of the

Parent Group and the Transferred Entities have implemented appropriate technical, physical and organizational measures and security systems designed to protect the confidentiality, integrity and security of the owned Transferred Entities' IT Systems, and all Confidential Information and data stored therein or transmitted thereby (including any Personal Information) from unauthorized use, access, interruption, modification or corruption.

(j) At no time during the conception of or reduction to practice of any of the material Owned Intellectual Property, was any Transferred Entity or member of the Parent Group or any Person who contributed independently or jointly in the creation or development of any such Intellectual Property for the foregoing (i) operating under any grants from any Governmental Entity, university, other educational institution, military, multi-national, bi-national, or international organization ("R&D Sponsor") or (ii) performing (directly or indirectly) research sponsored by any R&D Sponsor.

(k) None of the Transferred Entities or, to the extent related to the Business, members of the Parent Group, are or have in the last six (6) years been a member of, a contributor to, or affiliated with, any industry standards organization which required the licensing, assignment, contribution, disclosure, or other requirement or restriction of Owned Intellectual Property to such industry standards organization.

Section 4.19 Privacy and Data Security.

(a) The data privacy and security practices and processing of Personal Information of the Transferred Entities or, to the extent related to the Business, members of the Parent Group, conform, and at all times in the past five (5) years have conformed in all material respects, to all of the Seller Privacy Commitments, Privacy Laws and Seller Data Agreements. The Transferred Entities and, to the extent related to the Business, members of the Parent Group, have at all times in the past five (5) years: (i) had a valid legal basis (including providing adequate notice and obtaining any necessary consents from individuals) required for the Processing of Personal Information as conducted by or for the Transferred Entities or the Business; (ii) contractually required third parties that collect, access, use Process, store or disclose Seller Data to comply with Privacy Laws and Seller Privacy Commitments; and (iii) abided by any privacy choices, and contractually required third parties, that collect access, use Process, store or disclose Seller Data, (including opt out preferences) of individuals relating to Personal Information (such obligations along with those contained in Seller Privacy Policies, collectively, "Seller Privacy Commitments"), in each case of (i)-(iii) in all material respects. Neither the execution, delivery or performance by Sellers and the Transferred Entities of this Agreement nor the consummation by Sellers and the Transferred Entities of any of the Transactions, nor the transfer or assignment to Purchaser of the Personal Information or any PI Databases included in the assets of each of the Transferred Entities, will result in any material violation of any Seller Privacy Commitments, Seller Data Agreements, standard terms of service entered into by Sellers or the Transferred Entities, or any Privacy Laws.

(b) The Transferred Entities or, to the extent related to the Business, members of the Parent Group, have established and maintain appropriate technical, physical and organizational security measures and systems and technologies in compliance with all material data security requirements under applicable Privacy Laws and Seller Privacy Commitments that

are designed to protect Seller Data against accidental or unlawful Processing in a manner appropriate to the risks represented by the Processing of such data by Sellers, the Transferred Entities and their respective data processors. The Transferred Entities and, to the extent related to the Business, members of the Parent Group, and their respective data processors have taken commercially reasonable steps to ensure the reliability of their respective employees and contractors who have access to Seller Data, to train their employees on all applicable aspects of Privacy Laws and Seller Privacy Commitments and to ensure that all such employees with the authority and/or ability to access such data are under written obligations of confidentiality with respect to such data.

(c) True, correct and complete copies of all current Seller Privacy Policies have been made available to Purchaser.

(d) The Transferred Entities and, to the extent related to the Business, members of the Parent Group, own all right, title and interest in and to each element of Seller-Owned Data. The Transferred Entities and, to the extent related to the Business, members of the Parent Group, have the right to Process all material Seller-Owned Data without obtaining any permission or authorization of any Person.

(e) The Transferred Entities and, to the extent related to the Business, members of the Parent Group, have valid and subsisting contractual rights to Process or to have Processed all material Seller-Licensed Data howsoever obtained or collected by or for the Transferred Entities in the manner that it is Processed by or for the Transferred Entities. The Transferred Entities and, to the extent related to the Business, members of the Parent Group, have all rights, and all permissions, licenses or authorizations required under applicable Privacy Laws and relevant Contracts, to retain, produce copies, prepare derivative works, disclose, combine with other data, and grant third parties rights, as applicable, to each of the Seller-Licensed Data as necessary for the operation of the Business. The Transferred Entities and, to the extent related to the Business, members of the Parent Group, have been and are in compliance with all Contracts pursuant to which any Transferred Entity Processes or has Processed Seller-Licensed Data, and the consummation of the Transactions will not conflict with, or result in any violation or breach of, or default under, any such Contract.

(f) Section 4.19(f) of the Parent Disclosure Schedule contains a true, correct and complete list of notifications and registrations made by the Transferred Entities and, to the extent related to the Business, members of the Parent Group, under Privacy Laws with relevant Governmental Entities in connection with the Sellers' Processing of Personal Information (the "Privacy Notices") in the past five (5) years. All such Privacy Notices are valid, accurate, complete and fully paid up to the extent required by applicable Privacy Laws, and, to the Knowledge of the Sellers, the consummation of the Transactions will not invalidate such notification or registration or require such notification or registration to be amended. Other than the notifications and registrations set forth on Section 4.19(f) of the Parent Disclosure Schedule, no other registrations or notifications are required in connection with the Processing of Personal Information by Sellers. The Transferred Entities and, to the extent related to the Business, members of the Parent Group, do not and have not knowingly in the past five (5) years Processed the Personal Information of any natural Person considered a child under the age of 13.

(g) Where the Transferred Entities and members of the Parent Group in the operation of the Business use a data processor or other third party to Process Personal Information on their behalf, the processor or third party has provided guarantees, warranties or covenants in relation to Processing of Personal Data, confidentiality, security measures and agreed to compliance with those obligations that are sufficient for the Transferred Entities' compliance with Privacy Laws and Seller Privacy Commitments, and there is in existence a written Contract between the applicable Person and each such data processor that materially complies with the requirements of Privacy Laws and Seller Privacy Commitments. The Sellers have made available to Purchaser accurate copies of all such Contracts. To the Knowledge of Sellers, such data processors have not breached any such Contracts pertaining to Personal Information Processed by such Persons on behalf of the Sellers.

(h) The Transferred Entities and, members of the Parent Group in the operation of the Business, currently and in the last five (5) years have contractually required all third parties with access to Personal Information (to the extent related to the Business) to: (i) establish and maintain appropriate technical, physical and organizational measures and security systems and technologies and (ii) implement and maintain a security plan designed to protect, Personal Information against loss, damage, and unauthorized access, use, modification, or other misuse.

(i) The Transferred Entities and members of the Parent Group in the operation of the Business, (i) have not in the past five (5) years received or experienced and, to the Knowledge of the Sellers, there is no circumstance (including any circumstance arising as a result of the acts or omissions of a distributor or an audit or inspection carried out by any Governmental Entity) that would reasonably be expected to give rise to, any legal proceeding, Order, notice, communication, warrant, regulatory opinion, audit result or allegation from a Governmental Entity or any data subject: (A) alleging or confirming non-compliance with a relevant requirement of Privacy Laws or Seller Privacy Commitments, (ii) requiring or requesting any such Person to amend, rectify, cease Processing, de-combine, permanently anonymize, block or delete any Seller Data, (iii) permitting or mandating a relevant Governmental Entity to investigate, requisition information from, or enter the premises of Seller, or (iv) claiming compensation from the Sellers. Sellers are not currently, and have not in the past five (5) years been involved in any legal proceedings regarding non-compliance or alleged non-compliance with applicable Privacy Laws or Seller Privacy Commitments.

(j) No security incident, violation of any data security policy, breach, or unauthorized access in relation to Seller Data, Seller databases, or Confidential Information (including Personal Information in any Seller's or Transferred Entity's possession, custody or control) has occurred in the last five (5) years or is threatened, and there has been no unauthorized or illegal Processing of any of the foregoing, in each case other than as would not reasonably be expected to result in material liability. No circumstance has arisen in which applicable Laws (including Privacy Laws) would require or recommend any Seller or Transferred Entity to notify a Governmental Body of a data security breach or security incident.

(k) The Transferred Entities and members of the Parent Group in the operation of the Business have implemented and maintain reasonable security, disaster recovery and business continuity plans consistent with industry practices of companies offering similar services, and act

in compliance therewith in all material respects and have tested such plans on a periodic basis, and such plans have proven effective upon testing in all material respects.

Section 4.20 Environmental Matters.

(a) Each of the Transferred Entities is, and since the date that is five (5) years prior to the date hereof has been, in material compliance with all applicable Environmental, Health and Safety Laws.

(b) Each of the Transferred Entities holds, and is in material compliance with, all Permits required under applicable Environmental, Health and Safety Laws to permit each of the Transferred Entities to operate its assets in a manner in which it is now operated and maintained and to conduct the Business as currently conducted.

(c) There has been no Release of Hazardous Materials at the Business Leased Real Property in a quantity or manner that has resulted in contamination of the soil, groundwater or surface water that requires any material investigation, removal, remediation or other response action by the Transferred Entities under applicable Environmental, Health and Safety Laws or would reasonably be expected to result in the assertion of material liability under Environmental, Health and Safety Laws against the Transferred Entities.

(d) The Transferred Entities have not treated, stored, arranged for or knowingly permitted the disposal of, Released, transported, handled, manufactured, distributed, disposed of, or exposed any Person to any Hazardous Material at, to or from any location except in material compliance with Environmental, Health and Safety Laws and as would not reasonably be expected to result in the assertion of material Liability under Environmental, Health and Safety Laws against Transferred Entities.

(e) There are no Actions or written notices of violation pending or threatened in writing against the Transferred Entities alleging material violations of or material liability under any Environmental, Health and Safety Law.

(f) There are no, nor in the past five (5) years have there been any, facts, circumstances or conditions that would reasonably be expected to give rise to any material Liability of any Transferred Entity with respect to Environmental, Health and Safety Laws.

(g) Notwithstanding any other provisions in this Agreement, Purchaser acknowledges and agrees that the representations and warranties contained in this Section 4.20 are the only representations and warranties given by Parent with respect to environmental, health or safety matters, including any arising under Environmental, Health and Safety Laws or relating to Hazardous Materials, and no other provisions of this Agreement or any Ancillary Agreement shall be interpreted as containing any representation or warranty with respect thereto.

Section 4.21 Absence of Changes.

(a) Since the Balance Sheet Date (i) there has not been any Business Material Adverse Effect and (ii) there has not been any action taken by Parent or its Affiliates that, if taken

during the period from the date of this Agreement through the Closing Date without Purchaser's consent would constitute a breach of Section 6.4(a), excluding Section 6.4(a)(x).

(b) Except as otherwise contemplated by this Agreement (including the Pre-Closing Restructuring), from the Balance Sheet Date through the date of this Agreement, the Business has been operated in the Ordinary Course of Business.

Section 4.22 Interested-Party Matters.

(a) Except (a) the Transferred Entity Benefit Plans and (b) Contracts between or among the Transferred Entities, none of the Transferred Entities is party to any material Contract with any (i) present or former officer, manager, partner or director of Parent or any of its Subsidiaries or (ii) Affiliate of Parent.

(b) None of the officers, managers, partners or directors of each Transferred Entity (i) has any direct or indirect ownership, participation, royalty or other interest in, or is an officer, director, employee of or consultant or contractor for any firm, partnership, entity or corporation that competes with, or does business with, or has any contractual arrangement with, any of the Transferred Entities (except with respect to any interest in less than 5% of the stock of any corporation whose stock is publicly traded), (ii) is a party to or otherwise directly or indirectly has a material economic interest in, any Contract to which such Transferred Entity is a party or by which such Transferred Entity or any of its assets is bound, except for normal compensation for services as an officer, director or employee thereof, or (iii) has any material economic interest in any material property, real or personal, tangible or intangible (including any Intellectual Property) that is used in, or that relates to, the Business, except for the rights of its equityholders.

Section 4.23 Intercompany Arrangements. Except for any Contracts to be terminated pursuant to Section 6.9, and other than Contracts to provide the services that are to be provided in accordance with any Ancillary Agreement, Section 4.23 of the Parent Disclosure Schedule sets forth a list, which is true, correct and complete in all material respects as of the date hereof, of all Contracts between or among any Transferred Entity, on the one hand, and any member of the Parent Group, on the other hand.

Section 4.24 Significant Customers and Suppliers.

(a) Section 4.24 of the Parent Disclosure Schedule lists: (a) the twenty (20) largest customers of the Business (measured by aggregate billings) during the fiscal year ended December 31, 2019 (the "Material Customers") and (b) the thirty (30) largest suppliers of materials, products or services to the Business (measured by aggregate dollars spent) during the fiscal year ended December 31, 2019 (the "Material Suppliers"). Except as disclosed in Section 4.24 of the Parent Disclosure Schedule no Material Customer or Material Supplier has cancelled, terminated or materially adversely changed the pricing or other terms of its business relationship with the Transferred Entities since December 31, 2019, or notified the Transferred Entities in writing since December 31, 2019 of any intent to do so.

(b) During the twelve-month period immediately preceding the date hereof, none of the Transferred Entities or members of the Parent Group has rejected a purchase order, work order, invoice, or other written request for the purchase of Business Products due to the

Transferred Entities' or Parent Group members', as applicable, inability or expected inability to manufacture or supply the quantity of Business Products set forth in such purchase order, work order, invoice or other written request.

(c) As of the date hereof, the Transferred Entities have sufficient manufacturing and supply capacity to meet normal historic demands and forecasts from customers for Business Products.

(d) As of the date hereof, none of the Transferred Entities or members of the Parent Group are experiencing any material supply chain- or manufacturing-related issues, disruptions or interruptions that adversely impact the Transferred Entities' or the Parent Group members' ability to meet normal historic demands and forecasts from customers of Business Products.

Section 4.25 Business Products. No Business Product is subject to any warranty, right of return, right of credit, or other indemnity other than the applicable stated terms and conditions of sale, warranties, service obligations, license, or lease of the Transferred Entities or any member of the Parent Group. In the last five (5) years, there have been no product liability claims relating to the Transferred Entities or any member of the Parent Group (relating to the operation of the Business in any way) or any Business Products that settled for an amount in excess of $350,000 individually.

Section 4.26 Brokers' Fees. Except as set forth on Section 4.26 of the Parent Disclosure Schedule, no broker, finder, investment banker or other Person is entitled to any brokerage fee, finders' fee or other similar commission, for which any Transferred Entity would be liable in connection with the Transactions based upon arrangements made by Parent or any of its Affiliates.

Section 4.27 Export Control Laws. Each Transferred Entity has in the past five (5) years conducted its export transactions in accordance in all material respects with applicable provisions of United States export and re-export controls, including the Export Administration Act and Regulations, the Foreign Assets Control Regulations, the International Traffic in Arms Regulations and other controls administered by the United States Department of Commerce, the United States Department of State and/or the United States Department of the Treasury and all other applicable import/export controls in other countries in which such Transferred Entity conducts business. Without limiting the foregoing: (i) each of the Transferred Entity has obtained all export and import licenses, license exceptions and other consents, notices, waivers, approvals, orders, authorizations, registrations, declarations, screenings and filings with any Governmental Entity required for (A) the export, import and re-export of products, services, software and technologies and (B) releases of technologies and software to foreign nationals located in the United States and abroad (collectively, "Export Approvals"), (ii) each Transferred Entity is in compliance in all material respects with the terms of all applicable Export Approvals, (iii) there are no pending or, to the knowledge of each Transferred Entity, threatened claims against such Transferred Entity with respect to such Export Approvals, (iv) there are no actions, conditions or circumstances pertaining to each of the Transferred Entity's export transactions that would reasonably be expected to give rise to any future material claims and (v) no Export Approvals for the transfer of export licenses to Purchaser or any Transferred Entity are required, except for such Export Approvals that can be obtained expeditiously and without material cost.

Section 4.28 No Additional Representation or Warranties. Except as provided in this Article IV, neither Parent nor any of its Affiliates, nor any of their respective directors, officers, managers, employees, equityholders, partners, members or Representatives has made, or is making, any representation or warranty whatsoever to Purchaser or its Affiliates regarding the Transferred Entities and no such party shall be liable in respect of the accuracy or completeness of any information provided to Purchaser or its Affiliates.

ARTICLE V

REPRESENTATIONS AND WARRANTIES REGARDING PURCHASER

Except as set forth in the disclosure schedule delivered to Parent prior to the execution of this Agreement (the "Purchaser Disclosure Schedule"), it being agreed that disclosure of any item in any section or subsection of the Purchaser Disclosure Schedule shall also be deemed disclosure with respect to any other section or subsection of this Agreement to which the relevance of such item is reasonably apparent on its face, Purchaser hereby represents and warrants to Parent, as of the date hereof and as of the Closing, as follows:

Section 5.1 Organization and Qualification. Purchaser and each Subsidiary of Purchaser that is a party to any Ancillary Agreement is a legal entity duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization and Purchaser and each Subsidiary of Purchaser that is a party to any Ancillary Agreement has all requisite corporate or other organizational power and authority to carry on its businesses as now being conducted and is qualified to do business and is in good standing as a foreign corporation or other legal entity in each jurisdiction where the conduct of its business requires such qualification, in each case, except as would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

Section 5.2 Authority Relative to this Agreement. Purchaser and each Subsidiary of Purchaser that is a party to any Ancillary Agreement has all necessary corporate or similar power and authority, and has taken all corporate or similar action necessary, to execute, deliver and perform this Agreement and the Ancillary Agreements and to consummate the Transactions. No vote or other approval of the stockholders of Purchaser is required in connection with the execution, delivery or performance of this Agreement and the Ancillary Agreements or to consummate the Transactions, whether by reason of applicable Law, the Organizational Documents of Purchaser, the rules or requirements of any securities exchange, or otherwise. This Agreement has been duly and validly executed and delivered by Purchaser, and, assuming the due authorization, execution and delivery of this Agreement by Parent, will constitute, and each Ancillary Agreement when executed and delivered by Purchaser or its applicable Subsidiaries, and, assuming the due authorization, execution and delivery of such Ancillary Agreement by the applicable Subsidiary of Parent, will constitute, a valid, legal and binding agreement of Purchaser and/or its applicable Subsidiaries, enforceable against Purchaser and/or such Subsidiaries in accordance with its terms, subject to the Enforceability Exceptions.

Section 5.3 Consents and Approvals; No Violations. No filing with or notice to, and no permit, authorization, registration, consent or approval of, any Governmental Entity is required on the part of Purchaser or any of its Subsidiaries for the execution, delivery and performance by

Purchaser and/or its Subsidiaries, as applicable, of this Agreement or any Ancillary Agreement or the consummation by Purchaser and/or its Subsidiaries, as applicable, of the Transactions, except (a) compliance with any applicable requirements of any Antitrust Laws, (b) compliance with any Permits relating to the Business, or (c) any such filings, notices, permits, authorizations, registrations, consents or approvals, the failure to make or obtain would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect. Assuming compliance with the items described in clauses (a) through (c) of the preceding sentence, neither the execution, delivery and performance of this Agreement or any Ancillary Agreement by Purchaser and/or its Subsidiaries, as applicable, nor the consummation by Purchaser and/or its Subsidiaries, as applicable, of the Transactions will (i) conflict with or result in any breach, violation or infringement of any provision of the respective Organizational Documents of Purchaser or its Subsidiaries, (ii) result in a breach, violation or infringement of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to the creation of any Lien, except for Permitted Liens, or any right of termination, amendment, cancellation or acceleration) under, any of the terms, conditions or provisions of any Contract to which Purchaser or any of its Subsidiaries or any of their respective properties or assets are bound, or (iii) violate any Law applicable to Purchaser or any of its Subsidiaries or any of their respective properties or assets, except, in the case of clause (ii) or clause (iii), as would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

Section 5.4 Litigation. As of the date of this Agreement, there is no Action pending or, to the Knowledge of Purchaser, threatened, against Purchaser or any of its Subsidiaries except as would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

Section 5.5 Brokers. Except as set forth in Section 5.5 of the Purchaser Disclosure Schedule, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission from Purchaser or any of its Subsidiaries in connection with the Transactions.

Section 5.6 Financing. Purchaser has and shall have at the Closing sufficient cash, available lines of credit or other sources of immediately available funds to make payment of all amounts to be paid by it hereunder on and after the Closing Date.

Section 5.7 Solvency. Immediately after giving effect to the Transactions, Purchaser and each of its Subsidiaries shall be able to pay their respective debts as they become due and shall own property which has a fair saleable value greater than the amounts required to pay their respective debts (including a reasonable estimate of the amount of all contingent Liabilities). Immediately after giving effect to the Transactions, Purchaser and each of its Subsidiaries shall have adequate capital to carry on their respective businesses. No transfer of property is being made and no obligation is being incurred in connection with the Transactions with the intent to hinder, delay or defraud either present or future creditors of Purchaser or its Subsidiaries.

Section 5.8 Investment Decision. Purchaser is acquiring the Shares for investment and not with a view toward or for the sale in connection with any distribution thereof, or with any present intention of distributing or selling such Shares. Purchaser acknowledges that the Shares have not been registered under the Securities Act or any other federal, state, foreign or local securities Law, and agrees that such Shares may not be sold, transferred, offered for sale, pledged,

distributed, hypothecated or otherwise disposed of without registration under the Securities Act, except pursuant to an exemption from such registration available under the Securities Act, and in compliance with any other federal, state, foreign or local securities Law, in each case, to the extent applicable.

Section 5.9 Independent Investigation. Purchaser has conducted its own independent investigation, review and analysis of the business, operations, assets, liabilities, results of operations, financial condition, technology, management and prospects of the Transferred Entities and the Business, which investigation, review and analysis was done by Purchaser and its Representatives. In entering into this Agreement, Purchaser acknowledges that it has relied solely upon the aforementioned investigation, review and analysis and not on any factual representations or opinions of any of Parent, the Sellers, the Transferred Entities, their respective Affiliates or any of their respective Representatives (except the representations and warranties of Parent expressly set forth in Article IV). Purchaser hereby acknowledges and agrees that none of Parent, the Sellers, the Transferred Entities, their respective Affiliates or any of their respective Representatives or any other Person will have or be subject to any Liability to Purchaser, its Affiliates or any of their respective Representatives or shareholders or any other Person resulting from the distribution to Purchaser, its Affiliates or their respective Representatives of, or Purchaser's, its Affiliates' or their respective Representatives' use of, any information relating to Parent, the Sellers, the Transferred Entities or the Business, including any information, documents or material made available to Purchaser, its Affiliates or their respective Representatives, whether orally or in writing, in any data room, any management presentations (formal or informal), functional "break-out" discussions, responses to questions submitted on behalf of Purchaser or its Affiliates or in any other form in connection with the Transactions. Purchaser further acknowledges that no representative of Parent, the Sellers, the Transferred Entities or their respective Affiliates has any authority, express or implied, to make any representations, warranties or agreements not specifically set forth in this Agreement and subject to the limited remedies herein provided. Purchaser acknowledges that, should the Closing occur, Purchaser shall acquire the Transferred Entities and the Business without any representation or warranty as to merchantability or fitness thereof for any particular purpose, in an "as is" condition and on a "where is" basis, except as otherwise expressly set forth in this Agreement.

Section 5.10 No Other Representations or Warranties; No Reliance. Purchaser acknowledges and agrees that, except for the representations and warranties of Parent contained in Article IV, none of Parent or any Affiliate thereof, or any other Person or entity on behalf of Parent or any Affiliate thereof, has made or makes, and Purchaser and its Affiliates have not relied upon, any representation or warranty, whether express or implied, with respect to the Business, Parent, the Transferred Entities or any Affiliate thereof, or their respective businesses, affairs, assets, liabilities, financial condition, results of operations, future operating or financial results, estimates, projections, forecasts, plans or prospects (including the reasonableness of the assumptions underlying such estimates, projections, forecasts, plans or prospects) or with respect to the accuracy or completeness of any other information provided or made available to Purchaser or its Affiliates any of their respective Representatives by or on behalf of Parent or any Affiliate or representative thereof. Purchaser acknowledges and agrees that none of Parent or any Affiliate thereof, or any other Person or entity on behalf of Parent or any Affiliate thereof, has made or makes, and Purchaser has not relied upon, any representation or warranty, whether express or implied, with respect to any projections, forecasts, estimates or budgets made available to

Purchaser or any of its Representatives of future revenues, future results of operations (or any component thereof), future cash flows or future financial condition (or any component thereof) of any of Parent, the Transferred Entities or any Affiliates thereof or the Business.

ARTICLE VI

COVENANTS OF THE PARTIES

Section 6.1 Access to Books and Records.

(a) From the date of this Agreement through the earlier of the Closing or the termination of this Agreement, and subject to the requirements of applicable Laws, Parent shall, and shall cause the Sellers and Transferred Entities to, afford to Representatives of Purchaser reasonable access to the books and records of the Business, under the supervision of the personnel of Parent or its Subsidiaries, during normal business hours consistent with applicable Law and in accordance with the procedures established by Parent, in each case, as is reasonably requested by Purchaser or its Representatives for purposes of integration planning following the consummation of the Transactions; provided that (i) such access shall not unreasonably interfere with the conduct of the business of the Parent or its Subsidiaries; (ii) such access shall occur in such a manner as Parent reasonably determines to be appropriate to protect the confidentiality of the Transactions; (iii) such access may be modified in light of applicable COVID-19 Measures; (iv) Purchaser shall not be permitted to conduct any environmental sampling, investigation or testing (including any commonly known as a Phase II assessment) at any of Parent's or its Subsidiaries' properties or facilities without Parent's consent (which shall not be unreasonably withheld, conditioned or delayed); and (v) nothing herein shall require Parent and its Subsidiaries to provide access to, or to disclose any information to, Purchaser if such access or disclosure would be reasonably likely to (x) waive any legal privilege or (y) be in violation of applicable Law or the provisions of any agreement entered into prior to the date of this Agreement and to which Parent of any of its Subsidiaries is a party. All information and documents provided pursuant to this Section 6.1(a) will be subject to the Confidentiality Agreement, and Purchaser acknowledges and agrees that it has and will continue to abide by, and will cause its Representatives to continue to abide by, the terms of such Confidentiality Agreement.

(b) Purchaser agrees that any access granted under Section 6.1(a) shall not interfere unreasonably with the operation of the Business or any other business of Parent or its Subsidiaries. Purchaser and its Affiliates and its and their respective Representatives shall not communicate with any of the employees customers, suppliers, financing sources, lenders and other business relations of Parent or its Subsidiaries without the prior written consent of Parent, which shall not be unreasonably withheld, delayed or conditioned.

(c) Except as otherwise provided in Section 8.2(a), from and after the Closing, Purchaser shall, and shall cause its Subsidiaries to, afford Parent and its Representatives, during normal business hours, upon reasonable notice, access to the books, records, properties and employees of each Transferred Entity and the Business to the extent that such access may be reasonably requested in connection with financial statements, Taxes, any Action or investigation by or before a Governmental Entity related to the Business and Governmental Entity reporting

obligations; provided that nothing in this Agreement shall limit any rights of discovery of Parent or its Affiliates.

(d) Except for Tax Returns and other documents governed by Section 8.2(b), Purchaser agrees to hold, and to cause the applicable Transferred Entities to hold, all the books and records of each Transferred Entity or the Business existing on the Closing Date and not to destroy or dispose of any thereof for a period of seven (7) years from the Closing Date or such longer time as may be required by Law, and thereafter, if any of them desires to destroy or dispose of such books and records, to offer first in writing at least sixty (60) days prior to such destruction or disposition to surrender them to Parent.

Section 6.2 Confidentiality.

(a) The parties hereto expressly agree that, notwithstanding any provision of the Confidentiality Agreement to the contrary, the terms of the Confidentiality Agreement are incorporated into this Agreement by reference and shall continue in full force and effect until the Closing. The parties hereto expressly agree that, notwithstanding any provision of the Confidentiality Agreement to the contrary, including with respect to termination thereof, if, for any reason, the Sale is not consummated, the Confidentiality Agreement shall continue in full force and effect in accordance with its terms.

(b) For a period of twenty-four (24) months from the Closing Date, Parent shall, and shall cause its Affiliates to, hold in confidence any nonpublic information that is proprietary or competitively sensitive ("Sensitive Business Information") to the extent exclusively relating to the Business; provided that the foregoing restriction shall not apply to information (i) that becomes available on a non-confidential basis to Parent or any of its Affiliates from and after the Closing from a third-party source that is not known by Parent or its applicable Affiliates to be under any obligations of confidentiality with respect to such information, (ii) that is in the public domain or enters into the public domain through no fault of Parent or any of its Affiliates, (iii) to the extent used by Parent or any of its Affiliates to comply with the terms of this Agreement or any of the Ancillary Agreements or any other Contract between Parent or any of its Affiliates, on the one hand, and Purchaser or any of its Affiliates, on the other hand, (iv) that is, following the Closing, independently derived by Parent or any of its Affiliates without use of such Sensitive Business Information or (v) subject to the immediately following sentence, that Parent or any of its Affiliates is required by Law or the rules of any stock exchange or required or requested pursuant to legal or regulatory process to disclose. In the event that Parent or any of its Affiliates is required by Law or the rules of any stock exchange or required or requested pursuant to legal or regulatory process to disclose such information, Parent shall reasonably promptly notify Purchaser in writing unless not permitted by Law or such legal or regulatory process to so notify, which notification shall include the nature of such legal or regulatory requirement or request, as applicable, and the extent of the required or requested disclosure, and will use commercially reasonable efforts to cooperate with Purchaser, at Parent's expense, to preserve to the extent reasonably practicable the confidentiality of such information. For the avoidance of doubt, nothing contained in this Agreement shall limit, restrict, require prior notice with respect to, or in any other way affect any party's or its Representatives' communications with any Governmental Entity, or communications with any official or staff person of a Governmental Entity, concerning matters relevant to such Governmental Entity. For the avoidance of doubt, nothing in this Section 6.2(b) shall prohibit

Parent or any of its Affiliates from making disclosures regarding the Transactions to its equityholders, investors or prospective investors.

(c) From and after the Closing, Purchaser shall, and shall cause its Subsidiaries (including the Transferred Entities) to, hold in confidence and not use for any purpose any Sensitive Business Information to the extent exclusively relating to the Retained Businesses; provided that the foregoing restriction shall not apply to information (i) that becomes available on a non-confidential basis to Purchaser or any of its Affiliates from and after the Closing from a third-party source that is not known by Purchaser or its applicable Affiliates to be under any obligations of confidentiality with respect to such information, (ii) that is in the public domain or enters into the public domain through no fault of Purchaser or any of its Affiliates, (iii) to the extent used by Purchaser or any of its Affiliates to comply with the terms of this Agreement or any of the Ancillary Agreements or any other Contract between Purchaser or any of its Affiliates, on the one hand, and Parent or any of its Affiliates, on the other hand, (iv) that is, following the Closing, independently derived by Purchaser or any of its Affiliates without use of such Sensitive Business Information or (v) subject to the immediately following sentence, that Purchaser or any of its Affiliates is required by Law or required or requested pursuant to legal or regulatory process to disclose. In the event that Purchaser or any of its Affiliates is required by Law or required or requested pursuant to legal or regulatory process to disclose such information, Purchaser shall reasonably promptly notify Parent in writing unless not permitted by Law or such legal or regulatory process to so notify, which notification shall include the nature of such legal or regulatory requirement or request, as applicable, and the extent of the required or requested disclosure, and will use commercially reasonable efforts to cooperate with Parent, at Parent's expense, to preserve to the extent reasonably practicable the confidentiality of such information. For the avoidance of doubt, nothing contained in this Agreement shall limit, restrict, require prior notice with respect to, or in any other way affect a party's or its Representatives' communications with any Governmental Entity, or communications with any official or staff person of a Governmental Entity, concerning matters relevant to such Governmental Entity.

Section 6.3 Required Actions.

(a) Purchaser and Parent shall use their reasonable best efforts to take, or cause to be taken, all actions, and do, or cause to be done, all things necessary, proper or advisable under any applicable Laws to consummate and make effective in an expeditious manner the Transactions, including (i) the preparation and filing of all forms, registrations and notices required to be filed to consummate the Transactions, (ii) taking all actions necessary to obtain (and cooperating with each other in obtaining) any consent, clearance, expiration or termination of a waiting period, authorization, Order or approval of, or any exemption by, any Governmental Entity (which actions shall include furnishing all information required under any Antitrust Laws) required to be obtained or made by Purchaser or Parent or any of their respective Subsidiaries in connection with the Transactions, and (iii) the execution and delivery of any additional instruments necessary to consummate the Transactions and to fully carry out the purposes of this Agreement. Additionally, each of Parent and Purchaser shall take, or cause to be taken, all actions, and do, or cause to be done, all things necessary, proper or advisable under any applicable Laws to fulfill all conditions precedent to this Agreement.

(b) Prior to the Closing, to the extent not prohibited by applicable Law, Purchaser and Parent shall each keep the other apprised of the status of matters relating to the completion of the Transactions and work cooperatively in connection with obtaining all required consents, clearances, expirations or terminations of waiting periods, authorizations, Orders or approvals of, or any exemptions by, any Governmental Entity. In that regard, prior to the Closing, subject to the Confidentiality Agreement and Section 6.2, to the extent not prohibited by applicable Law, each of Parent and Purchaser shall promptly consult with the other party to provide any necessary information with respect to (and, in the case of correspondence, provide the other party (or their counsel) copies of) all filings made by such party with any Governmental Entity or any other information supplied by such party to, or correspondence with, a Governmental Entity in connection with this Agreement, the Transactions. Subject to the Confidentiality Agreement and Section 6.2, to the extent not prohibited by applicable Law, each party to this Agreement shall promptly inform the other party to this Agreement, and if in writing, furnish the other party with copies of (or, in the case of oral communications, advise the other party of) any communication from any Governmental Entity or other such Person regarding the Transactions, and permit the other party to review and discuss in advance, and consider in good faith the views of the other party in connection with, any proposed written or oral communication or submission with or to any such Governmental Entity or other such Person. If any party to this Agreement or any representative of such party receives a request for additional information or documentary material from any Governmental Entity with respect to the Transactions, then such party will make, or cause to be made, promptly and after consultation with the other party to this Agreement, an appropriate response in compliance with such request. Purchaser, on one hand, and Parent, on the other hand, shall not participate in any meeting with any Governmental Entity in connection with this Agreement or the Sale, or with any other Person in connection with any Action by a private party relating to any Antitrust Laws in connection with this Agreement or the Sale, or make oral submissions at meetings or in telephone or other conversations, unless it consults with the other party in advance and, to the extent not prohibited by such Governmental Entity, gives the other party the opportunity to attend and participate thereat. Purchaser and Parent may, as each deems advisable and necessary, reasonably designate any competitively sensitive material provided to the other party under this Agreement as "outside counsel/in-house counsel only." Such designated materials and any materials provided by Purchaser to Parent or by Parent to Purchaser pursuant to this Section 6.3, and the information contained therein, shall be given only to the outside legal counsel and in-house counsel of the recipient and shall not be disclosed by such outside counsel and in-house counsel to employees (other than in-house counsel), officers or directors of the recipient unless express permission is obtained in advance from the source of the materials (Purchaser or Parent, as the case may be) or its legal counsel; it being understood that materials provided pursuant to this Agreement may be redacted (i) to remove references concerning the valuation of the Business, (ii) as necessary to comply with contractual arrangements and (iii) as necessary to address reasonable privilege concerns.

(c) Purchaser and Parent shall file or cause to be filed, as promptly as practicable, but in any event no later than ten (10) Business Days after the date of this Agreement, notifications under the HSR Act. During the term of this Agreement, Purchaser shall not withdraw its filing under the HSR Act or take any other action which is reasonably expected to materially delay the consummation of the Transactions, without prior written consent of the Seller (such consent not to be unreasonably withheld, conditioned or delayed).

(d) Purchaser shall use its reasonable best efforts to resolve such objections, if any, as may be asserted by any Governmental Entity with respect to the Transactions under any Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or lessening of competition through merger or acquisition or restraint of trade.

(e) For the avoidance of doubt, Purchaser shall use its reasonable best efforts to avoid or eliminate each and every impediment under any Antitrust Laws so as to enable the Closing to occur as promptly as practicable (and in any event no later than the Outside Date), including (i) proposing, negotiating, agreeing to, committing to and effecting, by consent decree, hold separate Order, or otherwise, the sale, divestiture or disposition of any businesses, product lines or assets of the Transferred Entities, Purchaser, and their respective Subsidiaries, and (ii) otherwise taking or committing to take actions that after the Closing would limit Purchaser's, the Transferred Entities' or their respective Subsidiaries' freedom of action with respect to, or its or their ability to retain, any businesses, product lines or assets of the Transferred Entities, Purchaser, and their respective Subsidiaries. Notwithstanding the foregoing or any other provision of this Agreement to the contrary, in no event shall Purchaser be obligated to take any actions pursuant to this Section 6.3 that would or would reasonably be expected to materially adversely impact the business or operations of the Purchaser and its Subsidiaries, taken as a whole, or materially reduce Purchaser's contemplated benefits from the Transactions.

(f) Whether or not the Sale is consummated, Purchaser shall be responsible for all fees and payments (including filing fees and legal, economist and other professional fees) to any third party or any Governmental Entity to obtain any consent, clearance, expiration or termination of a waiting period, authorization, Order or approval pursuant to this Section 6.3, other than the fees of and payments to Parent's legal and professional advisors; provided that Parent shall pay one-half of the filing fees required in connection with notification under the HSR Act.

(g) Purchaser covenants and agrees that, from the date of this Agreement through the earlier of the Closing or the termination of this Agreement, Purchaser shall not, and shall cause its Subsidiaries not to, directly or indirectly, acquire or agree to acquire, by merger, consolidation, stock or asset purchase or otherwise, any business or Person or other business organization or division thereof, or dissolve, merge or consolidate with any other Person, if such transaction would reasonably be expected to prevent, delay or impede the consummation of the Transactions.

Section 6.4 Conduct of Business.

(a) From the date of this Agreement through the earlier of the Closing or the termination of this Agreement, except (i) as otherwise expressly required or contemplated by this Agreement (including any actions, elections or transactions undertaken pursuant to Section 6.8 or Section 6.9), (ii) as required by or to comply with Law or a Business Material Contract, (iii) to the extent solely relating to any Retained Businesses, (iv) as disclosed in Section 6.4(a) of the Parent Disclosure Schedule or (v) as otherwise consented to by Purchaser (which consent shall not be unreasonably withheld, conditioned or delayed), Parent shall cause the Transferred Entities (and the Sellers to the extent related to the Business) to:

(i) conduct the Business in the Ordinary Course of Business in all material respects, including how the Business has been operated since the beginning of the COVID-19 Pandemic; provided that, except for actions required to comply with Law or any COVID-19 Measure (for which no consent is required), if Parent or the Transferred Entities determine that the Transferred Entities are reasonably required to take any action in response to the COVID-19 Pandemic that is not consistent with the Ordinary Course of Business (including how the Business has been operated since the beginning of the COVID-19 Pandemic), Parent shall notify Purchaser thereof in writing seeking Purchaser's consent thereto, and Purchaser shall promptly review such proposal and respond in writing (email being sufficient) to Parent's request for consent within forty-eight (48) hours of receipt of such notice (which consent will not be unreasonably withheld, conditioned or delayed);

(ii) not (1) amend their Organizational Documents, (2) split, combine or reclassify their outstanding Equity Interests, or (3) declare, set aside or pay any dividend or distribution to any Person other than a Transferred Entity (except as may be required to facilitate the elimination of intercompany accounts contemplated by Section 6.8 or Section 6.9);

(iii) other than to a Transferred Entity or in connection with the Pre-Closing Restructuring, not issue, sell, pledge or dispose of, or agree to issue, sell, pledge or dispose of, any Equity Interests (other than pledges existing on the date hereof to be released at Closing);

(iv) not (1) incur in excess of $250,000 aggregate principal amount of Indebtedness outstanding at any time (other than intercompany indebtedness owing by one Transferred Entity to another Transferred Entity, or any borrowings under revolving credit facilities or Indebtedness in the Ordinary Course of Business that may be prepaid at or prior to Closing or pursuant to agreements existing as of the date hereof), (2) make any material acquisition of any assets or businesses in excess of $100,000 other than acquisitions of inventory or other materials in the Ordinary Course of Business or as set forth in the capital budget of the Transferred Entities made available to Purchaser prior to the date hereof, (3) sell or dispose of any material assets other than in the Ordinary Course of Business or (4) incur, create or assume any Lien, other than Permitted Liens or Liens that will be discharged at or prior to the Closing;

(v) except (1) solely in the case of clause (i) and (ii) of this Section 6.4(a)(v) as may be required pursuant to any (x) Seller Benefit Plan or (y) Transferred Entity Benefit Plan, (2) in the case of any Seller Benefit Plan, in connection with any action that applies uniformly to Transferred Entity Employees and other similarly situated employees of the Parent Group and the effect of which does not materially increase Purchaser's obligations under Article VII with respect to any Transferred Business Employees, (3) for changes in connection with ordinary course annual renewals or immaterial annual increases of a Transferred Entity Benefit Plan, or (4) for any grant for which the Parent Group shall be solely obligated to pay, not (i) grant to any Business Employee any material increase in compensation or benefits, including severance or termination pay, (ii) pay or award, or commit to pay or award, any bonuses, retention or

incentive compensation to any Business Employee, (iii) take any action to amend or waive any performance or vesting criteria or accelerate vesting or funding under any Transferred Entity Benefit Plan, or (iv) adopt, enter into or materially amend any Transferred Entity Benefit Plan;

(vi) not make any material change to its methods of financial accounting in effect at December 31, 2019, except as required by a change in, or to comply with, IFRS (or any interpretation thereof);

(vii) except as set forth in the capital budget of the Transferred Entities made available to Purchaser prior to the date hereof, not commit or authorize any commitment to make any capital expenditures in excess of $500,000 in the aggregate;

(viii) not dissolve, merge or consolidate with any other Person (except with respect to entities that are dormant as of the date hereof);

(ix) (A) not (1) change any annual accounting period, (2) adopt or change any material method of accounting for Tax purposes (3) settle any claim or assessment in respect of Taxes or surrender any right to a Tax refund, (4) make or change any material Tax election or (5) enter into any written agreement with a Taxing authority relating to Taxes, in each case with respect to a Transferred Entity, and (B) continue to pay or cause to be paid the Transferred Entities' Taxes as they become due and payable in the Ordinary Course of Business in a manner consistent with Parent's past practice;

(x) not (1) materially amend, terminate (other than expiration in accordance with its terms) or cancel any Business Material Contract, (2) enter into any Contract providing for any Lease Recourse Liabilities or any Contract that would have been required to be listed on Section 6.10(a) of the Parent Disclosure Schedule (Guarantees) if entered into prior to the date of this Agreement with a value in excess of $350,000 individually or $6,000,000 in the aggregate or (3) enter into any other Contract that if in effect on the date hereof would be a Business Material Contract, other than, in the case of clause (3), in the Ordinary Course of Business or (4) renew the Business Material Contract as set forth in Section 4.10(c) of the Parent Disclosure Schedule;

(xi) not settle or compromise any Action, or enter into any consent decree or settlement agreement with any Governmental Entity, against or affecting the Business, in each case, other than settlements or compromises of any Action where the amount paid in settlement or compromise does not exceed $100,000 individually or $250,000 in the aggregate (excluding any proceeds paid solely under any insurance policy) (it being agreed and understood that this clause (xi) shall not apply with respect to Tax matters, which shall be governed by Section 6.4(a)(ix));

(xii) not accept non-cancelable purchase orders from customers containing any minimum volume or purchase or sale commitments that would result in manufacturing commitments as of the Closing that materially exceed the manufacturing commitments of the Business incurred in the Ordinary Course of Business;

(xiii) not establish, adopt, enter into, amend or terminate any Collective Bargaining Agreement that covers any Business Employee;

(xiv) not cancel, amend (other than in connection with the addition of customers and suppliers to such insurance policies from time to time in the Ordinary Course of Business) or fail to renew (on substantially similar terms) any material insurance policy held by or for the benefit of the Business;

(xv) not change in any material respects its practices and procedures in respect of Working Capital, other than in the Ordinary Course of Business;

(xvi) not (1) hire any Business Employee (other than to fill or replace any vacant position so long as the annual base salary of such newly hired Business Employee does not exceed an amount equal to 115% of the base salary of the Person so replaced), (2) terminate the employment of any Business Employee (except for cause) or (3) transfer the employment of any employee or Business Employee into or out of a Transferred Entity, in each case, other than as contemplated by the Pre-Closing Restructuring; or

(xvii) not agree or commit to do any of the foregoing.

(b) Nothing contained in this Agreement shall give Purchaser, directly or indirectly, the right to control or direct Parent's or any of its Affiliates' (including the Transferred Entities') businesses or operations. Nothing contained in this Agreement shall give Parent, directly or indirectly, the right to control or direct Purchaser's or any of its Affiliates' businesses or operations.

Section 6.5 Consents. Parent and Purchaser shall, and shall cause their respective Subsidiaries to use reasonable best efforts (i) to obtain any consents required from third parties in connection with the consummation of the Transactions under Business Material Contracts and (ii) transfer any Permits required to be transferred to or from a Transferred Entity in connection with the consummation of the Transactions, in each case as set forth in Section 6.5 of the Parent Disclosure Schedule; provided, that neither Parent nor any of its Affiliates shall have any obligation to make any payments or incur any Liability to obtain any consents of third parties or effect the transfers or arrangements contemplated by this Section 6.5, and, without limiting the obligations of Parent and its Subsidiaries under this Section 6.5, the failure to receive any such consents or to effect any such transfers or arrangements shall not, in and of itself, result in the failure of any condition to the Closing set forth in Article IX to have been satisfied.

Section 6.6 Intellectual Property Assignment. At or prior to the Closing, Parent shall, and shall cause the Sellers to, use reasonable best efforts to deliver to Purchaser executed confirmatory assignments of Intellectual Property from the individuals set forth on Section 6.6 of the Parent Disclosure Schedule involved in the development of the Owned Intellectual Property, in each case, in a form that is reasonably acceptable to Purchaser; provided, that the failure to receive or effect any such assignment shall not, in and of itself, result in the failure of any condition to the Closing set forth in Article IX to have been satisfied. For the avoidance of doubt, the individuals set forth on Section 6.6 of the Parent Disclosure Schedule are all currently employed

by, or providing services to, the Parent Group or the Transferred Entities, as applicable, and who have materially contributed to Owned Intellectual Property.

Section 6.7 Public Announcements. No party to this Agreement nor any Representative of such party shall issue or cause the publication of any press release or public announcement in respect of this Agreement or the Transactions without the prior written consent of the other party (which consent shall not be unreasonably withheld, conditioned or delayed), except (a) as may be required by Law or stock exchange rules, or (b) to the extent the contents of such release or announcement have previously been released publicly by a party hereto or are consistent in all material respects with materials or disclosures that have previously been released publicly without violation of this Section 6.7. The parties hereto agree that the initial press release to be issued with respect to the execution of this Agreement shall be in the form heretofore agreed to by Parent and Purchaser.

Section 6.8 Intercompany Accounts; Cash. At or prior to the Closing, (a) all intercompany accounts (a true, correct and complete list of which as of the date of this Agreement are set forth on Section 6.8 of the Parent Disclosure Schedule), between any member of the Parent Group, on the one hand, and any Transferred Entity, on the other hand, shall be settled or otherwise eliminated, it being understood that, from and after the Closing, Purchaser and the Transferred Entities shall have no obligation or liability with respect to the intercompany accounts set forth on Section 6.8 of the Parent Disclosure Schedule (or that arise after the date of this Agreement, but are of the type that would be required to be set forth thereon if outstanding as of the date of this Agreement), and (b) any and all Cash of the Transferred Entities may be extracted from the Transferred Entities by the Sellers or other Affiliates of Parent (including, for the avoidance of doubt, through cash sweeps, dividend payments, distributions, share redemptions, recapitalizations, and the settling of intercompany loans accounts), in the case of each of clause (a) and (b), in such a manner as Parent shall reasonably determine in its sole discretion. For the avoidance of doubt, (i) intercompany accounts between and among any of the Transferred Entities shall not be required to have been eliminated at the Closing and (ii) trade accounts payable and receivable between any Transferred Entity, on the one hand, and any member of the Parent Group (other than the Transferred Entities), on the other hand, created in the Ordinary Course of Business, shall not be required to have been eliminated, at the Closing.

Section 6.9 Termination of Intercompany Arrangements. Effective at the Closing, all arrangements, understandings or Contracts, including all obligations to provide goods, services or other benefits, by any member of the Parent Group (other than the Transferred Entities), on the one hand, and any Transferred Entity on the other hand, that are not otherwise covered under Section 6.8, shall be terminated without any party having any continuing obligations or Liability to the other, except for (a) this Agreement and the Ancillary Agreements and (b) the other arrangements, understandings or Contracts listed in Section 6.9 of the Parent Disclosure Schedule.

Section 6.10 Guarantees; Commitments.

(a) From and after the Closing, the Transferred Entities, jointly and severally, shall indemnify and hold harmless Parent and any of its Affiliates against any Liabilities that Parent or any of its Affiliates suffer, incur or are liable for by reason of or arising out of or in consequence of (i) Parent or any of its Affiliates issuing, making payment under, being required to pay or

reimburse the issuer of, or being a party to, any guarantee, indemnity, co-signature, surety bond, letter of credit, letter of comfort, commitment or other similar obligation relating to the Business or the Transferred Entities listed on Section 6.10(a) of the Parent Disclosure Schedule (collectively, the "Guarantees"), (ii) any claim or demand for payment made on Parent or any of its Affiliates with respect to any of the Guarantees or (iii) any Action by any Person who is or claims to be entitled to the benefit of or claims to be entitled to payment, reimbursement or indemnity with respect to any Guarantees. For the avoidance of doubt, and not in limitation of the foregoing, upon and after the Closing, Parent and its Affiliates may terminate all Guarantees.

(b) Without limiting Section 6.10(a) in any respect, Purchaser shall use reasonable best efforts, at its sole expense, to cause itself or its Affiliates to be substituted in all respects for Parent and any of its Affiliates, and for Parent and its Affiliates to be released, effective as of the Closing, in respect of, or otherwise terminate (and cause Parent and its Affiliates to be released in respect of), all obligations of Parent and its Affiliates under each Guarantee (including, in each case, by delivering at Closing (i) executed agreements to assume reimbursement obligations for such Guarantees, (ii) executed instruments of guaranty, letters of credit or other documents requested by any banks, customers or other counterparties with respect to any Guarantees, and (iii) any other documents requested by Parent in connection with its obligations under this Section 6.10), and Parent shall and shall cause its Affiliates to reasonably cooperate in relation thereto and use its and their reasonable best efforts to effectuate the foregoing. In furtherance and not in limitation of the foregoing, at the request of Parent or its Affiliates, Purchaser shall and shall cause its Affiliates to assign or cause to be assigned any Contract or lease underlying such Guarantee to a Subsidiary of Purchaser meeting the applicable net worth and other requirements in such Contract or lease to give effect to the provisions of the preceding sentence. For any Guarantees for which Purchaser or any Transferred Entity is not substituted in all respects for Parent and any of its Affiliates (or for which Parent and any of its Affiliates is not released) effective as of the Closing and that cannot otherwise be terminated effective as of the Closing (with Parent and any of its Affiliates to be released in respect thereof), each of Parent and Purchaser shall continue to use its reasonable best efforts and shall cause its Affiliates to use their reasonable best efforts to effect such substitution or termination and release as soon as practicable after the Closing. Without limiting the foregoing, neither Purchaser nor any of its Subsidiaries shall, or shall permit any of its Affiliates to, extend or renew any Contract containing or underlying a Guarantee unless, prior to or concurrently with such extension or renewal, Purchaser or the Transferred Entities are substituted in all respects for Parent and any of its Affiliates, and Parent and any of its Affiliates are released, in respect of all obligations of Parent and any of its Affiliates under such Guarantee.

Section 6.11 Insurance; Director and Officers Indemnification and Insurance.

(a) Insurance.

(i) From and after the Closing, the Transferred Entities shall cease to be insured by the Parent Group's current and historical insurance policies or programs or by any of its current and historical self-insured or retention programs with respect to pre-Closing claims or occurrences under "claims made" or "occurrence based" insurance policies, and none of the Transferred Entities, Purchaser or its other Affiliates shall have any access, right, title or interest to or in any such insurance policies, programs or self-

insured programs (including to all claims and rights to make claims and all rights to proceeds) to cover any assets of the Transferred Entities or any Liability of the Transferred Entities or of or arising from the operation of the Business, in each case including with respect to all known and incurred but not reported claims or occurrences. The members of the Parent Group may, to be effective at the Closing, amend any insurance policies and ancillary arrangements in the manner they deem appropriate to give effect to this Section 6.11(a).

(ii) Notwithstanding the foregoing, during the term of the Transition Services Agreement, with respect to claims for events or Losses related to the Business Products with respect to pre-Closing occurrences that are covered by the Parent Group's occurrence-based third-party liability insurance policies (the "Available Insurance Policies") subject in all cases to the terms and limitations of such policies (such claims, the "Valid Pre-Closing Claims"), (x) Purchaser may promptly notify Parent in writing of any matter that is reasonably expected to give rise to a Valid Pre-Closing Claim under any such Available Insurance Policy (provided that the failure to promptly notify Parent shall not relieve Parent from its obligations under clause (y)), and (y) Parent shall, and shall cause its Affiliates to, (A) make Valid Pre-Closing Claims and pursue and seek to recover on such claims under the terms of the Transition Services Agreement, and (B) promptly deliver to Purchaser any insurance proceeds received with respect thereto (calculated net of reasonable expenses incurred in procuring such recovery and any increase in premiums or retroactive premium adjustments or chargebacks paid by or on behalf of the Parent Group to the extent as a result of such claims, and taking into account the available coverage under each Available Insurance Policy, it being understood that such coverage shall first be available to satisfy other claims of the Parent Group that are pending under such policy at the time the claim for the benefit of Purchaser is made); provided that, unless otherwise deducted from the proceeds received by the Purchaser, the Purchaser shall pay (or reimburse the Parent Group for), without duplication, any deductibles, retentions, loss-sensitive, self-insurance amounts or other costs, in each case, to the extent resulting from any Valid Pre-Closing Claim made by Parent or its Affiliates on behalf of any of Purchaser or the Transferred Entities under such policies for Valid Pre-Closing Claims. For the avoidance of doubt, Purchaser shall be liable for all uninsured, uncovered, unavailable or uncollectible Losses associated with any such Valid Pre-Closing Claim. Following the Closing, if permitted under the applicable Available Insurance Policy, Parent hereby authorizes Purchaser and its Subsidiaries to notify, make and pursue Valid Pre-Closing Claims as contemplated by this Section 6.11(a)(ii) under the Available Insurance Policies, subject to the payment and reimbursement provisions set forth in the prior sentence. Notwithstanding anything to the contrary herein, no member of the Parent Group shall have any Liability to bring any Actions to obtain any insurance coverage for any Valid Pre-Closing Claim.

(iii) In connection with the pursuit of any Valid Pre-Closing Claim, Purchaser shall, and shall cause the Transferred Entities to, fully cooperate with the Parent Group in pursuing coverage for any Valid Pre-Closing Claim. If Purchaser or any of its Affiliates breach, or cause any member of the Parent Group to breach, any terms or conditions of any Available Insurance Policies with respect to any Valid Pre-Closing Claim, Purchaser shall be solely responsible for, and shall bear the risk of any Loss of

coverage cause by such breach (and, in all events, the Purchaser shall bear the risk of any lack of coverage under the Available Insurance Policies). Purchaser shall, and shall cause the Transferred Entities to, use commercially reasonable efforts to pursue rights of recovery against third parties with respect to claims, Liabilities, occurrences, accidents, events, matters, Actions or Losses for which the Transferred Entities have the ability to mitigate via contract or tort and shall cooperate with Parent with respect to the pursuit of such rights.

(b) Director and Officers Indemnification and Insurance.

(i) Purchaser and Parent agree that all rights to indemnification, advancement of expenses and exculpation from liability for or in connection with acts or omissions occurring at any time prior to or on the Closing Date (including in connection with this Agreement and the Transactions), that now exist in favor of any Person who prior to or on the Closing Date is or was a current or former director, manager, officer or employee of a Transferred Entity, or who at the request of Parent or any of its Affiliates served prior to or on the Closing Date as a director, officer, member, manager, employee, trustee or fiduciary of any other entity of any type (each a "D&O Indemnified Person"), including as provided in the Organizational Documents of a Transferred Entity, or in the Contracts between a D&O Indemnified Person and a Transferred Entity set forth in on Section 6.11(b) of the Parent Disclosure Schedule (an "Indemnity Agreement"), will survive the Closing and will continue in full force and effect for the six (6) year period following the Closing Date. In furtherance (and not in limitation of) the foregoing, for the six (6) year period following the Closing Date, Purchaser will cause the Transferred Entities to, and the Transferred Entities will (i) maintain in the Organizational Documents of each of the Transferred Entities provisions with respect to indemnification, advancement of expenses and exculpation from liability that in each such respect are at least as favorable to each D&O Indemnified Person as those contained in each Transferred Entity's respective Organizational Documents, as applicable, as in effect on the date hereof, which provisions will not be amended, repealed or otherwise modified in any manner that would adversely affect the rights thereunder of any D&O Indemnified Person and (ii) continue in existence each Indemnity Agreement without termination, revocation, amendment or other modification that would adversely affect the rights thereunder of any D&O Indemnified Person.

(ii) On or before the Closing Date, Parent, at its sole expense, will obtain for the Transferred Entities for a six (6) year period following the Closing Date, and Purchaser will cause the Transferred Entities to maintain in effect, with no lapse in coverage, one or more "tail" or "runoff" directors' and officers' liability and employment practices liability insurance policies covering actual or claimed acts or omissions of any D&O Indemnified Person occurring on or before the Closing Date (including in connection with this Agreement and the Transactions), in each case on terms with respect to coverage, retentions, amounts and other material terms at least as favorable to such D&O Indemnified Persons as those of such policies in effect on the date hereof.

(iii) If Purchaser or any Transferred Entity (or any of its successors or assigns) (a) consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger, or (b) transfers all or

substantially all of its properties and assets to any other Person (including by dissolution, liquidation, assignment for the benefit of creditors or similar action), then, and in each such case, proper provision will be made so that such other Person fully assumes the obligations set forth in this Section 6.11(b).

(iv) The provisions of this Section 6.11(b) will survive the Closing. This Section 6.11(b) will be for the irrevocable benefit of, and will be enforceable by, each D&O Indemnified Person and his or her respective heirs, executors, administrators, estates, successors and assigns, and each such Person will be an express intended third party beneficiary of this Agreement for such purposes. Purchaser will pay, or will cause the Transferred Entities to pay, as and when incurred by any Person referred to in the immediately preceding sentence, all fees, costs, charges and expenses (including attorneys' fees and expenses) incurred by such Person in enforcing such Person's rights under this Section 6.11(b) upon receipt of an undertaking by or on behalf of such Person to repay such amount if it shall ultimately be determined that such Person is not entitled to be indemnified by Purchaser or such Transferred Entity. Notwithstanding anything in this Agreement to the contrary, the obligations under this Section 6.11(b) will not be terminated, revoked, modified or amended in any way so as to adversely affect any Person referred to in the second sentence of this Section 6.11(b)(iv) without the written consent of such Person. With respect to any right to indemnification or advancement for actual or claimed acts or omissions occurring prior to or on the Closing Date (including in connection with this Agreement and the Transactions), each Transferred Entity, as applicable, will be the indemnitor of first resort, responsible for all such indemnification and advancement that any D&O Indemnified Person may otherwise have from any direct or indirect stockholder or equity holder of any of the Transferred Entities (or any Affiliate of such stockholder or equity holder) and without right to seek or obtain subrogation, indemnity or contribution. Each of the Transferred Entities and Purchaser further agrees that no advance or prepayment by any Person other than the applicable Transferred Entity or Transferred Entities as the primary indemnitor on behalf of any D&O Indemnified Person with respect to any claim for which such D&O Indemnified Person has sought indemnification or advancement from any of the Transferred Entities will affect the foregoing and that any such secondary indemnitor will have a right of contribution and/or be subrogated to the extent of such advancement or payment to all the rights of recovery of the D&O Indemnified Person against the Transferred Entities and Purchaser, and the Parent shall cause the Transferred Entities to hereby irrevocably release any such secondary indemnitor from, and irrevocably waive and relinquish any right to assert against any such secondary indemnitor, any and all claims for contribution, subrogation or any other recovery of any kind in respect thereof, effective as of the Closing. Each of the Transferred Entities, Purchaser and the D&O Indemnified Persons agree that the secondary indemnitors are express third party beneficiaries of this Section 6.11(b)(iv).

Section 6.12 Litigation Support. Until the fifth (5th) anniversary of the Closing Date, Parent and its Affiliates on the one hand, and Purchaser and its Subsidiaries, on the other, shall reasonably cooperate with each other (at the requesting party's cost and expense with respect to reasonable out-of-pocket costs and expenses of the other party and its Subsidiaries or Affiliates) in respect of any Action, investigation, charge, claim, or demand by or against a third party (other than an Action brought against or by the other party hereto or any Affiliate of such party) with (a)

the Transactions or (b) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction relating to, in connection with or arising from the Business or the Transferred Entities (including, for the avoidance of doubt, any Retained Businesses that were historically part of a Transferred Entity), including making available its personnel, participating in meetings, providing such testimony and access to their books and records and taking such other actions as shall be reasonably necessary in connection with such prosecution, contest or defense (provided that such party and its Subsidiaries or Affiliates, as applicable, shall enter into such customary joint defense agreements or other arrangements, as appropriate, so as to allow for such disclosure in a manner that does not result in the loss of such privilege or protection).

Section 6.13 Misallocated Assets and Misdirected Payments.

(a) If, following the Closing, any right, property or asset that is part of the Retained Businesses is found to have been transferred to Purchaser, the Transferred Entities or their Affiliates in error, Purchaser shall use reasonable best efforts to transfer, or cause its applicable Affiliate to transfer such right, property or asset to the applicable member of the Parent Group as soon as practicable. If, following the Closing, any right, property or asset that was primarily related to the Business immediately prior to the Closing is found to have been transferred to or retained by a member of the Parent Group in error, either directly or indirectly, Parent shall use reasonable best efforts to transfer, or cause the applicable member of the Parent Group to transfer, such right, property or asset to Purchaser or its applicable Affiliate as soon as practicable. Until such time that Parent or its applicable Affiliate transfers any such right or asset that constitutes Owned Intellectual Property in accordance with this Section 6.13(a), Parent, on behalf of itself and its Affiliates, hereby grants to Purchaser, the Transferred Entities and their Affiliates a non-exclusive, royalty-free, fully paid-up, worldwide, irrevocable, sub-licensable and transferable right and license (or sub-license, as the case may be) to fully use, practice and otherwise exploit such Intellectual Property, as applicable, effective as of the Closing Date. If, following the Closing, any right, property or asset that otherwise constituted Retained Intellectual Property is found to have been transferred to or retained by Purchaser or the Transferred Entities in error, either directly or indirectly, Purchaser shall use reasonable best efforts to transfer, or cause the applicable Transferred Entities to transfer, such right, property or asset to the applicable member of the Parent Group as soon as practicable.

(b) Except as otherwise provided in this Agreement or any Ancillary Agreement, following the Closing, (i) if any payments due with respect to the Business are paid in error to any member of the Parent Group, Parent shall, or shall cause the applicable member of the Parent Group to, promptly remit by wire or draft such payment to an account designated in writing by Purchaser and (ii) if any payments due with respect to the Retained Business are paid in error to Purchaser, the Transferred Entities or their Affiliates, Purchaser shall, or cause its Affiliates to, promptly remit by wire or draft such payment to an account designated in writing by Parent. Until such time that Parent transfers any such right or asset that constitutes Intellectual Property in accordance with this Section 6.13, Parent, on behalf of itself and other members of the Parent Group, hereby grants to Purchaser and its Affiliates a non-exclusive, royalty-free, fully paid-up, worldwide, irrevocable, sub-licensable and transferrable right and license (or sub-license, as the case may be) to fully use, practice and otherwise exploit such Intellectual Property, as applicable, effective as of the Closing Date.

Section 6.14 Parent Names. Notwithstanding anything contained herein, neither Purchaser nor any of its Affiliates shall use, or have or acquire the right to use or any other rights in, any Marks of Parent or any of its Affiliates, including Parent's logo, the word "Amer" or any variations or derivatives thereof or any Marks of Parent or any of its Affiliates, or any name, trademark, service Mark or logo that, in the reasonable judgment of Parent, is similar to any of the foregoing (the "Parent Names"). Within ten (10) Business Days after the Closing Date, Purchaser shall, and shall cause the Transferred Entities to, (i) cause its board of directors to adopt any necessary resolutions to change its name to a name not containing a Parent Name, (ii) file with the applicable Governmental Entity and take all other necessary action to complete such name changes to a name not containing any Parent Name, and (iii) cease and discontinue all use of all Parent Names.

Section 6.15 Non-Solicitation.

(a) Each of member of the Parent Group shall not, and shall not permit, cause or encourage any of its respective Affiliates to, at any time prior to twenty-four (24) months from the Closing Date, directly or indirectly, (i) solicit the employment or services (whether as an employee, consultant, independent contractor or otherwise) of any Transferred Business Employee or independent contractor of the Transferred Entities as of Closing or any Person who has been an employee or an independent contractor of the Transferred Entities within the twelve (12) month period immediately preceding the Closing Date, without Purchaser's prior written consent, or (ii) hire in any capacity (whether as an employee, consultant, independent contractor or otherwise) any Transferred Business Employee with the title of Vice President or any more senior title as of the Closing, unless such Person has been terminated by Purchaser or any of its Affiliates subsequent to the Closing and who has not been employed or engaged by any Transferred Entity for a period of at least twelve (12) months prior to the date of such hire, without Purchaser's prior written consent. For purposes of this Section 6.15(a), the terms "solicit the employment or services" shall not be deemed to include generalized searches for employees through media advertisements of general circulation, employment search firms, open job fairs or otherwise.

(b) Purchaser and its Subsidiaries shall not, and shall not permit, cause or encourage any of their respective Affiliates to, at any time prior to twenty-four (24) months from the Closing Date, directly or indirectly, (i) solicit the employment or services (whether as an employee, consultant, independent contractor or otherwise) of any Parent Group employee or independent contractor of any member of the Parent Group as of Closing or any Person who has been an employee or an independent contractor of any member of the Parent Group within the twelve (12) month period immediately preceding the Closing Date, without Parent's prior written consent, or (ii) hire in any capacity (whether as an employee, consultant, independent contractor or otherwise) any Person listed on Section 6.15(b) of the Parent Disclosure Schedule, unless such Person has been terminated by Parent or any of its Affiliates subsequent to the Closing and who has not been employed or engaged by any member of the Parent Group for a period of at least twelve (12) months prior to the date of such hire, without Parent's prior written consent. For purposes of this Section 6.15(b), the terms "solicit the employment or services" shall not be deemed to include generalized searches for employees through media advertisements of general circulation, employment search firms, open job fairs or otherwise.

(c) Notwithstanding the foregoing, (1) this Section 6.15 shall not restrain or prohibit any activities, actions or conduct of any Person that is not directly or indirectly controlled by a party, including any joint ventures, partnerships or co-investment vehicles that neither such party nor any of its direct or indirect Subsidiaries controls, (2) Section 6.15(b) shall not apply to any Wrong Pocket Employee and (3) Section 6.15(b) shall not apply to any Business Employee described in the last sentence of Section 7.3.

Section 6.16 Resignations. Parent shall deliver any resignations (effective as of the Closing) of the directors, managers, and officers of the Transferred Entities that are requested by Purchaser in writing no less than ten (10) Business Days prior to the Closing Date.

Section 6.17 Pre-Closing Restructuring.

(a) The parties hereto acknowledge and agree that (a) nothing in this Agreement shall prohibit or restrict the transfer (by distribution or otherwise) of any cash or cash equivalents prior to the Closing, and (b) prior to the Closing, Parent and its Subsidiaries will take all actions and steps necessary (subject to the limitations set forth in Section 6.7) to effectuate the transactions in Section 6.17 of the Parent Disclosure Schedule (all such actions as set forth on Section 6.17 of the Parent Disclosure Schedule, the "Pre-Closing Restructuring").

(b) From the date of this Agreement through the earlier of the Closing or the valid termination of this Agreement, the parties hereto shall cooperate with each other and negotiate, acting reasonably and in good faith, to amend, modify, supplement, or take any other actions reasonably required to finalize each Business Transfer Agreement and Transfer Instrument (each, as defined in Section 6.17 of the Parent Disclosure Schedule), as applicable, including any of the exhibits, annexes or schedules attached thereto.

(c) Without Purchaser's prior written consent (not to be unreasonably withheld, conditioned or delayed), Parent shall not, and shall procure that no Seller shall, effect any element of the Pre-Closing Restructuring other than pursuant to a Business Transfer Agreement or Transfer Instrument, in each case, in a form reasonably satisfactory to Purchaser.

Section 6.18 Release of Liens; Other Actions. Parent shall take such actions as may be reasonably necessary to (a) secure the release of all Liens listed on Section 6.18(a) of the Parent Disclosure Schedule and (b) upon Purchaser's written request, take the actions described in Section 6.18(b) of the Parent Disclosure Schedule prior to the Closing.

Section 6.19 Transition Services Agreement. From the date of this Agreement through the earlier of the Closing or the valid termination of this Agreement, the parties hereto shall cooperate with each other and negotiate, acting reasonably and in good faith, to amend, modify, supplement, or take any other actions reasonably required to finalize the Transition Services Agreement, including any of the exhibits, annexes or schedules attached thereto.

Section 6.20 R&W Insurance Policy. In the event Purchaser or any of its Affiliates elects to obtain a representations and warranties insurance policy in respect of the representations and warranties contained in this Agreement or in any certificate or other instrument contemplated by or delivered in connection with this Agreement (such policy, a "R&W Insurance Policy") (a) all premiums, underwriting fees, brokers' commissions and other costs and expenses related to such

R&W Insurance Policy shall be borne solely by Purchaser or such Affiliate and (b) Purchaser shall provide Parent a reasonable opportunity to review the R&W Insurance Policy and provide reasonable comments in advance of binding coverage; provided, that (i) the bound R&W Insurance Policy shall be in the form reviewed by Parent and (ii) none of Purchaser or any of its Affiliates shall amend, waive, modify or otherwise revise the R&W Insurance Policy in any manner adverse to any member of the Parent Group without the prior written consent of Parent (not be unreasonably withheld, conditioned or delayed).

ARTICLE VII

EMPLOYEE MATTERS COVENANTS

Section 7.1 Business Employee List. From and after the date hereof until the Closing Date, Sellers shall deliver to Purchaser on a periodic basis as reasonably requested by Purchaser, but not more frequently than once per calendar month, an updated Business Employee List including the information described in Section 4.12(f), with the final Business Employee List to be delivered to Purchaser no later than ten (10) Business Days prior to the Closing Date, in each case reflecting any resignations from employment and employees who are hired or terminated or transferred into the Business solely to the extent permitted by Section 6.4.

Section 7.2 Continuation of Employment. On the Closing Date, the Sellers shall cause each of the Transferred Entities to employ on the Closing Date its respective Business Employees. The parties hereto will cooperate in good faith to provide that, on the Closing Date, each Business Employee will be, and the Sellers will have obtained all necessary visas, permits, passes and other approvals in order for each Business Employee to be, authorized and permitted under applicable Law to be employed by his or her respective Transferred Entity; provided, that, subject to Section 6.17, the failure to obtain any such visa, permit, pass or other approval shall not, in and of itself, result in the failure of any condition to the Closing set forth in Article IX to have been satisfied. Each such Transferred Entity Employee whose employment continues with a Transferred Entity shall be referred to herein as a "Transferred Business Employee".

Section 7.3 Wrong Pocket Employees. In the event of any Transfer Claim, (i) the party to this Agreement that discovers such claim shall promptly notify the other party in writing of such claim and (ii) upon Purchaser's written request, the Sellers shall make (or procure that another member of the Parent Group makes) a written offer off employment to the individual making such Transfer Claim (each, a "Wrong Pocket Employee") on terms and conditions of employment that are no less favorable than those provided to such Wrong Pocket Employee as of immediately prior to the Closing (including, where required by applicable Law, granting such Wrong Pocket Employee full recognition of his or her service with the Parent Group), within ten (10) Business Days following the Sellers' receipt of such written request. In the event that any Business Employee is not an employee of a Transferred Entity as of immediately prior to the Closing or does not otherwise become a Transferred Business Employee, the Sellers shall promptly notify Purchaser in writing and the Purchaser or its designated Affiliate shall be permitted (but not required) to make a written offer of employment to such individual on terms and conditions determined in Purchaser's sole discretion.

Section 7.4 Terms and Conditions of Employment. With respect to each Transferred Business Employee in the United States, Purchaser and its Affiliates shall take all action necessary to provide or cause to be provided, for the period commencing on the Closing Date and ending on the first anniversary of the Closing Date, (a) the same wage rate or cash salary level in effect for such Transferred Business Employee immediately prior to the Closing Date and (b) incentive compensation opportunities and employee benefits that are substantially comparable, in the aggregate, as those in effect for such Transferred Business Employee immediately prior to the Closing Date (other than equity-based incentives, long-term cash incentive plan incentives and nonqualified deferred compensation plan arrangements). Notwithstanding the foregoing, Purchaser shall not be prohibited by this Section 7.4 from terminating the employment of any Transferred Business Employee following the Closing Date. Purchaser and its Affiliates shall, in addition to meeting the applicable requirements of Article VII, comply with any additional obligations or standards arising under applicable Laws or contracts governing the terms and conditions of employment or termination of employment of the Transferred Business Employees, as such Contracts maybe amended from time to time.

Section 7.5 Service Credit. As of and after the Closing, Purchaser shall, and shall cause its Affiliates (including, following the Closing, the Transferred Entities) to, give each Transferred Business Employee full credit for all purposes under (a) any Transferred Entity Benefit Plans, (b) each other benefit or compensation plan, program, policy or arrangement, and (c) any other service-based or seniority-based entitlement, in each case maintained or made available for the benefit of Transferred Business Employees as of or after the Closing by Purchaser or any of its Affiliates (including, following the Closing, the Transferred Entities) (such plans referenced in (b) and (c), the "Purchaser Benefit Plans"), for such Transferred Business Employee's service prior to the Closing with Parent and its applicable Affiliates (including the Transferred Entities) and their respective predecessors; provided that such credit shall not be given (i) to the extent that it would result in a duplication of benefits for the same period of service, or (ii) in respect of any Purchaser Benefit Plan that is grandfathered or frozen with respect to level or benefits or participation.

Section 7.6 Health Coverages. As of and after the Closing, Purchaser and its Affiliates (including, following the Closing, the Transferred Entities) shall cause each Transferred Business Employee (and his or her eligible dependents) to be covered by a group health plan or plans, effective as of the Closing Date, that (a) comply with the provisions of Section 7.4, (b) do not limit or exclude coverage on the basis of any pre-existing condition of such Transferred Business Employee or dependent (other than any limitation already in effect under the corresponding group health Seller Benefit Plan or Transferred Entity Benefit Plan) or on the basis of any other exclusion or waiting period not in effect under the applicable group health Seller Benefit Plan or Transferred Entity Benefit Plan, and (c) to the extent that such Purchaser Benefit Plans in which such Transferred Business Employee becomes eligible to participate for the first time following the Closing, provide such Transferred Business Employee full credit, for the first year of eligibility, for any deductible, co-payment or out-of-pocket expenses already incurred by the Transferred Business Employee under the applicable group health Seller Benefit Plan or Transferred Entity Benefit Plan during such year for purposes of any deductible, co-payment or maximum out-of-pocket expense provisions, as applicable, of such Purchaser Benefit Plan.

Section 7.7 Accrued Vacation, Sick Leave and Personal Time. Purchaser and its Affiliates will recognize and assume all Liabilities with respect to accrued but unused vacation,

sick pay, personal time and other paid time off for all Transferred Business Employees accrued as of the Closing Date, other than to the extent any such Liabilities are paid to Transferred Business Employees in connection with any transfer of employment to a Transferred Entity (the "Accrued PTO"). Purchaser and its Affiliates shall allow Transferred Business Employees to use the vacation, sick pay, personal time and other paid time off recognized or assumed in accordance with the first sentence of this Section 7.7 in accordance with the terms of Purchaser's programs as in effect from time to time, other than to the extent such Accrued PTO is paid to the applicable Transferred Business Employee by Purchaser or its affiliates following the Closing Date. At or as soon as practicable following the Closing, the Sellers shall deliver to Purchaser a schedule setting forth the Accrued PTO for each Transferred Business Employee.

Section 7.8 Collective Bargaining Agreements. Purchaser agrees that as of and following the Closing Date, Purchaser and its Affiliates shall recognize the unions and works councils set forth on Section 7.8 of the Purchaser Disclosure Schedule that are signatories to the collective bargaining or other labor Contracts covering Transferred Business Employees as the Representatives of the Transferred Business Employees of the bargaining units described therein. The Sellers and Purchaser shall, and shall cause their respective Affiliates to, cooperate to take all steps, on a timely basis, as are required under applicable Law or any Collective Bargaining Agreement to notify, consult with or negotiate the effect, impact, terms or timing of the Sale with each works council, union, labor board, employee group or Governmental Entity where so required under applicable Law.

Section 7.9 Precor Cash Plan. Prior to the Closing, the Sellers shall take all actions necessary to terminate the Business Employees' participation in the Precor Cash Plan as of the Closing.

Section 7.10 Seller Benefit Plans; Transferred Entity Benefit Plans. As of the Closing, except as otherwise expressly provided in the Transition Services Agreement, the Transferred Entities shall cease to be participating employers in the Seller Benefit Plans and the Transferred Business Employees shall cease to be active participants in the Seller Benefit Plans. Except as otherwise expressly provided in this Article VII, Purchaser shall not assume any obligations under, or Liabilities with respect to, or receive any right or interest in any trusts relating to, any assets of or any insurance, administration or other contracts, or related obligations pertaining to, any Seller Benefit Plan. For the avoidance of doubt, as of the Closing, Purchaser and its Affiliates shall assume, or shall cause the Transferred Entities to assume or retain, as the case may be, sponsorship of, and all Liabilities and other obligations with respect to, the Transferred Entity Benefit Plans. Purchaser and its Affiliates shall assume and retain all obligations under Section 4980B of the Code for all Transferred Business Employees and their beneficiaries who are "M&A qualified beneficiaries" (as such term is defined in Treasury Regulation Section 54.4980B-9).

Section 7.11 No Third-Party Beneficiaries. Without limiting the generality of Section 11.5, nothing in this Agreement is intended to or shall (a) be treated as an amendment to, or be construed as amending, any Seller Benefit Plan, Transferred Entity Benefit Plan or other benefit plan, program or agreement sponsored, maintained or contributed to by any Seller, any Transferred Entity, Purchaser or any of their respective Affiliates, (b) prevent Purchaser or its Affiliates, on or after the Closing Date, from terminating the employment of any Transferred Entity Employee, or (c) confer any rights or remedies (including third-party beneficiary rights) on any current or

former director, employee, consultant or independent contractor of any Seller, any Transferred Entity, Purchaser or any of their respective Affiliates or any beneficiary or dependent thereof or any other Person other than the parties to this Agreement.

ARTICLE VIII

TAX MATTERS

Section 8.1 Purchase Price Allocation.

(a) No later than twenty (20) Business Days prior to the Closing, Parent shall deliver to Purchaser a proposed preliminary allocation of the relevant portion of the purchase price and any other items that are treated as additional consideration for Tax purposes (including, for the avoidance of doubt, any liabilities that, for Tax purposes, are treated as assumed by the Purchaser (or its relevant Subsidiaries)) among, on the one hand, each applicable member of the Parent Group that sells, transfers or assigns and, on the other hand, each of Purchaser and its Subsidiaries that purchases, the Transferred Entities or the Transferred Intellectual Property, determined in a manner consistent with the fair market value of the Transferred Entities and Transferred Intellectual Property (the "Preliminary Allocation"). The Preliminary Allocation shall be subject to Purchaser's review and comment. If Purchaser disagrees with any Preliminary Allocation, Purchaser may, within ten (10) days after delivery of such Preliminary Allocation, deliver a notice to Parent to such effect, specifying those items as to which Purchaser disagrees and setting forth Purchaser's proposed allocation. In the event of any disagreement as to the Preliminary Allocation, Parent and Purchaser shall cooperate in good faith to resolve such dispute prior to the Closing.

(b) As soon as practicable after the Closing, but in no event later than thirty (30) days after the finalization of the Final Closing Statement pursuant to Section 2.6, Parent shall deliver to Purchaser a proposed allocation of the Final Purchase Price and any other items that are treated as additional consideration for Tax purposes among the Shares and the Transferred Intellectual Property and, to the extent applicable, further allocate the portion of the Final Purchase Price and any other amounts treated as consideration for such tax purposes that is allocated to the Shares among (i) the assets of the Transferred Entities that are treated for U.S. federal income Tax purposes as entities disregarded from the applicable Seller or as selling their assets pursuant to an election made under Section 338(g) of the Code, and (ii) the assets of Precor Incorporated treated for U.S. federal income Tax purposes as being sold pursuant to the 338(h)(10) Election (if applicable), in accordance with Section 1060 of the Code and the Treasury Regulations promulgated thereunder (the "Parent's Allocation"). If Purchaser disagrees with the Parent's Allocation, Purchaser may, within thirty (30) days after delivery of the Parent's Allocation, deliver a notice ("Purchaser's Allocation Notice") to Parent to such effect, specifying those items as to which Purchaser disagrees and setting forth Purchaser's proposed allocation. If Purchaser's Allocation Notice is duly and timely delivered, Parent and Purchaser shall, during the twenty (20) days following such delivery, use commercially reasonable efforts to reach agreement on the disputed items or amounts in order to determine the allocation of the Final Purchase Price (and other relevant amounts). If Parent and Purchaser are unable to reach such agreement, they shall promptly thereafter cause the Independent Accounting Firm to resolve any remaining disputes. Any allocation of the Final Purchase Price (and other relevant amounts) determined pursuant to

the decision of the Independent Accounting Firm shall incorporate, reflect and be consistent with the Purchase Price Allocation Schedule and the terms of this Agreement. Any costs and expenses of the Independent Accounting Firm incurred pursuant to this Section 8.1(b) shall be borne equally by Parent, on the one hand, and the Purchaser, on the other hand. The allocation, as prepared by Parent if no Purchaser's Allocation Notice has been timely given, as adjusted pursuant to any agreement between Purchaser and Parent or as determined by the Independent Accounting Firm pursuant to this Section 8.1(b) (the "Allocation"), shall be conclusive and binding on the Parties. The Allocation shall be adjusted, as necessary, to reflect any subsequent payments treated as adjustments to the Final Purchase Price pursuant to Section 8.6. Any such adjustment shall be allocated, consistent with this Section 8.1(b), to the Equity Interests and/or asset or assets of the Transferred Entities to which such adjustment is attributable. In the event that the Allocation to the shares of any Transferred Entity or to any Transferred Intellectual Property differs from the amount set forth in the Preliminary Allocation, both Parent and Purchaser and their respective Affiliates agree to treat such difference as a purchase adjustment for Tax purposes, to the maximum extent permitted by applicable Tax Law.

(c) Parent and the Purchaser shall (and shall cause their respective Affiliates to not take any position inconsistent therewith on any Tax Return, in connection with any Tax Proceeding or otherwise, in each case, except to the extent otherwise required pursuant to a "determination" (within the meaning of Section 1313(a) of the Code or any similar provision of state, local or foreign Law). In the event that the Allocation is disputed by any taxing authority, the party receiving notice of such dispute shall promptly notify the other party in writing of such notice and resolution of the dispute. The provisions of Section 8.3 governing Pre-Closing Tax Audits will apply, mutatis mutandis, to any audit, investigation, or other action by a Governmental Entity with respect to the Allocation.

Section 8.2 Cooperation and Exchange of Information.

(a) Not more than thirty (30) days after the receipt of a request from Parent, Purchaser shall, and shall cause its Affiliates to, provide to Parent a package of Tax information materials, including schedules and work papers, requested by Parent to enable Parent to prepare and file all Tax Returns required to be prepared and filed by it with respect to the Transferred Entities. Purchaser shall prepare such package completely and accurately, in good faith and in a manner consistent with Parent's past practice.

(b) Each party to this Agreement shall, and shall cause its Affiliates to, provide to the other party to this Agreement such cooperation, documentation and information as either of them reasonably may request in (i) filing any Tax Return, amended Tax Return or claim for refund, (ii) determining a Liability for Taxes or a right to refund of Taxes or (iii) conducting any Tax Proceeding. Such cooperation and information shall include providing copies of all relevant portions of relevant Tax Returns, together with all relevant portions of relevant accompanying schedules and relevant work papers, relevant documents relating to rulings or other determinations by taxing authorities and relevant records concerning the ownership and Tax basis of property and other information, which any such party may possess. Each party shall make its employees reasonably available on a mutually convenient basis at its cost to provide an explanation of any documents or information so provided. Notwithstanding anything to the contrary in this Agreement, neither Parent nor any of the Sellers shall be required to provide any Person with any

Tax Return or copy of any Tax Return of (i) Parent or a member of the Parent Group or (ii) a consolidated, combined, affiliated or unitary group that includes any member of the Parent Group.

(c) Each party shall retain all Tax Returns, schedules and work papers, and all material records and other documents relating to Tax matters, of the relevant entities for their respective Tax periods ending on or prior to the Closing Date until the expiration of the statute of limitations for the Tax periods to which the Tax Returns and other documents relate. Thereafter, the party holding such Tax Returns or other documents may dispose of them after offering the other party reasonable notice and opportunity to take possession of such Tax Returns and other documents at such other party's own expense (provided that any such notice must in any event be made in writing at least sixty (60) days prior to such disposition; provided, further, for the avoidance of doubt, that Parent shall have no obligation to offer Purchaser any Tax Returns or other documents not required to be provided under Section 8.2(b)).

Section 8.3 Preparation and Filing of Returns. Purchaser shall prepare and file all Tax Returns of the Transferred Entities that are required to be filed after the Closing Date for any Pre-Closing Tax Period or Straddle Period (excluding, for clarity, any Tax Return of a Transferred Entity filed as part of a consolidated, combined or other similar Group that includes Parent or any of its Affiliates (other than any such group comprised solely of Transferred Entities)). Not later than thirty (30) days prior to the due date for filing any such Tax Return, Purchaser shall provide Parent with a copy of each such income or other material Tax Return for its review and consent (not to be unreasonably withheld, conditioned or delayed), to the extent that such Tax Return would reasonably be expected to increase the Taxes of Parent or any of its Affiliates (excluding, for clarity, the Transferred Entities). If Purchaser, any of its Affiliates or any of the Transferred Entities receives notice of any audit, investigation, or other action by a Governmental Entity in respect of any Tax Return of the Transferred Entities for a Pre-Closing Tax Period (a "Pre-Closing Tax Audit"), then such party will promptly (and in any event within fifteen (15) days) give written notice to Parent. Purchaser will have the right, at its own expense, to control the defense of the Pre-Closing Tax Audit and shall keep the Parent reasonably informed of all material matters that come to its attention in respect of the Pre-Closing Tax Audit. The Parent will be entitled to participate in the defense of any Pre-Closing Tax Audit, at its own expense, and Purchaser shall not settle or compromise such Pre-Closing Tax Audit without the consent of Parent (not to be unreasonably withheld, conditioned or delayed) to the extent that such settlement or compromise could reasonably be expected to increase the Taxes or decrease the Tax attributes of Parent or any of its Affiliates (excluding, for clarity, the Transferred Entities).

Section 8.4 Straddle Period. To the extent necessary to determine the allocation of Taxes in respect of a Straddle Period, Taxes of the Transferred Entities based on or measured by income, gross or net sales, payroll, payments or receipts shall be allocated between the Pre-Closing Tax Period and the Post-Closing Tax Period based on an interim closing of the books as of the close of business on the Closing Date and any other Taxes shall be allocated between the Pre-Closing Tax Period and the Post-Closing Tax Period on a per diem basis.

Section 8.5 Closing of Tax Period. With respect to the preparation of any income Tax return for any Straddle Period, the Parties agree that: (i) all Transaction Tax Deductions shall be taken into account in the Pre-Closing Tax Period (and allocated solely to Sellers with respect to the Pre-Closing Tax Period) to the maximum extent allowable by applicable Law, determined as

if the Tax year ended on and included the Closing Date; (ii) any financing or refinancing arrangements entered into at any time by or at the direction of Purchaser or its Affiliates or any other transactions entered into by or at the direction of Purchaser or its Affiliates in connection with the Transactions shall not be taken into account in the Pre-Closing Tax Period; and (iii) any items of income, gain, loss and deduction attributable to transactions undertaken by or at the direction of Purchaser or its Affiliates (including the Transferred Entities following the Closing) outside the Ordinary Course of Business on the Closing Date after the time of the Closing shall not be taken into account in the Pre-Closing Tax Period.

Section 8.6 Tax Treatment of Payments. Except to the extent otherwise required pursuant to a "determination" (within the meaning of Section 1313(a) of the Code or any similar provision of state, local or foreign Law), Parent, Purchaser, the Transferred Entities and their respective Affiliates shall treat any and all payments under Section 2.7, Section 7.7 and Section 8.9 as an adjustment to the purchase price for Tax purposes.

Section 8.7 Post-Closing Tax Covenant. Purchaser shall not, and shall not cause its Affiliates (including the Transferred Entities) to (i) make any Tax election with respect to any Transferred Entity, which election would be effective on or prior to the Closing Date, (ii) take any action on the Closing Date after the Closing that is outside the Ordinary Course of Business with respect to the Transferred Entities or the Business, (iii) amend any Tax Return or election made in connection with such Tax Return with respect to any of the Transferred Entities for any Tax period ending on or before the Closing Date, (iv) initiate or enter into any voluntary disclosure agreement or program with any taxing authority with respect to any Tax period ending on or before the Closing Date prior to the finalization of the Final Closing Statement, or (v) change any method of accounting for Tax purposes or Tax accounting period with respect to any Tax period or portion thereof ending on or before the Closing Date, in each case, that would reasonably be expected to increase the liability of any of the Sellers or their respective Affiliates (other than the Transferred Entities) for Taxes (including pursuant to this Agreement); provided, that nothing in this Section 8.7 or otherwise in this Agreement shall be construed to limit Purchaser's ability to make an election under Section 338(g) of the Code (or any corresponding or similar provision of state or local Tax Law) with respect to the Sale of Shares of any non-U.S. Transferred Entity.

Section 8.8 Transfer Taxes. Notwithstanding anything to the contrary in this Agreement, Purchaser and Parent shall each pay 50% of, when due, and be responsible for, any sales, use, transfer, real property transfer, registration, documentary, conveyance, franchise, goods and services, stamp, value added or similar Taxes and related fees and costs imposed on or payable in connection with the Transactions, ("Transfer Taxes"). The party required to do so by applicable Tax Law shall prepare and file any Tax Return required to be filed with respect to any such Transfer Taxes and promptly provide a copy of such Tax Return to the other party. For the avoidance of doubt, the Closing Purchase Price set forth in this Agreement is exclusive of Transfer Taxes. Parent shall be solely responsible for any Transfer Taxes arising as a result of the Pre-Closing Restructuring.

Section 8.9 Refunds. Except as otherwise provided by Section 8.5, Parent shall be entitled to retain, or receive immediate payment from Purchaser of, any Tax refund or credit to which any Transferred Entity becomes entitled with respect to any Pre-Closing Tax Period, except

to the extent that such Tax refund is attributable to a net operating loss or other Tax attribute of a Transferred Entity arising after the Closing Date.

Section 8.10 338(h)(10) Election and Tax Adjustment.

(a) Upon the timely written request of Purchaser (the "Purchaser Request"), the parties shall join in making an election under Section 338(h)(10) of the Code with respect to the purchase of the Shares representing the stock of Precor Incorporated (the "338(h)(10) Election"), provided that, if the parties make the 338(h)(10) Election, then as an addition to the Final Purchase Price, Purchaser shall pay or cause to be paid to such Seller, in cash, the amounts (such amounts, collectively the "Tax Adjustment") necessary to cause such Seller's and its Affiliates' after-Tax net proceeds from the sale of the stock of Precor Incorporated pursuant to this Agreement, to be equal to the after-Tax net proceeds that such Seller and its Affiliates would have received had the transaction instead been structured as a sale of the stock of Precor Incorporated without the 338(h)(10) Election being made, taking into account all appropriate federal, state, or local Tax implications arising from the transactions contemplated by this Agreement, including any Taxes imposed on the Tax Adjustment; provided, however, that the Tax Adjustment shall in no event be a negative number (that is, in no event shall such Seller be required to make a Tax Adjustment payment to Purchaser or the Transferred Entities).

(b) In calculating the Tax Adjustment: (i) only the items of income, gain, deduction, loss, expense and credit or recapture of any of the foregoing items arising out of the transactions contemplated by this Agreement shall be considered (including without limitation any recognition of income, gain, deduction or loss or change in character thereof as a result of the transactions contemplated by this Agreement), (ii) in making such calculations, the actual federal, state and local Tax income rates applicable to such Seller (as determined by Seller in its reasonable discretion) shall be used, and (iii) notwithstanding any actual receipt thereof after the taxable year when Closing occurs, such Seller shall be deemed to have received during the taxable year when Closing occurs both the Tax Adjustment and the Final Purchase Price.

(c) Within thirty (30) days after the later of (i) the final determination of Final Closing Statement pursuant to Section 2.6 or (ii) the receipt of the Purchaser Request, Parent shall provide to Purchaser a schedule, with supporting work papers, setting forth a calculation of the Tax Adjustment (the "Tax Adjustment Schedule"). During the twenty (20) days following the receipt by Purchaser of the Tax Adjustment Schedule, Purchaser and Parent shall meet and confer and attempt in good faith to agree upon and finalize the Tax Adjustment Schedule. Within thirty (30) days after receipt of such Tax Adjustment Schedule, Purchaser shall notify Parent whether Purchaser concurs or disagrees with such Tax Adjustment Schedule and, if applicable, the disagreements. If such disagreements cannot be resolved between Purchaser and Parent within ten (10) days after delivery of notice by Purchaser to Parent, the disagreements shall then be referred to the Independent Accounting Firm, which shall be selected in accordance with the procedures set forth in Section 2.6; provided, however, that the Independent Accounting Firm's determination shall be limited to choosing the position either of Purchaser or Parent. The determination of the Independent Accounting Firm shall be final and binding. The fees of the Independent Accounting Firm shall be borne by Parent, on the one hand, and Purchaser, on the other hand, in inverse proportion as they may prevail on the matters resolved by the Independent Accounting Firm, which proportionate allocation shall be calculated on an aggregate basis based on the relative dollar

values of the amounts in dispute and shall be determined by the Independent Accounting Firm at the time the determination of such firm is rendered on the merits of the matters submitted. For clarity, Purchaser shall not be obligated to make a 338(h)(10) Election by virtue of having requested Parent to provide the Tax Adjustment Schedule or having participated in the review and negotiation of the Tax Adjustment Schedule under this Section 8.10(c); provided, that, if Purchaser does not elect to make a 338(h)(10) election after having requested that Parent provide the Tax Adjustment Schedule, Purchaser shall, upon Parent's request, promptly reimburse Parent for its reasonable out-of-pocket costs and expenses incurred in connection with the preparation, review and negotiation of the Tax Adjustment Schedule.

(d) If Purchaser has determined that the 338(h)(10) Election should be made on or before the date that is thirty (30) days after Purchaser's receipt of the Tax Adjustment Schedule (as provided for in Section 8.10(c) above), Purchaser shall pay the Tax Adjustment as calculated as of such time; provided that no payments of the Tax Adjustment shall be due prior to Parent having delivered to Purchaser properly executed copies of IRS Form 8023 (together with any comparable state or local Tax forms) to effect the 338(h)(10) Election. If a disagreement regarding the amount of the Tax Adjustment is pending at that time, Purchaser shall pay the undisputed portion thereof on or before such date and shall pay any remaining portion of the Tax Adjustment within five (5) days of the final determination of the Independent Accounting Firm.

(e) The obligations of Purchaser to pay the Tax Adjustment shall survive until the expiration of all statutes of limitation with respect to Tax Returns of Parent, the Sellers, the Transferred Entities, and their Affiliates for the taxable years ending on or including the Closing Date and the Tax Adjustment shall be increased if required due to any final determination within the meaning of Section 1313(a) of the Code or corresponding provision of state, local or foreign income Tax law, relating to a Tax Return filed by Parent, the Sellers, the Transferred Entities, or any of their Affiliates. The amount of any such increase shall be determined by the preparation of a revised Tax Adjustment Schedule that takes into account such final determination, pursuant to the procedures set forth in this Section 8.10 (commencing with the date of notice of such final determination in lieu of the date described in Section 8.10(c)), and Purchaser shall pay any such increase in the Tax Adjustment within five (5) days after the amount of any such increase is determined in accordance with such procedures. Purchaser, Parent and the Sellers shall promptly provide written notice to each other of any audit or other investigation or that may affect the amount of the Tax Adjustment. The provisions of Section 8.3 governing Pre-Closing Tax Audits shall apply, mutatis mutandis, to any audit, investigation, or other action by a Governmental Entity of a Tax Return of Seller (or its Affiliates) to the extent such audit, investigation, or other audit would give rise to an increase in the Tax Adjustment Amount under this Section 8.10(e).

ARTICLE IX

CONDITIONS TO OBLIGATIONS TO CLOSE

Section 9.1 Conditions to Obligation of Each Party to Close. The respective obligations of each party to effect the Sale shall be subject to the satisfaction or waiver at or prior to the Closing of the following conditions:

(a) HSR Clearance. The expiration or early termination of the applicable waiting period under the HSR Act.

(b) No Injunctions. No Governmental Entity of competent authority shall have issued an Order or enacted a Law that remains in effect and makes illegal or prohibits the consummation of the Sale (collectively, the "Legal Restraints").

Section 9.2 Conditions to Purchaser's Obligation to Close. Purchaser's obligation to effect the Sale shall be subject to the satisfaction or waiver at or prior to the Closing of all of the following conditions:

(a) Representations and Warranties. (i) The representations and warranties of Parent set forth in Article III, Section 4.1 (Organization), Section 4.2 (Due Authorization), Section 4.3(b) (No Conflict – Organizational Documents), Section 4.5 (Capitalization) and Section 4.26 (*Brokers' Fees*) shall be true and correct in all material respects as of the Closing Date as if made on and as of the Closing Date, except any such representations and warranties that are made as of a specific date shall be true and correct only on and as of such date; and (ii) each of the other representations and warranties of Parent set forth in Article III and Article IV shall be true and correct as of the Closing Date as if made on and as of the Closing Date (except to the extent that any representation and warranty is expressly made as of a specific date, in which case such representation and warranty need only be true and correct only on and as of such date), except in each case under this clause (ii) where the failure of any such representations and warranties to be so true and correct does not result in a Business Material Adverse Effect, provided that, solely for purposes of clause (ii), qualifications as to "materiality" and "Business Material Adverse Effect" contained in such representations and warranties shall be disregarded (except with respect to Section 4.6 (Financial Statements) and any such qualification to the extent it qualifies an affirmative requirement to list specified items on a section of the Disclosure Schedules).

(b) Covenants and Agreements. The covenants and agreements of Parent to be performed on or before the Closing Date in accordance with this Agreement shall have been performed in all material respects. The Pre-Closing Restructuring shall have been completed in accordance with Section 6.17.

(c) *Officer's Certificate*. Purchaser shall have received a certificate, dated as of the Closing Date and signed on behalf of Parent by an executive officer of Parent, stating that the conditions specified in Section 9.2(a), Section 9.2(b), and Section 9.2(d) have been satisfied.

(d) No Material Adverse Effect. Since the date hereof, there shall not have occurred a Business Material Adverse Effect.

Section 9.3 Conditions to Parent's Obligation to Close. The obligations of Parent to effect the Sale shall be subject to the satisfaction or waiver at or prior to the Closing of all of the following conditions:

(a) Representations and Warranties. (i) The representations and warranties of Purchaser set forth in the first sentence Section 5.1 and Section 5.2 shall be true and correct in all material respects as of the Closing Date as if made on and as of the Closing Date, except any such representations and warranties that are made as of a specific date shall be true and correct only on

and as of such date; and (ii) each of the other representations and warranties of Purchaser contained in Article V shall be true and correct as of the Closing Date as if made on and as of the Closing Date; except, in the case of this clause (ii), (A) representations and warranties that are made as of a specific date shall be true and correct only on and as of such date and (B) where the failure of such representations and warranties to be true and correct (without giving effect to any qualifications as to "materiality," "Purchaser Material Adverse Effect" or other similar qualifications as to materiality) would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

(b) Covenants and Agreements. The covenants and agreements of Purchaser to be performed on or before the Closing Date in accordance with this Agreement shall have been performed in all material respects.

(c) *Officer's Certificate*. Parent shall have received a certificate, dated as of the Closing Date and signed on behalf of Purchaser by an executive officer of Purchaser, stating that the conditions specified in Section 9.3(a) and Section 9.3(b) have been satisfied.

ARTICLE X

TERMINATION

Section 10.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual written consent of Parent and Purchaser;

(b) by either Parent or by Purchaser, if the Closing shall not have been consummated on or before August 20, 2021, subject to Section 11.11 (the "Outside Date"); provided that, the right to terminate this Agreement under this clause shall not be available to any party to this Agreement whose breach or failure to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement has been the primary cause of, or has resulted in, the failure of the Closing to occur on or before such date;

(c) by either Parent or Purchaser, if any Legal Restraint permanently preventing or prohibiting consummation of the Sale shall be in effect and shall have become final and non-appealable; provided that, the right to terminate this Agreement under this clause shall not be available to any party to this Agreement whose breach or failure to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement has been the primary cause of, or has resulted in, the failure of the Closing to occur on or before such date;

(d) by Purchaser by notice to Parent, if Parent shall have breached or failed to perform in any respect any of its respective representations, warranties, covenants or other agreements contained in this Agreement, or any such representations or warranties have become inaccurate, and such breach, failure to perform or inaccuracy (i) would give rise to the failure of a condition set forth in Section 9.2(a), Section 9.2(b), and Section 9.2(d), and (ii) (A) is incapable of being cured prior to the Outside Date or (B) if capable of being cured prior to the Outside Date,

has not been cured prior to the date that is thirty (30) days from the date that Parent is notified in writing by Purchaser of such breach or failure to perform; or

(e) by Parent by notice to Purchaser, if Purchaser shall have breached or failed to perform in any respect any of its respective representations, warranties, covenants or other agreements contained in this Agreement, or any such representations or warranties have become inaccurate, and such breach, failure to perform or inaccuracy (i) would give rise to the failure of a condition set forth in Section 9.3(a) or Section 9.3(b), and (ii) (A) is incapable of being cured prior to the Outside Date or (B) if capable of being cured prior to the Outside Date, has not been cured prior to the date that is thirty (30) days from the date that Purchaser is notified in writing by Parent of such breach or failure to perform.

Section 10.2 Notice of Termination. In the event of termination of this Agreement by either or both of Parent and Purchaser pursuant to Section 10.1, written notice of such termination shall be given by the terminating party to the other.

Section 10.3 Effect of Termination. In the event of termination of this Agreement by either or both of Parent and Purchaser pursuant to Section 10.1, this Agreement shall terminate and become void and have no effect, and there shall be no Liability on the part of any party to this Agreement; provided that termination of this Agreement shall not relieve any party hereto from Liability for damages for willful and intentional breach of this Agreement. Notwithstanding anything to the contrary contained herein, the provisions of Section 6.2 (Confidentiality), Section 6.3(e) (Required Actions), Article XI (General Provisions) and this Section 10.3 shall survive any termination of this Agreement.

Section 10.4 Extension; Waiver. At any time prior to the Closing, either Parent, on the one hand, or Purchaser, on the other hand, may (a) extend the time for performance of any of the obligations or other acts of the other, (b) waive any inaccuracies in the representations and warranties of the other contained in this Agreement or in any document delivered pursuant to this Agreement or (c) waive compliance with any of the agreements or conditions of the other contained in this Agreement. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party granting such extension or waiver.

ARTICLE XI

GENERAL PROVISIONS

Section 11.1 Interpretation; Absence of Presumption.

(a) The parties acknowledge that the specification of any dollar amount in the representations and warranties contained in this Agreement or the inclusion of any specific item in the Parent Disclosure Schedule or the Purchaser Disclosure Schedule is not intended to imply that such amounts or higher or lower amounts, or the items so included or other items, are or are not material or would reasonably be expected to have a Seller Material Adverse Effect, Business Material Adverse Effect or Purchaser Material Adverse Effect, and no party shall use the fact of the setting of such amounts or the fact of the inclusion of any such item in the Parent Disclosure Schedule or Purchaser Disclosure Schedule in any dispute or controversy between the parties as

to whether any obligation, item or matter not described in this Agreement or included in the Parent Disclosure Schedule or Purchaser Disclosure Schedule is or is not material or would reasonably be expected to have a Seller Material Adverse Effect, Business Material Adverse Effect or Purchaser Material Adverse Effect for purposes of this Agreement.

(b) For the purposes of this Agreement: (i) words in the singular shall be held to include the plural and vice versa, and words of one gender shall be held to include the other gender as the context requires; (ii) references to the terms Article, Section, paragraph, Exhibit and Schedule are references to the Articles, Sections, paragraphs, Exhibits and Schedules to this Agreement unless otherwise specified; (iii) the terms "hereof," "herein," "hereby," "hereto" and derivative or similar words refer to this entire Agreement, including the Schedules and Exhibits hereto; (iv) references to "$" shall mean U.S. dollars, and any amounts that are denominated in a foreign currency shall be deemed to be converted into U.S. dollars at the applicable exchange rate in effect at 9:00 a.m., New York City time (as reported by Bloomberg L.P.) on the date for which such U.S. dollar amount is to be calculated; (v) the word "including" and words of similar import when used in this Agreement and the Ancillary Agreements shall mean "including without limitation," unless otherwise specified; (vi) the word "or" need not be exclusive; (vii) references to "written" or "in writing" include in electronic form; (viii) provisions shall apply, when appropriate, to successive events and transactions; (ix) Parent and Purchaser have each participated in the negotiation and drafting of this Agreement and the Ancillary Agreements and if an ambiguity or question of interpretation should arise, this Agreement and the Ancillary Agreements shall be construed as if drafted jointly by the parties thereto and no presumption or burden of proof shall arise favoring or burdening either party by virtue of the authorship of any of the provisions in this Agreement or the Ancillary Agreements; (x) references to any Law shall be deemed to refer to such Law as amended through the date hereof and to any rules or regulations promulgated thereunder as amended through the date hereof (provided that for purposes of any representations and warranties contained in this Agreement that are made as of a specific date, references to any Law shall be deemed to refer to such Law and any rules or regulations promulgated thereunder as amended through such specific date); (xi) a reference to any Person includes such Person's successors and permitted assigns; (xii) any reference to "days" shall mean calendar days unless Business Days are expressly specified; (xiii) when calculating the period of time before which, within which or following which any act is to be done or step taken pursuant to this Agreement, the date that is the reference date in calculating such period shall be excluded and if the last day of such period is not a Business Day, the period shall end on the next succeeding Business Day; (xiv) amounts used in any calculations for purposes of this Agreement may be either positive or negative, it being understood that the addition of a negative number shall mean the subtraction of the absolute value of such negative number and the subtraction of a negative number shall mean the addition of the absolute value of such negative number; (xv) any document or item will be deemed "delivered", "provided" or "made available" to Purchaser within the meaning of this Agreement if, prior to the execution of this Agreement, such document or item is (A) included in the electronic data room, (B) actually delivered or provided to Purchaser or any of Purchaser's Representatives (including by email) or (C) made available upon request, including at Parent or the Transferred Entities' offices/ and (xvi) the word "extent" in the phrase "to the extent" shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply "if". If the Closing shall occur, notwithstanding anything in this Agreement to the contrary, any payment obligation of Purchaser hereunder shall be a joint and several obligation of Purchaser and the Transferred Entities. Any reference in this Agreement to a specified date shall mean 9:00 a.m.

New York City time on such date (unless another time is specified). In the event of any conflict or inconsistency between the terms of this Agreement and any Ancillary Agreement, this Agreement will control.

Section 11.2 Headings; Definitions. The Section and Article headings contained in this Agreement and the Ancillary Agreements are inserted for convenience of reference only and will not affect the meaning or interpretation of this Agreement or the Ancillary Agreements.

Section 11.3 Governing Law; Jurisdiction and Forum; Waiver of Jury Trial.

(a) This Agreement shall be governed by, and construed and enforced in accordance with, the Laws of the State of Delaware, without regard to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware. In addition, each of the parties hereto irrevocably (i) submits to the personal jurisdiction of the Delaware Court of Chancery in and for New Castle County, or in the event (but only in the event) that such Delaware Court of Chancery does not have subject matter jurisdiction over such dispute, the United States District Court for the District of Delaware, or in the event (but only in the event) that such United States District Court also does not have jurisdiction over such dispute, any Delaware State court sitting in New Castle County, in the event any dispute (whether in contract, tort or otherwise) arises out of this Agreement or the Transactions, (ii) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (iii) waives any objection to the laying of venue of any Action relating to this Agreement or the Transactions in such court, (iv) waives and agrees not to plead or claim in any such court that any Action relating to this Agreement or the Transactions brought in any such court has been brought in an inconvenient forum, and (v) agrees that it will not bring any Action relating to this Agreement or the Transactions in any court other than the Delaware Court of Chancery in and for New Castle County, or in the event (but only in the event) that such Delaware Court of Chancery does not have subject matter jurisdiction over such Action, the United States District Court for the District of Delaware, or in the event (but only in the event) that such United States District Court also does not have jurisdiction over such Action, any Delaware State court sitting in New Castle County. Each party agrees that service of process upon such party in any such Action shall be effective if notice is given in accordance with Section 11.7.

(b) EACH PARTY TO THIS AGREEMENT WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY ANY OF THEM AGAINST THE OTHER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, THE ANCILLARY AGREEMENTS, THE CONFIDENTIALITY AGREEMENT OR ANY OTHER AGREEMENTS EXECUTED IN CONNECTION HEREWITH OR THEREWITH OR THE ADMINISTRATION HEREOF OR THEREOF OR THE SALE OR ANY OF THE OTHER TRANSACTIONS CONTEMPLATED HEREIN OR THEREIN. NO PARTY TO THIS AGREEMENT SHALL SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM OR ANY OTHER LITIGATION PROCEDURE BASED UPON, OR ARISING OUT OF, THIS AGREEMENT OR ANY ANCILLARY AGREEMENTS, THE CONFIDENTIALITY AGREEMENT OR RELATED INSTRUMENTS. NO PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A

JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. EACH PARTY TO THIS AGREEMENT CERTIFIES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS SET FORTH ABOVE IN THIS SECTION 11.3. NO PARTY HAS IN ANY WAY AGREED WITH OR REPRESENTED TO ANY OTHER PARTY THAT THE PROVISIONS OF THIS SECTION 11.3 WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

Section 11.4 Entire Agreement. This Agreement, together with the Ancillary Agreements and the Exhibits and Schedules hereto and thereto, and the Confidentiality Agreement, constitute the entire agreement between the parties with respect to the subject matter hereof and thereof and supersede any prior discussion, correspondence, negotiation, proposed term sheet, letter of intent, agreement, understanding or arrangement, whether oral or in writing.

Section 11.5 No Third-Party Beneficiaries. Except for Section 6.10 and Section 6.11(b) which are intended to benefit, and to be enforceable by, the Persons specified therein, this Agreement, together with the Ancillary Agreements and the Exhibits and Schedules hereto, are not intended to confer in or on behalf of any Person not a party to this Agreement (and their successors and assigns) any rights, benefits, causes of action or remedies with respect to the subject matter or any provision hereof.

Section 11.6 Expenses. Except as otherwise expressly set forth in this Agreement, whether the Transactions are consummated or not, all legal and other costs and expenses incurred in connection with this Agreement and the Transactions shall be paid by the party incurring such costs and expenses unless expressly otherwise contemplated in this Agreement.

Section 11.7 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been given (i) when delivered personally by hand (with written confirmation of receipt and accompanied by email in accordance with clause (ii) of this Section 11.7), (ii) when sent by email (with email confirmation of receipt) or (iii) one (1) Business Day following the day sent by overnight courier (with written confirmation of receipt and accompanied by email in accordance with clause (ii) of this Section 11.7), in each case at the following addresses (or to such other address as a party may have specified by notice given to the other party pursuant to this Section 11.7):

(a) If to Parent:

Amer Sports Corporation
Konepajankuja 6, P.O. Box 1000
00511 Helsinki Finland
Attention: Kaisa Rotkirch
E-mail: Kaisa.Rotkirch@amersports.com

with a copy (which shall not constitute notice) to:

Kirkland & Ellis LLP
601 Lexington Avenue

New York, New York 10022
Attention: Jonathan Davis, P.C. and Maggie Flores
E-mail: jonathan.davis@kirkland.com and maggie.flores@kirkland.com

(b) If to Purchaser:

Peloton Interactive, Inc.
125 W. 25th Street, 11th Floor
New York, NY 10001
Attention: Hisao Kushi, General Counsel
E-mail: hisao@onepeloton.com

with a copy (which shall not constitute notice) to:

Fenwick & West LLP
902 Broadway, Suite 14
New York, New York 10010
Attention: Ethan Skerry
E-mail: eskerry@fenwick.com

Section 11.8 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns; provided that no party to this Agreement may directly or indirectly assign any or all of its rights or delegate any or all of its obligations under this Agreement without the express prior written consent of each other party to this Agreement, except that (a) Parent may transfer or assign, in whole or from time to time in part, its rights under this Agreement to any Affiliate of Parent, but any such transfer or assignment will not relieve Parent of any of its obligations hereunder and (b) Purchaser may transfer or assign, its rights, interests or obligations under this Agreement, in whole or from time to time in part, to one or more of its direct or indirect wholly owned Subsidiaries, but any such transfer or assignment will not relieve Purchaser of any of its obligations hereunder.

Section 11.9 Amendments and Waivers. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the party against whom enforcement of any such modification or amendment is sought. Any party to this Agreement may, only by an instrument in writing, waive compliance by the other party to this Agreement with any term or provision of this Agreement on the part of such other party to this Agreement to be performed or complied with. The waiver by any party to this Agreement of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

Section 11.10 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated so long as the economic or legal substance of the Transactions is not affected in any manner materially

adverse to any party hereto. Upon such a determination, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the Transactions be consummated as originally contemplated to the fullest extent possible.

Section 11.11 Specific Performance. The parties hereto agree that irreparable damage, for which monetary damages (even if available) would not be an adequate remedy, would occur in the event that the parties hereto do not perform any provision of this Agreement in accordance with its specified terms or otherwise breach such provisions. Accordingly, the parties hereto acknowledge and agree that the parties hereto shall be entitled to an injunction, specific performance and other equitable relief to prevent breaches or threatened breaches of this Agreement and to enforce specifically the terms and provisions hereof, in addition to any other remedy to which they are entitled in Law or in equity. Each of the parties hereto agrees that it will not oppose, and irrevocably waives its right to object to, the granting of an injunction, specific performance or other equitable relief on the basis that any other party has an adequate remedy at Law or that any award of specific performance is not an appropriate remedy for any reason at Law or in equity. Any party hereto seeking an injunction or injunctions to prevent breaches or threatened breaches of this Agreement or to enforce specifically the terms and provisions of this Agreement shall not be required to provide any bond or other security in connection with such order or injunction. If, prior to the Outside Date, any party hereto brings any Action in accordance with Section 11.3 to enforce specifically the performance of the terms and provisions hereof by any other party, the Outside Date shall automatically be extended by (i) the amount of time during which such Action is pending, plus twenty (20) Business Days or (ii) such other time period established by the court presiding over such action.

Section 11.12 No Admission. Nothing herein shall be deemed an admission by Purchaser, Parent or any of their respective Affiliates, in any Action or Action by or on behalf of a third party, that Purchaser, Parent or any of their respective Affiliates, or that such third party or any of its Affiliates, is or is not in breach or violation of, or in default in, the performance or observance of any term or provisions of any Contract.

Section 11.13 No Survival of Representations and Warranties.

(a) The representations, warranties, covenants and agreements in this Agreement shall terminate at the Closing or upon the termination of this Agreement pursuant to Article X, except the covenants and agreements that explicitly contemplate performance after the Closing shall survive the Closing until fully performed in accordance with their respective terms. The Parties acknowledge and agree that, other than in connection with any Fraud, from and after the Closing they shall not be permitted to make, and no party shall have any liability or obligation with respect to, any claims for any breach of any representation or warranty set forth herein or any covenant or agreement herein that is to have been performed by another party on or prior to the Closing. In furtherance of the foregoing, other than in connection with any Fraud or claims under the terms of this Agreement or any Ancillary Agreement, from and after the Closing, each party hereby waives (on behalf of itself, each of its Affiliates and each of its Representatives), to the fullest extent permitted under Law, any and all rights, claims and causes of action (including any statutory rights to contribution or indemnification) for any breach of any representation or warranty or covenant or obligation to have been performed prior to the Closing set forth herein or the subject

matter of this Agreement that such party may have against the other Parties or any of their Affiliates or any of their respective Representatives arising under or based upon any theory whatsoever, under any Law, contract, tort or otherwise (including any claims arising under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 or any other Environmental, Health and Safety Laws).

(b) The Purchaser hereby acknowledges and agrees that, except as expressly provided in Section 2.7, the foregoing Section 11.13(a), otherwise pursuant to this Agreement or any Ancillary Agreement or in connection with any Fraud, from and after Closing none of Parent, its Representatives or any of their respective Affiliates, officers, managers, employees or agents, shall have any liability, responsibility or obligation arising under this Agreement or any exhibit or Schedule hereto, or any certificate or other document entered into, made, delivered, or made available in connection herewith, or as a result of any of the Transactions, such provisions and other documents being the sole and exclusive remedy (as between the Purchaser and its Affiliates, on the one hand, and the Parent and its Affiliates, on the other hand) for all claims, disputes and losses arising hereunder or thereunder or in connection herewith or therewith, whether purporting to sound in contract or tort, or at Law or in equity, or otherwise (including any claims arising under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 or any other Environmental, Health and Safety Laws).

Section 11.14 Legal Representation. Purchaser (on behalf of itself and on behalf of the Transferred Entities following the Closing) hereby agree, on their own behalf and on behalf of their directors, members, officers, employees and Affiliates, and each of their successors and assigns (all such parties, the "Waiving Parties"), that Kirkland & Ellis LLP ("K&E") (or any successor) may represent Parent or any Affiliate of the Parent Group, in each case, in connection with any Action arising out of or relating to this Agreement, the Ancillary Agreements or the Transactions notwithstanding its representation of Parent and/or any of its Subsidiaries, and Purchaser on behalf of itself and the Waiving Parties hereby consents thereto and irrevocably waives (and will not assert) any actual or potential conflict of interest or any objection arising from K&E's representation of Parent and/or any of its Subsidiaries on or before the Closing. Purchaser acknowledges that the foregoing provision applies whether or not K&E provides legal services to the Transferred Entities after the Closing Date. Purchaser, for itself and the Waiving Parties, hereby irrevocably acknowledges and agrees that all communications between the Transferred Entities and their counsel, including K&E, made prior to the Closing to the extent related to the negotiation, preparation, execution, delivery and performance under, or any dispute or proceeding arising out of or relating to, this Agreement, any Ancillary Agreements or the consummation of the Transactions, or any matter relating to any of the foregoing, are privileged communications that are the property of the Transferred Entities (after the Closing) and are controlled by Purchaser.

Section 11.15 No Recourse Against Non-Parties. (a) All claims or causes of action (whether in contract or in tort, in law or in equity) that may be based upon, arise out of or relate to this Agreement or any Ancillary Agreement, or the negotiation, execution or performance of this Agreement or any Ancillary Agreement (including any representation or warranty made in or in connection with this Agreement or as an inducement to enter into this Agreement or any Ancillary Agreement), may be made only against (and subject to the terms and conditions thereof) the entities that are expressly identified as parties hereto and thereto and (b) no Person who is not a named party to this Agreement or any Ancillary Agreement, including, without limitation, any past,

present or future director, officer, employee, incorporator, member, manager, partner, equityholder, Affiliate, agent, attorney or Representative of any named party to this Agreement or any Ancillary Agreement ("Non-Party Affiliates"), shall have any liability (whether in contract or in tort, in law or in equity, or based upon any theory that seeks to impose liability of an entity party against its owners or Affiliates) for any obligations or liabilities arising under, in connection with or related to this Agreement or any Ancillary Agreement or for any claim based on, in respect of, or by reason of this Agreement or any Ancillary Agreement or its negotiation or execution, and each party hereto waives and releases all such liabilities, claims and obligations against any such Non-Party Affiliates. Non-Party Affiliates are expressly intended as third party beneficiaries of this provision of this Agreement.

Section 11.16 Counterparts. This Agreement may be executed in one or more counterparts, and by the different parties in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or other electronic method shall be as effective as delivery of a manually executed counterpart of this Agreement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the parties as of the day first above written.

AMER SPORTS CORPORATION

By: /s/ Jussi Siitonen
Name: Jussi Siitonen
Title: Director

By: /s/ Huang Andrew Chih-Chun
Name: Huang Andrew Chih-Chun
Title: Director

By: /s/ Tao Tak Yan Dennis
Name: Tao Tak Yan Dennis
Title: Director

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the parties as of the day first above written.

PELOTON INTERACTIVE, INC.

By: /s/ William Lynch
Name: William Lynch
Title: President

[Signature Page to Stock and Asset Purchase Agreement]

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

I, John Foley, certify that:

1. I have reviewed this Annual Report on Form 10-Q of Peloton Interactive, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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. 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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: February 4, 2021

/s/ John Foley

John Foley
Chief Executive Officer
(Principal Executive Officer)

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

I, Jill Woodworth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Peloton Interactive, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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. 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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: February 4, 2021

/s/ Jill Woodworth

Jill Woodworth
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

I, John Foley, Chief Executive Officer of Peloton Interactive, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended December 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition, and results of operations of the Company.

Date: February 4, 2021

/s/ John Foley

John Foley
Chief Executive Officer
(Principal Executive Officer)

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

I, Jill Woodworth, Chief Financial Officer of Peloton Interactive, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended December 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition, and results of operations of the Company.

Date: February 4, 2021

/s/ Jill Woodworth

Jill Woodworth
Chief Financial Officer
(Principal Financial Officer)