# 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 March 31, 2021**

**OR**

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

**For the transition period from to**

**Commission File Number: 001-39058**

# 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)* |

**(917) 671-9198**

*(Registrant's telephone number, including area code)*

Not Applicable

*(former name, former address and former fiscal year, if changed since last report)*

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 April 30, 2021, the number of shares of the registrant's Class A common stock outstanding was 268,744,362 and the number of shares of the registrant's Class B common stock outstanding was 29,548,911.

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## 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;
- actual or perceived defects in, or safety of, our products, including any impact of product recalls or legal or regulatory claims or proceedings involving our products;
- 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 benefits of the acquisition of Precor Incorporated, a Delaware corporation ("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 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 and other factors that could cause actual results to differ materially from those stated, including those described in the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2 and "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q, as such factors may be updated in our filings with the Securities and Exchange Commission, or the SEC. 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. Our forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q, and 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 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)**

| | March 31, 2021 (unaudited) | June 30, 2020 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,055.9 | $ 1,035.5 |
| Marketable securities | 629.4 | 719.5 |
| Accounts receivable, net | 30.3 | 34.6 |
| Inventories, net | 614.2 | 244.5 |
| Prepaid expenses and other current assets | 184.0 | 124.5 |
| Total current assets | 3,513.8 | 2,158.6 |
| Property and equipment, net | 473.0 | 242.3 |
| Intangible assets, net | 78.5 | 16.0 |
| Goodwill | 65.3 | 39.1 |
| Restricted cash | 1.5 | 1.5 |
| Operating lease right-of-use assets, net | 550.7 | 492.5 |
| Other assets | 29.7 | 31.8 |
| Total assets | $ 4,712.4 | $ 2,981.8 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 855.2 | $ 361.7 |
| Customer deposits and deferred revenue | 363.7 | 363.6 |
| Operating lease liabilities, current | 45.2 | 33.1 |
| Other current liabilities | 18.6 | 13.9 |
| Total current liabilities | 1,282.7 | 772.2 |
| Convertible senior notes, net | 821.5 | — |
| Operating lease liabilities, non-current | 589.3 | 508.2 |
| Other non-current liabilities | 25.6 | 23.4 |
| Total liabilities | 2,719.1 | 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, 268,115,347 and 237,518,574 shares issued and outstanding as of March 31, 2021 and June 30, 2020, respectively; 2,500,000,000 and 2,500,000,000 Class B shares authorized, 29,746,911 and 50,538,538 shares issued and outstanding as of March 31, 2021 and June 30, 2020, respectively. | — | — |
| Additional paid-in capital | 2,548.9 | 2,361.8 |
| Accumulated other comprehensive income | 14.1 | 10.1 |
| Accumulated deficit | (569.6) | (693.9) |
| Total stockholders' equity | 1,993.4 | 1,678.0 |
| Total liabilities and stockholders' equity | $ 4,712.4 | $ 2,981.8 |

*See accompanying notes to these unaudited condensed consolidated financial statements.*

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Revenue: | | | | |
| Connected Fitness Products | $ 1,022.9 | $ 426.4 | $ 2,494.4 | $ 976.3 |
| Subscription | 239.4 | 98.2 | 590.6 | 242.5 |
| Total revenue | 1,262.3 | 524.6 | 3,085.0 | 1,218.8 |
| Cost of revenue: | | | | |
| Connected Fitness Products | 732.5 | 237.4 | 1,659.5 | 567.6 |
| Subscription | 84.8 | 41.4 | 227.0 | 103.3 |
| Total cost of revenue | 817.4 | 278.8 | 1,886.6 | 670.9 |
| Gross profit | 444.9 | 245.8 | 1,198.4 | 548.0 |
| Operating expenses: | | | | |
| Sales and marketing | 208.2 | 154.8 | 500.3 | 392.8 |
| General and administrative | 180.6 | 126.9 | 430.3 | 265.4 |
| Research and development | 69.8 | 22.5 | 153.9 | 60.6 |
| Total operating expenses | 458.6 | 304.2 | 1,084.4 | 718.8 |
| (Loss) income from operations | (13.7) | (58.4) | 113.9 | (170.8) |
| Other (expense) income, net: | | | | |
| Interest expense | (4.9) | (0.4) | (5.7) | (1.6) |
| Interest income | 1.6 | 5.9 | 6.7 | 14.3 |
| Foreign exchange losses | (0.7) | (3.0) | (1.5) | (3.2) |
| Other income, net | — | 0.1 | — | 0.1 |
| Total other (expense) income, net | (4.0) | 2.7 | (0.5) | 9.6 |
| (Loss) income before provision for income taxes | (17.7) | (55.7) | 113.4 | (161.2) |
| Income tax benefit | (9.1) | (0.1) | (10.8) | (0.5) |
| Net (loss) income | $ (8.6) | $ (55.6) | $ 124.2 | $ (160.7) |
| Net (loss) income attributable to Class A and Class B common stockholders | $ (8.6) | $ (55.6) | $ 124.2 | $ (160.7) |
| Net (loss) income per share attributable to common stockholders, basic | $ (0.03) | $ (0.20) | $ 0.43 | $ (0.80) |
| Net (loss) income per share attributable to common stockholders, diluted | $ (0.03) | $ (0.20) | $ 0.36 | $ (0.80) |
| Weighted-average Class A and Class B common shares outstanding, basic | 295,646,824 | 280,879,011 | 292,276,299 | 199,769,233 |
| Weighted-average Class A and Class B common shares outstanding, diluted | 295,646,824 | 280,879,011 | 348,094,379 | 199,769,233 |
| Other comprehensive (loss) income: | | | | |
| Net unrealized losses on marketable securities | $ (0.6) | $ (3.1) | $ (3.2) | $ (3.3) |
| Change in foreign currency translation adjustment | (2.0) | 0.1 | 7.2 | 3.4 |
| Total other comprehensive (loss) income | (2.6) | (3.0) | 4.0 | 0.1 |
| Comprehensive (loss) income | $ (11.2) | $ (58.6) | $ 128.2 | $ (160.6) |

*See accompanying notes to these unaudited condensed consolidated financial statements.*

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

| | Nine Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Cash Flows from Operating Activities: | | |
| Net income (loss) | $ 124.2 | $ (160.7) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 38.8 | 28.2 |
| Stock-based compensation expense | 108.8 | 56.3 |
| Non-cash operating lease expense | 44.4 | 33.5 |
| Amortization of premium from marketable securities | 7.4 | 3.8 |
| Amortization of debt discount and issuance costs | 4.6 | 0.2 |
| Impairment of long-lived assets | 3.3 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 6.0 | (5.4) |
| Inventories | (363.7) | (46.2) |
| Prepaid expenses and other current assets | (34.7) | (24.3) |
| Other assets | (13.7) | (18.2) |
| Accounts payable and accrued expenses | 444.2 | 64.0 |
| Customer deposits and deferred revenue | (2.0) | 124.0 |
| Operating lease liabilities, net | (9.8) | (20.7) |
| Other liabilities | 1.5 | 14.5 |
| Net cash provided by operating activities | 359.3 | 49.1 |
| Cash Flows from Investing Activities: | | |
| Purchases of marketable securities | (449.1) | (1,199.6) |
| Maturities of marketable securities | 517.8 | 331.5 |
| Sales of marketable securities | 6.6 | 118.0 |
| Purchases of property and equipment | (167.9) | (106.6) |
| Business combination, net of cash acquired | (57.7) | (45.6) |
| Asset acquisitions, net of cash acquired | (78.1) | — |
| Capitalization of internal-use software costs and other | (5.0) | (3.5) |
| Net cash used in investing activities | (233.4) | (905.9) |
| Cash Flows from Financing Activities: | | |
| Proceeds from issuance of common stock upon initial public offering, net of offering costs | — | 1,195.7 |
| Proceeds from issuance of convertible notes, net of issuance costs | 977.2 | — |
| Purchase of capped calls | (81.3) | — |
| Proceeds from employee stock purchase plan withholdings | 12.2 | 4.6 |
| Proceeds from exercise of stock options | 37.0 | 9.0 |
| Taxes withheld and paid on employee stock awards | (53.9) | — |
| Principal repayments of finance leases | (0.7) | — |
| Net cash provided by financing activities | 890.5 | 1,209.3 |
| Effect of exchange rate changes | 4.1 | (5.0) |
| Net change in cash, cash equivalents, and restricted cash | 1,020.4 | 347.5 |
| Cash, cash equivalents and restricted cash — Beginning of period | 1,037.0 | 163.0 |
| Cash, cash equivalents and restricted cash — End of period | $ 2,057.4 | $ 510.5 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid for interest | $ 0.6 | $ — |
| Cash paid for income taxes | $ 2.9 | $ 1.0 |
| Supplemental Disclosures of Non-Cash Investing and Financing Information: | | |

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

| | | |
|---|---|---|
| Conversion of convertible preferred stock to common stock | $ — | $ (941.1) |
| Property and equipment accrued but unpaid | $ 42.4 | $ 21.2 |
| Stock-based compensation capitalized for software development costs | $ 3.1 | $ 1.5 |

*See accompanying notes to these unaudited condensed consolidated financial statements.*

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

| | Class A and Class B Common Stock | | Additional Paid-In Capital | Other Comprehensive Income | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance – December 31, 2019 | 280.6 | $ — | $ 2,269.3 | $ 3.3 | $ (727.4) | $ 1,545.2 |
| Exercise of stock options | 1.5 | — | 5.9 | — | — | 5.9 |
| Issuance of common stock under employee stock purchase plan | 0.2 | #REF! — — | 3.7 | — | — | 3.7 |
| Stock-based compensation expense | — | — | 21.1 | — | — | 21.1 |
| Other comprehensive loss | — | — | — | (3.0) | — | (3.0) |
| Net loss | — | — | — | — | (55.6) | (55.6) |
| Balance – March 31, 2020 | 282.2 | $ — | $ 2,300.0 | $ 0.3 | $ (783.0) | $ 1,517.3 |
| | | | | | | |
| Balance – December 31, 2020 | 294.3 | $ — | $ 2,472.7 | $ 16.6 | $ (561.0) | $ 1,928.3 |
| Issuance of common stock pursuant to stock-based awards, net of withholding taxes | 3.4 | — | (53.6) | — | — | (53.6) |
| Issuance of common stock under employee stock purchase plan | 0.2 | — | 8.0 | — | — | 8.0 |
| Stock-based compensation expense | — | — | 43.1 | — — | — — | 43.1 |
| Equity component of convertible senior notes, net of issuance costs | — | — | 160.1 | — | — | 160.1 |
| Purchases of capped calls related to convertible senior notes | — | — | (81.3) | — | — | (81.3) |
| Other comprehensive loss | — | — | — | (2.6) | — | (2.6) |
| Net loss | — | — | — | — | (8.6) | (8.6) |
| Balance — March 31, 2021 | 297.9 | $ — | $ 2,548.9 | $ 14.1 | $ (569.6) | $ 1,993.4 |

**PELOTON INTERACTIVE, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' (DEFICIT) 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 | — | — | 2.4 | — | 11.0 | — | — | 11.0 |
| Exercise of stock warrants | — | — | 0.2 | — | — | — | — | — |
| Issuance of common stock under employee stock purchase plan | — | — | 0.2 | — | 3.7 | — | — | 3.7 |
| Stock-based compensation expense | — | — | — | — | 57.8 | — | — | 57.8 |
| Other comprehensive income | — | — | — | — | — | 0.1 | — | 0.1 |
| Net loss | — | — | — | — | — | — | (160.7) | (160.7) |
| Cumulative effect adjustment in connection with adoption of ASU 2016-02 | — | — | — | — | — | — | 7.2 | 7.2 |
| Balance - March 31, 2020 | — | $ — | 282.2 | $ — | $ 2,300.0 | $ 0.3 | $ (783.0) | $ 1,517.3 |
| | | | | | | | | |
| 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 | — | — | 9.3 | — | (16.7) | — | — | (16.7) |
| Issuance of common stock under employee stock purchase plan | — | — | 0.4 | — | 13.1 | — | — | 13.1 |
| Stock-based compensation expense | — | — | — | — | 111.9 | — | — | 111.9 |
| Equity component of convertible senior notes, net of issuance costs | — | — | — | — | 160.1 | — | — | 160.1 |
| Purchases of capped calls related to convertible senior notes | — | — | — | — | (81.3) | — | — | (81.3) |
| Other comprehensive income | — | — | — | — | — | 4.0 | — | 4.0 |
| Net income | — | — | — | — | — | — | 124.2 | 124.2 |
| Balance - March 31, 2021 | — | $ — | 297.9 | $ — | $ 2,548.9 | $ 14.1 | $ (569.6) | $ 1,993.4 |

*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 nine months ended March 31, 2021 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 and asset acquisitions, valuation of the debt component of convertible senior notes, contingent consideration, and commitments and contingencies. Actual results may differ from these estimates.

***Convertible Senior Notes***

In February 2021, the Company issued in a private offering $1.0 billion aggregate principal amount of 0% Convertible Senior Notes due 2026 (the "Notes"), including the initial purchasers' exercise in full of their option to purchase additional notes. See Note 8 for additional details.

The Notes are accounted for in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 470-20, *Debt with Conversion and Other Options*. Pursuant to ASC Subtopic 470-20, issuers of certain convertible debt instruments, such as the Notes, that have a net settlement feature and may be settled wholly or partially in cash upon conversion are required to separately account for the liability (debt) and equity (conversion option) components of the instrument.

The carrying amount of the liability component of the instrument is computed by estimating the fair value of a similar liability without the conversion option using a market-based approach. The amount of the equity component is then calculated by deducting the fair value of the liability component from the initial proceeds of the instrument. The difference between the principal amount and the liability component represents a debt discount that is amortized to interest expense over the respective term of the Notes using the effective interest rate method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the issuance costs related to the Notes, the allocation of issuance costs incurred between the liability and equity components was based on their relative values.

***Derivative Instruments and Hedging***

The Company measures derivative financial instruments at fair value and recognizes them as either assets or liabilities on our condensed consolidated balance sheets. The Company evaluates its convertible instruments and other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives requiring separate recognition in the Company's financial statements in accordance with the criteria under ASC 815-15. As of March 31, 2021, the Company did not have any material derivative contracts or contracts with material embedded derivative features requiring bifurcation.

***Recently Issued Accounting Pronouncements***

*Accounting Pronouncements Recently Adopted*

*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 forecasted. 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.

*Accounting Pronouncements Not Yet Adopted*

*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 and ASU 2021-01*

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. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848)*, which refines the scope of Topic ASC 848 and clarifies some of its guidance. The amendments in ASU 2021-01 are elective and apply to all entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. The guidance in both updates 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.

<u>*ASU 2020-06*</u>

In August 2020, the FASB issued ASU No. 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. The guidance will simplify the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock, thereby limiting the accounting results in fewer embedded conversion features being separately recognized from the host contract as compared with current GAAP. Convertible instruments that continue to be subject to separation models are (1) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting and (2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital. ASU 2020-06 also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. In addition, the guidance eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. ASU 2020-06 will be effective for public companies for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of ASU 2020-06 will have on the Company's 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 in the Company's condensed consolidated statements of operations and comprehensive (loss) income.

***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 (loss) income.

***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 (loss) income.

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.

***Standard 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 are 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.

Activity related to the Company's accrual for our estimated future product warranty obligation was as follows:

| | Nine Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| | (in millions) | |
| Balance at beginning of period | $ 34.2 | $ 10.5 |
| Provision for warranty accrual | 54.3 | 21.1 |
| Warranty claims | (37.4) | (11.8) |
| Balance at end of period | $ 51.1 | $ 19.9 |

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 (loss) income.

***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 March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| North America[1] | $ 1,167.7 | $ 503.9 | $ 2,897.4 | $ 1,176.7 |
| EMEA[2] | 94.5 | 20.6 | 187.6 | 42.2 |
| Total revenue | $ 1,262.3 | $ 524.6 | $ 3,085.0 | $ 1,218.8 |

(1) Consists of United States and Canada.

(2) Consists of United Kingdom and Germany (formerly Rest of world).

During the three and nine months ended March 31, 2021, the Company's revenue attributable to the United States represented 87% and 90% of total revenue, respectively, and 94% of total revenue for the three and nine months ended March 31, 2020.

***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 March 31, 2021 and June 30, 2020, customer deposits of $321.5 million and $341.5 million, respectively, and deferred revenue of $42.2 million and $22.1 million, respectively, were included in customer deposits and deferred revenue on the Company's condensed consolidated balance sheets.

In the nine months ended March 31, 2021 and 2020, 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:

| | March 31, 2021 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (in millions) | | | |
| Corporate bonds | $ 472.3 | $ 0.4 | $ — | $ 472.6 |
| U.S. treasury securities | 97.4 | 0.3 | — | 97.7 |
| Commercial paper | 63.0 | — | — | 63.0 |
| Supranational securities | 31.1 | — | — | 31.1 |
| Certificate of deposits | 7.8 | — | — | 7.8 |
| | $ 671.5 | $ 0.8 | $ — | $ 672.2 |
| Less: Restricted marketable securities (1) | | | | $ 42.8 |
| Total marketable securities | | | | $ 629.4 |

(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 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 March 31, 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (in millions) | | | |
| **Assets** | | | | |
| Marketable securities | $ 672.2 | $ — | $ — | $ 672.2 |
| Total | $ 672.2 | $ — | $ — | $ 672.2 |
| **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 (loss) income.

***Fair Value Measurements of Other Financial Instruments***

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments that are not recorded at fair value on the condensed consolidated balance sheets:

| | As of March 31, 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (in millions) | | | |
| Convertible Senior Notes | $ — | $ 801.1 | $ — | $ 801.1 |

The fair value of the Notes is determined based on the closing price on the last trading day of the reporting period.

### 6. Inventory

Inventories were as follows:

| | March 31, 2021 | June 30, 2020 |
|---|---|---|
| | (in millions) | |
| Raw materials | $ 54.7 | $ 17.8 |
| Work-in-process | 9.2 | 4.6 |
| Finished products | 557.1 | 232.5 |
| Total inventories | 621.0 | 254.9 |
| Less: Reserves | (6.9) | (10.5) |
| Total inventories, net | $ 614.2 | $ 244.5 |

## 7. Acquisitions

***Business Combination***

On February 9, 2021, the Company acquired Aiqudo, Inc. and its subsidiaries (collectively, "Aiqudo") for a purchase price of approximately $57.7 million, net of cash acquired, which was paid in cash. Upon completion of the transaction, Aiqudo became a wholly-owned subsidiary of the Company. The Company acquired Aiqudo to bolster product research and development capabilities.

The operating results of Aiqudo have been included in the Company's condensed consolidated statements of operations since the acquisition date. Actual and pro forma revenue and results of operations for the acquisition have not been presented because they do not have a material impact to the consolidated revenue and results of operations, either individually or in the aggregate.

The Company recognized $1.0 million of acquisition-related costs that were expensed as incurred during the three and nine months ended March 31, 2021. These costs are included in general and administrative expense in the condensed consolidated statement of operations and comprehensive (loss) income.

The acquisition was accounted for under the acquisition method in accordance with ASC 805. The following table summarizes the initial estimate of the fair values of assets acquired and liabilities assumed at the closing date:

| | As of February 9, 2021 (in millions) |
|---|---|
| Developed Technology | $ 44.2 |
| Goodwill | 25.0 |
| Other assets | 3.3 |
| Total assets | $ 72.5 |
| Current liabilities | (3.3) |
| Deferred tax liability | $ (11.5) |
| Total liabilities | $ (14.8) |
| Net assets acquired | $ 57.7 |

The preliminary purchase price allocation resulted in the recognition of $25.0 million of goodwill. Goodwill represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including an experienced workforce and expected future synergies. The Company allocated the goodwill to its Connected Fitness segment. None of the goodwill is expected to be deductible for tax purposes.

The Company expects to finalize its purchase price allocation after management has further analyzed and assessed a number of the factors used in establishing the fair values of assets acquired and liabilities assumed as of the acquisition date including, but not limited to, the working capital acquired. The final fair value determination could result in adjustments to the values presented in the preliminary purchase price allocation.

***Asset Acquisitions***

During the nine months ended March 31, 2021, 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 of the Company's condensed consolidated balance sheets.

## 8. Debt and Financing Arrangements

***Convertible Notes and the Indenture***

In February 2021, the Company issued $1.0 billion aggregate principal amount of 0% Convertible Senior Notes due February 15, 2026 (the "Notes") in a private offering, including the exercise in full of the over-allotment option granted to the initial purchasers of $125.0 million. The Notes were issued pursuant to an Indenture (the "Indenture") between the Company and U.S. Bank National Association, as trustee. The Notes are senior unsecured obligations of the Company and do not bear regular interest, and the principal amount of the Notes does not accrete. The net proceeds from this offering were approximately $977.2 million, after deducting the initial purchasers' discounts and commissions and the Company's offering expenses.

Each $1,000 principal amount of the Notes is initially convertible into 4.1800 shares of the Company's Class A Common Stock, which is equivalent to an initial conversion price of approximately $239.23 per share. The conversion rate is subject to customary adjustments under certain circumstances in accordance with the terms of the Indenture. In addition, if certain corporate events that constitute a make-whole fundamental change occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Notes will mature on February 15, 2026, unless earlier converted, redeemed, or repurchased. The Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding August 15, 2025, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2021, if the last reported sale price of the Company's Class A common stock, par value $0.000025 per share exceeds 130% of the conversion price for each of at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter on each applicable trading day; (2) during the five consecutive business day period after any ten consecutive trading day period (such ten consecutive trading day period, the "measurement period") in which the trading price (as defined in the Indenture) per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price per share of the Class A Common Stock on such trading day and the conversion rate on such trading day; (3) if the Company calls such Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; (4) upon the occurrence of specified corporate events or distributions on the Class A Common Stock.

On or after August 15, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes, in multiples of $1,000 principal amount, at the option of the holder regardless of the foregoing circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying and/or delivering, as the case may be, cash, shares of the Class A Common Stock or a combination of cash and shares of the Class A Common Stock, at the Company's election, in the manner and subject to the terms and conditions provided in the Indenture. It is the Company's current intent to settle the principal amount of the Notes with cash.

The Company may redeem for cash all or any portion of the Notes, at its option, on or after February 20, 2024 and on or before the 20th scheduled trading day immediately before the maturity date, if the last reported sale price per share of the Class A Common Stock exceeds 130% of the conversion price then in effect on (1) each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption and (2) the trading day immediately before the date the Company sends such notice at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid special interest, if any, to, but excluding, the redemption date. No sinking fund is provided for the Notes, which means that the Company is not required to redeem or retire the Notes periodically.

Upon the occurrence of a fundamental change (as defined in the Indenture), subject to certain conditions, holders may require the Company to repurchase all or a portion of the Notes for cash at a price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid special interest, if any, to, but excluding, the fundamental change repurchase date.

The Notes are the Company's senior unsecured obligations and rank senior in right of payment to any of the Company's existing and future indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of the Company's existing and future unsecured indebtedness that is not so subordinated; effectively subordinated in right of payment to any of the Company's existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness; and structurally subordinated to all existing and future indebtedness and other liabilities of current or future subsidiaries of the Company (including trade payables and to the extent the Company is not a holder thereof, preferred equity, if any, of the Company's subsidiaries).

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components, using an effective interest rate of 3.69% to determine the fair value of the liability component. The carrying amount of the equity component representing the conversion option was $163.8 million and was determined by deducting the fair value of the liability component from the initial proceeds ascribed to the Notes as a whole. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense using the effective interest method over the contractual term of the Notes.

In accounting for the transaction costs related to the Notes, the Company allocated the total amount incurred to the liability and equity components of the Notes based on the proportion of the proceeds allocated to the debt and equity components. Issuance costs attributable to the liability component recorded as additional debt discount were $19.0 million and will be amortized to interest expense using the effective interest method over the contractual terms of the Notes. Issuance costs attributable to the equity component of $3.7 million were netted with the equity component in stockholders' equity.

The net carrying amount of the liability component of the Notes was as follows:

| | | March 31, 2021 |
|---|---|---|
| | | (in millions) |
| Principal | $ | 1,000.0 |
| Unamortized debt discount | | (159.9) |
| Unamortized debt issuance costs | | (18.6) |
| Net carrying amount | $ | 821.5 |

The net carrying amount of the equity component of the Notes was as follows:

| | | March 31, 2021 |
|---|---|---|
| | | (in millions) |
| Proceeds allocated to the conversion option (debt discount) | $ | 163.8 |
| Issuance costs | | (3.7) |
| Net carrying amount | $ | 160.1 |

The following table sets forth the interest expense recognized related to the Notes:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | | 2021 | |
| | (in millions) | | | |
| Amortization of debt discount | $ | 3.9 | $ | 3.9 |
| Amortization of debt issuance costs | | 0.4 | | 0.4 |
| Total interest expense related to the Notes | $ | 4.3 | $ | 4.3 |

*Capped Call Transactions*

In connection with the offering of the Notes, the Company entered into privately negotiated capped call transactions with certain counterparties (the "Capped Call Transactions"). The Capped Call Transactions have an initial strike price of approximately $239.23 per share, subject to adjustments, which corresponds to the approximate initial conversion price of the Notes. The cap price of the Capped Call Transactions will initially be approximately $362.48 per share. The Capped Call Transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, 6.9 million shares of Class A Common Stock. The Capped Call Transactions are expected generally to reduce potential dilution to the Class A Common Stock upon any conversion of Notes and/or offset any potential cash payments the Company would be required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap based on the cap price. If, however, the market price per share of Class A Common Stock, as measured under the terms of the Capped Call Transactions, exceeds the cap price of the Capped Call Transactions, there would be dilution and/or there would not be an offset of such potential cash payments, in each case, to the extent that the then-market price per share of the Class A Common Stock exceeds the cap price of the Capped Call Transactions.

For accounting purposes, the Capped Call Transactions are separate transactions, and are not part of the terms of the Notes. The net cost of $81.3 million incurred to purchase the Capped Call Transactions was recorded as a reduction to Additional paid-in capital on the Company's condensed consolidated balance sheets.

***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 provided 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.

On February 8, 2021, the Company entered into a First Amendment (the “First Amendment”) to the Amended Credit Agreement to revise certain covenants that restricted the incurrence of indebtedness to permit the Capped Call Transactions and issuance of the Notes.

On March 18, 2021, the Company entered into a Joinder Agreement (the "Joinder") to the Amended Credit Agreement, as amended by the First Amendment, to provide for an increase of the commitments available under the revolving credit facility by $35.0 million from $250.0 million to $285.0 million.

During the three and nine months ended March 31, 2021, the Company incurred total commitment fees of $0.2 million and $0.7 million, respectively, and $0.2 million and $0.6 million during the three and nine months ended March 31, 2020, respectively, which are included in interest expense in the condensed consolidated statements of operations and comprehensive (loss) income.

The outstanding balance, if any, is payable in full in June 2024. As of March 31, 2021, 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 March 31, 2021, the Company was in compliance with the covenants under the Amended Credit Agreement. At March 31, 2021, 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. The Company includes both of these components in its reserve. As of March 31, 2021 and 2020, the Company recorded reserves of $13.3 million and $11.6 million, respectively, included in Accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

### *Legal and Regulatory 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.

For example, we have received reports of a number of injuries associated with our Tread+ product, one of which led to the death of a child. As a result of the aforementioned injuries associated with these reported Tread+ incidents, in April 2021, the U.S. Consumer Product Safety Commission (“CPSC”) unilaterally issued a warning to consumers about the safety hazards associated with the Tread+ and is continuing to investigate the matter. In addition to the CPSC investigation, we are presently subject to class action litigation and private personal injury claims related to these perceived defects in the Tread+ and incidents reported to result from its use. On April 20, 2021, purported Peloton Member Shannon Albright filed a putative class action lawsuit against the Company in the United States District Court for the Northern District of California captioned Albright v. Peloton Interactive, Inc., Case No. 3:21-02858 (N.D. Cal.) (the "Albright Action"). The Albright Action alleges violations of various California state laws related to the Tread+ and the matters contained in the CPSC warning, including violation of the Consumer Legal Remedies Act, breach of the Implied Warranty of Merchantability, and violations of California Business and Professions Code Sections 17200, et seq., and 17500, et seq.

In addition, on April 29, 2021, Ashley Wilson ("Plaintiff Wilson") filed a putative securities class action lawsuit against the Company, our Chief Executive Officer, and our Chief Financial Officer (collectively, the "Defendants") in the United States District Court for the Eastern District of New York, purportedly on behalf of a class consisting of those individuals who purchased or otherwise acquired our common stock between September 11, 2020 and April 16, 2021 (the "Wilson Action"). The complaint in the Wilson Action alleges that the Defendants made false and/or misleading statements in violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Plaintiff Wilson does not quantify any damages in her complaint but, in addition to attorneys' fees and costs, she seeks to recover damages on behalf of herself and other persons who purchased or otherwise acquired our stock during the putative class period at allegedly inflated prices and purportedly suffered financial harm as a result.

We dispute the allegations in the above-referenced matters, intend to defend the matters vigorously, and believe that the claims are without merit. Some of our legal and regulatory proceedings, such as the above-referenced matters and litigation that centers around intellectual property claims, may be based on complex claims involving substantial uncertainties and unascertainable damages. Accordingly, it is not possible to determine the probability of loss or estimate damages for any of the above matters, 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. Given that such proceedings are subject to uncertainty, there can be no assurance that such legal proceedings, either individually or in the aggregate, will not have a material adverse effect on our business, 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 March 31, 2021, the number of shares of Class A common stock available for future award under the 2019 Plan is 50,026,067.

***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 | 4,397,985 | $ 102.21 | | |
| Exercised | (9,814,464) | $ 7.69 | | |
| Forfeited | (1,337,472) | $ 21.31 | | |
| Outstanding — March 31, 2021 | 60,064,909 | $ 17.52 | 7.5 | $ 5,724.5 |
| Vested and Exercisable— March 31, 2021 | 28,534,393 | $ 7.17 | 6.6 | $ 3,003.9 |

Unvested option activity is as follows:

| | Options | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Unvested - June 30, 2020 | 39,674,590 | $ 7.41 |
| Granted | 4,397,985 | $ 43.45 |
| Early exercised unvested | (54,446) | $ 3.16 |
| Vested | (11,157,887) | $ 6.93 |
| Forfeited | (1,329,726) | $ 9.62 |
| Unvested - March 31, 2021 | 31,530,516 | $ 12.53 |

During the nine months ended March 31, 2021, 1,254,151 shares of common stock were issued upon cashless exercise of 1,887,030 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 March 31, 2021. 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 nine months ended March 31, 2021, the Company recorded stock-based compensation expense related to the performance-based options of $0.1 million and $0.5 million, respectively, and $0.1 million and $4.0 million for the three and nine months ended March 31, 2020, respectively.

For the nine months ended March 31, 2021 the weighted-average grant date fair value per option was $43.45. The fair value of each option was estimated at the grant date using the Black-Scholes method with the following assumptions:

| | Nine Months Ended March 31, 2021 |
|---|---|
| Weighted average risk-free interest rate [1] | 0.6% |
| Weighted average expected term (in years) | 6.2 |
| Weighted average expected volatility [2] | 43.3% |
| 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 | 1,374,092 | $ | 104.99 |
| Vested and converted to shares | (195,678) | $ | 62.49 |
| Cancelled | (16,204) | $ | 97.19 |
| Outstanding — March 31, 2021 | 1,778,323 | $ | 85.81 |

***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 March 31, 2021, a total of 7,853,764 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:

| | Nine Months Ended March 31, 2021 |
|---|---|
| Weighted average risk-free interest rate | 1.0% |
| Weighted average expected term (in years) | 1.2 |
| Weighted average expected volatility | 61.0% |
| 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 nine months ended March 31, 2021, the Company recorded stock-based compensation expense associated with the ESPP of $2.8 million and $6.6 million, respectively and $1.1 million and $2.0 million for the three and nine months ended March 31, 2020, respectively.

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. In connection with the offering period which ended February 28, 2021, employees purchased approximately 247,893 shares of Class A common stock at a weighted average price of $33.62 under the ESPP. As of March 31, 2021, total unrecognized compensation cost related to the ESPP was $19.8 million, which will be amortized over a weighted-average remaining period of 1.5 years.

***Stock-Based Compensation Expense***

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| Cost of revenue | | | | |
| Connected Fitness Products | $ 3.3 | $ 0.5 | $ 6.8 | $ 1.2 |
| Subscription | 4.3 | 1.4 | 13.9 | 3.6 |
| Total cost of revenue | 7.6 | 1.9 | 20.6 | 4.8 |
| Sales and marketing | 5.7 | 2.4 | 13.7 | 6.0 |
| General and administrative | 22.5 | 13.5 | 60.4 | 38.1 |
| Research and development | 5.9 | 2.8 | 14.1 | 7.5 |
| Total stock-based compensation expense | $ 41.7 | $ 20.5 | $ 108.8 | $ 56.3 |

As of March 31, 2021, the Company had $508.3 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 3.3 years.

**11. Income Taxes**

The Company recorded a benefit from income taxes of $9.1 million and $10.8 million for the three and nine months ended March 31, 2021, respectively, and $0.1 million and $0.5 million for the three and nine months ended March 31, 2020, respectively. Furthermore, the Company's effective tax rates were 51.67% and (9.53)% for the three and nine months ended March 31, 2021, respectively, and 0.18% and 0.31% for the three and nine months ended March 31, 2020, 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 (Loss) Income Per Share**

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions, except share and per share amounts) | | | |
| Basic net (loss) income per share: | | | | |
| Net (loss) income attributable to common stockholders | $ (8.6) | $ (55.6) | $ 124.2 | $ (160.7) |
| Shares used in computation: | | | | |
| Weighted-average common shares outstanding | 295,646,824 | 280,879,011 | 292,276,299 | 199,769,233 |
| Basic net (loss) income per share | $ (0.03) | $ (0.20) | $ 0.43 | $ (0.80) |
| | | | | |
| Diluted net (loss) income per share: | | | | |
| Net (loss) income attributable to common stockholders | $ (8.6) | $ (55.6) | $ 124.2 | $ (160.7) |
| Shares used in computation: | | | | |
| Weighted-average common shares outstanding | 295,646,824 | 280,879,011 | 292,276,299 | 199,769,233 |
| Weighted-average effect of potentially dilutive securities: | | | | |
| Employee stock options | — | — | 54,623,068 | — |
| Restricted stock units and awards | — | — | 611,364 | — |
| Shares estimated to be purchased under ESPP | — | — | 583,648 | — |
| Diluted weighted-average common shares outstanding | 295,646,824 | 280,879,011 | 348,094,379 | 199,769,233 |
| Diluted net (loss) income per share | $ (0.03) | $ (0.20) | $ 0.36 | $ (0.80) |

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 March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Employee stock options | 57,016,995 | 40,901,883 | 78,887 | 39,959,440 |
| Restricted stock units and awards | 729,305 | — | 14,406 | — |
| Shares estimated to be purchased under ESPP | 359,350 | — | — | — |

The Company expects to settle the principal amount of the Notes in cash upon conversion, and therefore, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion option on diluted net income per share, if applicable. The conversion option will have a dilutive impact on net income per share of common stock when the average market price per share of the Company's Class A common stock for a given period exceeds the conversion price of the Notes of $239.23 per share. During the three and nine months ended March 31, 2021, the weighted average price per share of the Company's Class A common stock was below the conversion price of the Notes.

The denominator for diluted net (loss) income per share does not include any effect from the Capped Call Transactions the Company entered into concurrently with the issuance of the Notes as this effect would be anti-dilutive. In the event of conversion of the Notes, if shares are delivered to the Company under the Capped Call Transactions, they will offset the dilutive effect of the shares that the Company would issue under the Notes.

**13. Segment Information**

The Company applies ASC 280, *Segment Reporting*, in determining reportable segments. 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 March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| Connected Fitness Products: | | | | |
| Revenue | $ 1,022.9 | $ 426.4 | $ 2,494.4 | $ 976.3 |
| Cost of revenue | 732.5 | 237.4 | 1,659.5 | 567.6 |
| Gross profit | $ 290.4 | $ 189.0 | $ 834.8 | $ 408.8 |
| Subscription: | | | | |
| Revenue | $ 239.4 | $ 98.2 | $ 590.6 | $ 242.5 |
| Cost of revenue | 84.8 | 41.4 | 227.0 | 103.3 |
| Gross profit | $ 154.5 | $ 56.8 | $ 363.6 | $ 139.2 |
| Consolidated: | | | | |
| Revenue | $ 1,262.3 | $ 524.6 | $ 3,085.0 | $ 1,218.8 |
| Cost of revenue | 817.4 | 278.8 | 1,886.6 | 670.9 |
| Gross profit | $ 444.9 | $ 245.8 | $ 1,198.4 | $ 548.0 |

***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 (loss) income before tax is as follows:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| Segment Gross Profit | $ 444.9 | $ 245.8 | $ 1,198.4 | $ 548.0 |
| Sales and marketing | (208.2) | (154.8) | (500.3) | (392.8) |
| General and administrative | (180.6) | (126.9) | (430.3) | (265.4) |
| Research and development | (69.8) | (22.5) | (153.9) | (60.6) |
| Total other income (expense), net | (4.0) | 2.7 | (0.5) | 9.6 |
| (Loss) income before provision for income taxes | $ (17.7) | $ (55.7) | $ 113.4 | $ (161.2) |

**14. Subsequent Events**

***Precor Acquisition***

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

On April 1, 2021, the Company completed its previously announced acquisition of Precor from Amer pursuant to the terms of the Purchase Agreement. Under the terms of the Purchase Agreement, the Company acquired Precor for $431.1 million in cash (the “Consideration”). The Consideration paid at the closing date of the acquisition was subject to customary adjustments for working capital, transaction expenses, cash, and indebtedness.

***Product Recalls***

On April 17, 2021, the U.S. Consumer Product Safety Commission (“CPSC”) unilaterally issued a warning to consumers about the safety hazards associated with the Tread+. Thereafter, on May 5, 2021, the Company announced separate, voluntary recalls of each of its Tread+ and Tread products in collaboration with the CPSC and has halted sales of these products while the Company works on developing product enhancements. Following the CPSC’s announcement, the Company has seen increases in Tread+ and Tread order cancellations and returns. As the obligations associated with these voluntary recalls arose upon the May 5, 2021 announcement, for the fourth quarter of fiscal 2021 the Company estimates a reduction to connected fitness products revenue for estimated returns of approximately $50 million. The Company also expects to incur additional costs which could include: Increases to the return reserves, Tread+ inventory write-downs, logistics costs associated with Member requests for refunds on Tread and Tread+, the cost to move the Tread+ for those that elect that option, subscription waiver costs of service, anticipated recall-related hardware development costs, and related legal and advisory fees. Recall charges are based upon estimates associated with the Company's expected and historical consumer response rates. The Company's plans for the recalls are still being finalized and actual costs related to these matters may vary from estimates, and may result in further impacts to our future results of operations and business. See Note 9, Commitments and Contingencies for additional information.

**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 5.4 million Members as of March 31, 2021. 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 includes 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 historically 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 March 31, 2020 to the three months ended March 31, 2021, total revenue grew 141%, and our Connected Fitness Subscription base grew 135%.

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 March 31, 2021 and 2020:

- We generated total revenue of $1,262.3 million and $524.6 million, respectively, representing 141% year-over-year growth;
- As of March 31, 2021 and 2020, we had 2,080,860 and 886,100 Connected Fitness Subscriptions, respectively, representing 135% year-over-year growth;
- Our Average Net Monthly Connected Fitness Churn was 0.31%, and 0.46%, respectively;
- We recognized net loss of $(8.6) million and $(55.6) million, respectively; and
- Our Adjusted EBITDA was $63.2 million and $23.5 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 (loss) income to Adjusted EBITDA and Subscription Gross Profit to Subscription Contribution.

**Q3 update and recent developments**

Over the past year we have invested aggressively in the continued expansion of our supply chain, and you will recall that in the Quarterly Report on Form 10-Q for the quarter ended December 31, 2020, we disclosed incremental investments in expedited shipping to reduce the wait times for our Connected Fitness Products. Today we are pleased to say that these investments have yielded significant improvements for our Members, as average wait times for our original Bike are now back to pre-COVID-19 levels. While progress has been made, additional work remains to reduce delivery times across the remainder of our product portfolio and regions.

Member engagement in the quarter was very strong, as our continued investments in content and software features clearly resonated with our Members. Average Monthly Workouts per Connected Fitness Subscription reached new all-time highs during what is traditionally our highest engagement quarter. Beyond validating our investments, strong engagement is the most powerful driver behind Member retention.

Content

Live Barre is the most recent modality addition to our Live class lineup, with new live classes offered weekly. Expanding our floor-based Strength offering remains a key content priority as we seek to build the most comprehensive fitness platform, and we’re excited to report that our Strength vertical continues to be the fastest growing of our floor-based modalities. Bradley Rose, our newest UK-based instructor, made his debut in March, breaking Peloton records with 12,000 Members joining his inaugural live class, a 5x increase over our next most popular instructor premiere.

Themed content in the quarter included Black History Month and Women’s History Month, with both recording over 1 million Member workouts. Responding to strong demand from our Member base, we've increased the release frequency of our ever-popular Artist Series classes, where we've now reached a weekly cadence. Grammy award winner Megan Thee Stallion posted the highest engagement among artists launched in the quarter, with over 430,000 classes taken by our Members. Capping the quarter, our content team announced an exclusive year-long partnership with music industry legends and super-producers Timbaland and Swizz Beatz, the creators of "Verzuz," a series of head-to-head musical celebrations featuring iconic artists such as Brandy and Monica.

Software

New software features are key drivers of user engagement and we were pleased to launch two frequently requested additions this quarter. Introduced on January 14th, the Stacked Classes feature enables our Members to pre-program sequential classes to create a more seamless, cross-functional workout experience, similar to creating a music playlist. Enthusiastically embraced by Members, the Stacked Classes feature has averaged over 1.2 million daily users since launch. We also debuted the beta version of our class scheduling feature on iOS. Class Scheduling offers Members a convenient way to plan their workouts in advance and easily set up calendar reminders to keep them on track. In the coming months, we plan to roll out Class Scheduling across our full connected fitness platform.

Australia launch

On March 8, 2021, we announced our plan to expand to Australia, where fitness and wellness are embraced by millions and boutique fitness classes exhibited years of strong growth prior to the COVID-19 pandemic. We will initially offer our Bike and Bike+ products, which will be available through our e-commerce platform and three retail locations in Sydney and Melbourne. Peloton Digital will also be available, and Australian Members will have access to our full library of content, including new classes taught by Australian instructors. Looking ahead, we see significant growth opportunities in a broad range of international markets.

Precor acquisition

A key component of our supply chain investments is our recently completed acquisition of Precor, which we officially closed on April 1, 2021. We're excited to report that integration efforts associated with mapping out our commercial product and go-to-market strategies are well underway. As previously mentioned, we plan to begin limited manufacturing of Peloton products at Precor's North Carolina facility by the close of this calendar year, with a goal to ramp production further in 2022.

Product recalls

In April 2021, the U.S. Consumer Product Safety Commission ("CPSC") unilaterally issued a warning to consumers about the safety hazards associated with the Tread+. Thereafter, on May 5, 2021, we announced separate, voluntary recalls of each of our Tread+ and Tread products in collaboration with the CPSC and have halted sales of these products while we work on developing product enhancements. Following the CPSC's announcement, we have seen increases in Tread and Tread+ order cancellations and returns. During the fourth quarter of fiscal 2021, we estimate a reduction to connected fitness products revenue for estimated returns of approximately $50 million. We also expect to incur additional costs which could include: Increases to the return reserves, Tread+ inventory write-downs, logistics costs associated with Member requests for refunds on Tread and Tread+, the cost to move the Tread+ for those that elect that option, subscription waiver costs of service, anticipated recall-related hardware development costs, and related legal and advisory fees. Recall charges are based upon estimates associated with our expected and historical consumer response rates. Our plans for the recalls are still being finalized and actual costs related to this matter may vary from the estimate, and may result in further impacts to our future results of operations and business.

## 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 March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Ending Connected Fitness Subscriptions | 2,080,860 | 886,100 |
| Average Net Monthly Connected Fitness Churn | 0.31 % | 0.46 % |
| Total Workouts (in millions) | 149.5 | 44.2 |
| Average Monthly Workouts per Connected Fitness Subscription | 26.0 | 17.7 |
| Subscription Gross Profit (in millions) | $ 154.5 | $ 56.8 |
| Subscription Contribution (in millions)(1) | $ 163.7 | $ 62.4 |
| Subscription Gross Margin | 64.6 % | 57.8 % |
| Subscription Contribution Margin(1) | 68.4 % | 63.6 % |
| Net loss (in millions) | $ (8.6) | $ (55.6) |
| Adjusted EBITDA (in millions)(2) | $ 63.2 | $ 23.5 |
| Adjusted EBITDA Margin(2) | 5.0 % | 4.5 % |

(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 (loss) income 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.

## 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 March 31, 2021, 98% 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 March 31, 2021, approximately 4% 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.

***Non-operating income and expenses***

**Other (expense) income, net**

Other (expense) 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 March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| Consolidated Statement of Operations Data: | | | | |
| Revenue | | | | |
| Connected Fitness Products | $ 1,022.9 | $ 426.4 | $ 2,494.4 | $ 976.3 |
| Subscription | 239.4 | 98.2 | 590.6 | 242.5 |
| Total revenue | 1,262.3 | 524.6 | 3,085.0 | 1,218.8 |
| Cost of revenue(1)(2) | | | | |
| Connected Fitness Products | 732.5 | 237.4 | 1,659.5 | 567.6 |
| Subscription | 84.8 | 41.4 | 227.0 | 103.3 |
| Total cost of revenue | 817.4 | 278.8 | 1,886.6 | 670.9 |
| Gross profit | 444.9 | 245.8 | 1,198.4 | 548.0 |
| Operating expenses | | | | |
| Sales and marketing(1)(2) | 208.2 | 154.8 | 500.3 | 392.8 |
| General and administrative(1)(2) | 180.6 | 126.9 | 430.3 | 265.4 |
| Research and development(1)(2) | 69.8 | 22.5 | 153.9 | 60.6 |
| Total operating expenses | 458.6 | 304.2 | 1,084.4 | 718.8 |
| (Loss) income from operations | (13.7) | (58.4) | 113.9 | (170.8) |
| Other (expense) income, net | (4.0) | 2.7 | (0.5) | 9.6 |
| (Loss) income before provision for income tax | (17.7) | (55.7) | 113.4 | (161.2) |
| Income tax benefit | (9.1) | (0.1) | (10.8) | (0.5) |
| Net (loss) income | $ (8.6) | $ (55.6) | $ 124.2 | $ (160.7) |

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| Cost of revenue | | | | |
| Connected Fitness Products | $ 3.3 | $ 0.5 | $ 6.8 | $ 1.2 |
| Subscription | 4.3 | 1.4 | 13.9 | 3.6 |
| Total cost of revenue | 7.6 | 1.9 | 20.6 | 4.8 |
| Sales and marketing | 5.7 | 2.4 | 13.7 | 6.0 |
| General and administrative | 22.5 | 13.5 | 60.4 | 38.1 |
| Research and development | 5.9 | 2.8 | 14.1 | 7.5 |
| Total stock-based compensation expense | $ 41.7 | $ 20.5 | $ 108.8 | $ 56.3 |

(2) Includes depreciation and amortization expense as follows:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| Cost of revenue | | | | |
| Connected Fitness Products | $ 1.3 | $ 0.9 | $ 4.2 | $ 2.2 |
| Subscription | 4.9 | 4.3 | 13.9 | 11.7 |
| Total cost of revenue | 6.2 | 5.1 | 18.0 | 13.9 |
| Sales and marketing | 4.0 | 2.7 | 10.2 | 6.5 |
| General and administrative | 0.8 | 3.1 | 5.6 | 7.6 |
| Research and development | 3.6 | 0.1 | 5.0 | 0.2 |
| Total depreciation and amortization expense | $ 14.5 | $ 11.0 | $ 38.8 | $ 28.2 |

**Comparison of the Three and Nine Months Ended March 31, 2021 and 2020**

***Revenue***

| | Three Months Ended March 31, | | | Nine Months Ended March 31, | | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | % Change | 2021 | 2020 | % Change |
| | (dollars in millions) | | | | | |
| Revenue: | | | | | | |
| Connected Fitness Products | $ 1,022.9 | $ 426.4 | 139.9% | $ 2,494.4 | $ 976.3 | 155.5% |
| Subscription | 239.4 | 98.2 | 143.7 | 590.6 | 242.5 | 143.5 |
| Total revenue | $ 1,262.3 | $ 524.6 | 140.6% | $ 3,085.0 | $ 1,218.8 | 153.1% |
| Percentage of revenue | | | | | | |
| Connected Fitness Products | 81.0 % | 81.3 % | | 80.9 % | 80.1 % | |
| Subscription | 19.0 | 18.7 | | 19.1 | 19.9 | |
| Total | 100.0 % | 100.0 % | | 100.0 % | 100.0 % | |

*Three and Nine Months Ended March 31, 2021 and 2020*

Connected Fitness Products revenue increased $596.5 million and $1,518.0 for the three and nine months ended March 31, 2021 compared to the three and nine months ended March 31, 2020, 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, as well as incremental deliveries as a result of significant investments in expedited freight to alleviate backlog demand.

Subscription revenue increased $141.2 million and $348.1 million for the three and nine months ended March 31, 2021 compared to the three and nine months ended March 31, 2020, 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 0.31% and 0.55% for the three and nine months ended March 31, 2021, respectively. We believe engagement is a leading indicator of retention. Our Member engagement continued to grow with 26.0 and 23.0 Average Monthly Workouts per Connected Fitness Subscription during the three and nine months ended March 31, 2021, respectively, compared to 17.7 and 14.5 Average Monthly Workouts per Connected Fitness Subscription for the three and nine months ended March 31, 2020, respectively. Members with Connected Fitness Subscriptions worked out with us 149.5 million and 325.4 million times in the three and nine months ended March 31, 2021, up from 44.2 million and 87.7 million workouts during the three and nine months ended March 31, 2020, respectively, representing year-over-year growth of 239% and 270%.

***Cost of Revenue, Gross Profit, and Gross Margin***

| | Three Months Ended March 31, | | % Change | Nine Months Ended March 31, | | % Change |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | | 2021 | 2020 | |
| | | | (dollars in millions) | | | |
| Cost of Revenue: | | | | | | |
| Connected Fitness Products | $ 732.5 | $ 237.4 | 208.5% | $ 1,659.5 | $ 567.6 | 192.4% |
| Subscription | 84.8 | 41.4 | 104.9 | 227.0 | 103.3 | 119.7 |
| Total cost of revenue | $ 817.4 | $ 278.8 | 193.2% | $ 1,886.6 | $ 670.9 | 181.2% |
| Gross Profit: | | | | | | |
| Connected Fitness Products | $ 290.4 | $ 189.0 | 53.7% | $ 834.8 | $ 408.8 | 104.2% |
| Subscription | 154.5 | 56.8 | 172.1 | 363.6 | 139.2 | 161.2 |
| Total Gross profit | $ 444.9 | $ 245.8 | 81.0% | $ 1,198.4 | $ 548.0 | 118.7% |
| Gross Margin: | | | | | | |
| Connected Fitness Products | 28.4 % | 44.3 % | | 33.5 % | 41.9 % | |
| Subscription | 64.6 % | 57.8 % | | 61.6 % | 57.4 % | |

*Three Months Ended March 31, 2021 and 2020*

Connected Fitness Products cost of revenue for the three months ended March 31, 2021 increased $495.1 million, or 208.5%, compared to the three months ended March 31, 2020. This increase was primarily driven by costs associated with the growth in the number of Connected Fitness Products delivered during the period along with increased freight costs from expedited shipping, as well as increased raw material costs which we expect to continue during the fourth quarter of fiscal 2021.

Our Connected Fitness Product Gross Margin decreased by 1,593 basis points for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 primarily driven by expedited shipping investments and the price reduction on our Bike from $2,245 to $1,895, and a modest impact from increases to treadmill product mix.

Subscription cost of revenue for the three months ended March 31, 2021 increased $43.4 million, or 104.9%, compared to the three months ended March 31, 2020. This increase was primarily driven by an increase of $31.4 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 $6.3 million in personnel-related expenses excluding stock-based compensation expense, due to increased headcount, an increase of $2.9 million in stock-based compensation expense, and an increase of $3.4 million in payment processing fees for our monthly subscription billing.

Subscription Gross Margin increased by 672 basis points for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 primarily driven by fixed cost leverage with more Connected Fitness Subscriptions, relative current period decreases in certain travel and studio expenses due to COVID-19 restrictions, as well as an adjustment to our reserve accrual estimates for certain variable subscription expenses of approximately 200 basis points.

*Nine Months Ended March 31, 2021 and 2020*

Connected Fitness Products cost of revenue for the nine months ended March 31, 2021 increased $1,092.0 million, or 192.4%, compared to the nine months ended March 31, 2020. 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 840 basis points for the nine months ended March 31, 2021 compared to the nine months ended March 31, 2020 primarily driven by expedited shipping investments and the price reduction on our Bike from $2,245 to $1,895.

Subscription cost of revenue for the nine months ended March 31, 2021 increased $123.7 million, or 119.7%, compared to the nine months ended March 31, 2020. This increase was primarily driven by an increase of $81.5 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 $16.0 million in personnel-related expenses excluding stock-based compensation expense, due to increased headcount, an increase of $10.3 million in stock-based compensation expense, and an increase of $8.8 million in payment processing fees for our monthly subscription billing.

Subscription Gross Margin increased by 417 basis points for the nine months ended March 31, 2021 compared to the nine months ended March 31, 2020 primarily driven by fixed cost leverage with more Connected Fitness Subscriptions, relative current period decreases in certain travel and studio expenditures due to COVID-19 restrictions, as well as an adjustment to our reserve accrual estimates for certain variable subscription expenses of approximately 80 basis points.

***Operating Expenses***

*Sales and Marketing*

| | Three Months Ended March 31, | | % Change | Nine Months Ended March 31, | | % Change |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | | 2021 | 2020 | |
| | | | (dollars in millions) | | | |
| Sales and marketing | $ 208.2 | $ 154.8 | 34.6% | $ 500.3 | $ 392.8 | 27.4% |
| *As a percentage of total revenue* | 16.5 % | 29.5 % | | 16.2 % | 32.2 % | |

*Three and Nine Months Ended March 31, 2021 and 2020*

Sales and marketing expense increased $53.5 million and $107.5 million when comparing the three and nine months ended March 31, 2021 with the three and nine months ended March 31, 2020, respectively. These increases were primarily due to an increase in spending on advertising and marketing programs of $24.3 million and $7.4 million, respectively. We resumed marketing in the second half of the quarter and will continue to ramp up in the fourth quarter given our improved order-to-delivery position. Additionally, an increase in personnel-related expenses of $10.8 million and $36.3 million, excluding stock-based compensation expense, due to increased headcount, a volume-based increase in payment processing fees of $9.7 million and $35.1 million, and an increase in expenses related to our showrooms of $3.5 million and $13.0 million, respectively.

*General and Administrative*

| | Three Months Ended March 31, | | % Change | Nine Months Ended March 31, | | % Change |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | | 2021 | 2020 | |
| | | | (dollars in millions) | | | |
| General and administrative | $ 180.6 | $ 126.9 | 42.3% | $ 430.3 | $ 265.4 | 62.1% |
| *As a percentage of total revenue* | 14.3 % | 24.2 % | | 13.9 % | 21.8 % | |

*Three and Nine Months Ended March 31, 2021 and 2020*

General and administrative expense increased $53.7 million and $164.9 million when comparing the three and nine months ended March 31, 2021 with the three and nine months ended March 31, 2020, 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 a public company, as well as our Member support teams to support our growing Member base. This drove an increase in personnel-related expenses of $31.8 million and $72.4 million, excluding stock-based compensation expense, due to increased headcount, an increase in professional services fees of $29.8 million and $60.0 million, an increase in stock-based compensation expense of $9.1 million and $22.3 million, and additional costs due to system implementations of $5.6 million and $12.2 million, respectively. The increase was partially offset by a decrease in fees and one-time settlement amounts related to the settlement of litigation matters with each of Flywheel Sports, Inc. and Downtown Music Publishing LLC of $32.7 million and $31.1 million, respectively, incurred in the three months ended March 31, 2020.

*Research and Development*

| | Three Months Ended March 31, | | % Change | Nine Months Ended March 31, | | % Change |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | | 2021 | 2020 | |
| | | | (dollars in millions) | | | |
| Research and development | $ 69.8 | $ 22.5 | 210.4% | $ 153.9 | $ 60.6 | 154.0% |
| *As a percentage of total revenue* | 5.5 % | 4.3 % | | 5.0 % | 5.0 % | |

*Three and Nine Months Ended March 31, 2021 and 2020*

Research and development expense increased $47.3 million and $93.3 million when comparing the three and nine months ended March 31, 2021 with the three and nine months ended March 31, 2020, respectively. These increases were primarily due to an increase in personnel-related expenses, which, excluding stock-based compensation expense, increased $19.4 million and $40.5 million, due to increased headcount, an increase of $17.1 million and $28.3 million in product development and research costs associated with development of new software features and products, and an increase of $4.1 million and $12.0 million in software expense, respectively.

***Other (Expense) Income, Net and Income Tax Benefit***

| | Three Months Ended March 31, | | | | | Nine Months Ended March 31, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2020 | | % Change | 2021 | | 2020 | | % Change |
| | (dollars in millions) | | | | | | | | | |
| Other (expense) income, net | $ | (4.0) | $ | 2.7 | NM | $ | (0.5) | $ | 9.6 | NM |
| Income tax benefit | $ | (9.1) | $ | (0.1) | NM | $ | (10.8) | $ | (0.5) | NM |

*NM - not meaningful

*Three and Nine Months Ended March 31, 2021 and 2020*

Other (expense) income, net, was comprised of the following for the three and nine months ended March 31, 2021:

- Interest expense primarily related to the amortization of the convertible notes discount and deferred financing costs of $(4.9) million and $(5.7) million
- Interest income from cash, cash equivalents, and short-term investments of $1.6 million and $6.7 million; and
- Foreign exchange losses of $(0.7) million and $(1.5) million, respectively.

Other (expense) income, net, was comprised of the following for the three and nine months ended March 31, 2020:

- Interest expense primarily related to the secured revolving credit facility of $(0.4) million and $(1.6) million
- Interest income from cash, cash equivalents, and short-term investments of $5.9 million and $14.3 million; and
- Foreign exchange losses of $(3.0) million and $(3.2) million, respectively.

Income tax benefit increased for the three and nine months ended March 31, 2021 primarily due to adjustments to the valuation allowance resulting from acquisitions during the period, partially offset by state and international taxes.

## 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 (loss) income adjusted to exclude: other expense (income), net; income tax benefit; depreciation and amortization expense; stock-based compensation expense; transaction and integration costs; certain litigation expenses, consisting of legal settlements and related fees for specific proceedings that arise outside of the ordinary course of our business; specific non-recurring costs associated with COVID-19; and impairment charges for fixed assets. 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 we have determined arise outside of the ordinary course of business based on the following considerations which we assess regularly: (i) the frequency of similar cases that have been brought to date, or are expected to be brought within two years, (ii) the complexity of the case, (iii) the nature of the remedy(ies) sought, including the size of any monetary damages sought, (iv) offensive versus defensive posture of us, (v) the counterparty involved, and (vi) our overall litigation strategy;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect transaction and integration 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;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect impairment charges, and gains (losses) on disposals for fixed assets; 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 (loss) income, 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 March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| Net (loss) income | $ (8.6) | $ (55.6) | $ 124.2 | $ (160.7) |
| Adjusted to exclude the following: | | | | |
| Other expense (income), net | 4.0 | (2.7) | 0.5 | (9.6) |
| Income tax benefit | (9.1) | (0.1) | (10.8) | (0.5) |
| Depreciation and amortization expense | 14.5 | 11.0 | 38.8 | 28.2 |
| Stock-based compensation expense | 41.7 | 20.5 | 108.8 | 56.3 |
| Litigation and settlement expenses (1) | 11.1 | 49.3 | 18.6 | 59.0 |
| Transaction and integration costs (2) | 6.3 | 0.2 | 9.7 | 0.5 |
| Other adjustment items (3) | 3.3 | 0.9 | 9.3 | 0.9 |
| Adjusted EBITDA | $ 63.2 | $ 23.5 | $ 299.1 | $ (25.9) |
| Adjusted EBITDA Margin | 5.0 % | 4.5 % | 9.7 % | (2.1)% |

(1) Includes litigation fees for certain ongoing patent infringement litigation and consumer arbitration for the three and nine months ended March 31, 2021, and confidential settlements and associated legal fees relating to two previously disclosed legal matters—"Downtown Music Publishing LLC et. al v. Peloton Interactive" and "Flywheel Sports, Inc." for the three and nine months ended March 31, 2020.

(2) Includes transaction and integration costs primarily associated with the acquisition and integration of Precor Fitness of $5.1 million and $8.5 million for the three and nine months ended March 31, 2021, respectively, and costs associated with the acquisition of Tonic Fitness Technology in the three and nine months ended March 31, 2020.

(3) Includes incremental costs associated with COVID-19 of zero and $5.9 million, respectively, and asset impairment charges of $3.3 million for each of the three and nine months ended March 31, 2021, and $0.9 million of incremental costs associated with COVID-19 for each of the three and nine months ended March 31, 2020.

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 March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| Subscription Revenue | $ 239.4 | $ 98.2 | $ 590.6 | $ 242.5 |
| Less: Cost of Subscription | 84.8 | 41.4 | 227.0 | 103.3 |
| Subscription Gross Profit | $ 154.5 | $ 56.8 | $ 363.6 | $ 139.2 |
| Subscription Gross Margin | 64.6 % | 57.8 % | 61.6 % | 57.4 % |
| Add back: | | | | |
| Depreciation and amortization expense | $ 4.9 | $ 4.3 | $ 13.9 | $ 11.7 |
| Stock-based compensation expense | 4.3 | 1.4 | 13.9 | 3.6 |
| Subscription Contribution | $ 163.7 | $ 62.4 | $ 391.3 | $ 154.5 |
| Subscription Contribution Margin | 68.4 % | 63.6 % | 66.3 % | 63.7 % |

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.

## 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 and convertible debt securities. As of March 31, 2021, we had cash and cash equivalents of approximately $2.1 billion and marketable securities of $629.4 million.

As of March 31, 2021, 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, the timing and financial impact of recently announced product recalls, 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.

***Convertible Notes***

In February 2021, we issued $1.0 billion aggregate principal amount of 0% Convertible Senior Notes due 2026 (the "Notes") in a private offering, including the exercise in full of the over-allotment option granted to the initial purchasers of $125.0 million. The Notes were issued pursuant to an Indenture (the "Indenture") between us and U.S. Bank National Association, as trustee. The Notes are our senior unsecured obligations and do not bear regular interest, and the principal amount of the Notes does not accrete. The net proceeds from this offering were approximately $977.2 million, after deducting the initial purchasers' discounts and commissions and our offering expenses. For additional details, refer to Note 8 – Debt and Financing Arrangements - '*Convertible Senior Notes*' included in the “Notes to our Condensed Consolidated Financial Statements” in Part I, Item 1 of this Quarterly Report on Form 10-Q.

***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.

On February 8, 2021, we entered into a First Amendment (the “First Amendment”) to the Amended Credit Agreement to revise certain covenants that restricted the incurrence of indebtedness to permit the Capped Call Transactions and issuance of the Notes.

On March 18, 2021, we entered into a Joinder Agreement (the "Joinder") to the Amended Credit Agreement, as amended by the First Amendment, to add Citibank, N.A. as a lender under the Amended Credit Agreement and to provide for an increase of the commitments available under the revolving credit facility by $35.0 million from $250.0 million to $285.0 million.

The Amended Credit Agreement provides for a $285.0 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 March 31, 2021, we had not drawn on the credit facility and did not have outstanding borrowings under the Amended Credit Agreement. As of March 31, 2021, 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***

| | Nine Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| | **(in millions)** | |
| Net cash flows provided by operating activities | $ 359.3 | $ 49.1 |
| Net cash flows used in investing activities | (233.4) | (905.9) |
| Net cash flows provided by financing activities | 890.5 | 1,209.3 |

*Operating Activities*

Net cash provided by operating activities of $359.3 million for the nine months ended March 31, 2021 was primarily due to an increase in non-cash adjustments of $207.3 million, net income of $124.2 million, and net change in operating assets and liabilities of $27.7 million. The increase in net operating assets and liabilities was primarily due to a $444.2 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, partially offset by a $363.7 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 nine months ended March 31, 2021 of $233.4 million was primarily related to purchases of marketable securities of $449.1 million, $167.9 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 $135.8 million relating to acquisitions, partially offset by maturities of marketable securities of $517.8 million.

*Financing activities*

Net cash provided by financing activities of $890.5 million for the nine months ended March 31, 2021 was primarily related to proceeds from the issuance of convertible debt of $977.2 million, partially offset by $81.3 million of capped call transactions entered into concurrently with the convertible debt issuance.

***Contractual Obligations***

As of March 31, 2021, our contractual obligations were as follows:

| Contractual obligations: | Payments due by period Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| Lease obligations [1] | $ 958.7 | $ 19.3 | $ 175.7 | $ 176.4 | $ 587.3 |
| Minimum guarantees [2] | 39.3 | 19.1 | 20.2 | — | — |
| Unused credit facility fee payments [3] | 3.4 | 1.1 | 2.1 | 0.2 | — |
| Other purchase obligations [4] | 80.7 | 47.8 | 31.7 | 1.2 | — |
| Acquisition of Precor [5] | 431.1 | 431.1 | — | — | — |
| Convertible senior notes [6] | 1,000.0 | — | — | 1,000.0 | — |
| Total | $ 2,513.2 | $ 518.5 | $ 229.6 | $ 1,177.8 | $ 587.3 |

(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 March 31, 2021, 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 April 1, 2021, we completed our previously announced acquisition of Precor from Amer Sports Corporation pursuant to the terms of the Purchase Agreement. 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.

(6) Refer to Note 8 in the "Notes to our Condensed Consolidated Financial Statements" in Part I, Item I of this Quarterly Report on Form 10-Q for further details regarding our convertible senior notes obligations.

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 March 31, 2021.

## 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 $2.7 billion as of March 31, 2021. 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 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 March 31, 2021. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2021, 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 March 31, 2021 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

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. 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.

## 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 Form 10-K and 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.
- Our products and services may be affected from time to time by design and manufacturing defects, real or perceived, that could adversely affect our business and result in harm to our reputation.
- From time to time, we may be subject to legal proceedings, regulatory investigations or disputes, and governmental inquiries that could cause us to incur significant expenses, divert our management’s attention, and materially harm our business, reputation, financial condition, and operating results.
- 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.

### Risk 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 (loss) income of $(8.6) million and $124.2 million in the three and nine months ended March 31, 2021, 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 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;
- actual or perceived safety concerns regarding our products;
- 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, Germany and Australia 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 year, 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 (which may include consumer discretionary spending decreases, or upon the removal of lockdowns may cause consumers to go back to their pre-COVID routines), 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 (including factors disclosed herein) 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. For example, we have received reports of a number of injuries associated with our Tread+ product, and as a result, in April 2021, the U.S. Consumer Product Safety Commission ("CPSC") unilaterally issued a warning to consumers about the safety hazards associated with the Tread+ product. After further discussion with the CPSC, on May 5, 2021, we decided to issue a voluntary product recall of our Tread+, which we are conducting in collaboration with the CPSC. On the same day, we issued a separate voluntary recall on our Tread product. The CPSC's warning, claims or proceedings involving us or our products, actions we take to address these matters and any further publicity regarding any of the foregoing could harm our brand. 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 March 31, 2021, our employee headcount increased from 443 to 6,593, 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. For example, in the second quarter of fiscal year 2021, we committed to incrementally invest over $100 million in air freight and expedited ocean freight over the subsequent six months to shorten our order-to-delivery windows in order to improve our Member experience, despite the potential impact on our near-term profitability. 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;
- the timing and our ability to develop certain product solutions to enhance the safety of our Tread+ or Tread products to the satisfaction of the CPSC in connection with our voluntary product recalls, which we are conducting in collaboration with the CPSC;
- 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, including as a result of potential changes in tax laws proposed by the Biden administration and Democratic controlled Congress;
- 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 recently completed acquisition of Precor presents risks and we may not realize our anticipated strategic and financial goals from the acquisition.***

Risks we may face in connection with our acquisition and integration of Precor include:

- 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 has not 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 integration. In addition, we may discover significant deficiencies or material weaknesses in the quality of Precor’s financial and disclosure controls and procedures;
- As a result of the acquisition we now own and operate 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 expansion of our operations in these segments through the acquisition could present various integration challenges and result in increased costs and other unforeseen challenges;
- Precor serves more than 100 countries worldwide, and as a result of the acquisition our operations have expanded 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 are now Peloton employees, 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 have failed to identify or assess the magnitude of certain liabilities, shortcomings or other risks in Precor's business prior to closing our 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 April 2021, we completed our acquisition of Precor which serves more than 100 countries worldwide. As a result, we 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 addition, in April 2021, we acquired 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, Citibank, N.A., Goldman Sachs Lending Partners LLC, and Silicon Valley Bank in June 2019 (as amended by the First Amendment, dated February 8, 2021 and the Joinder Agreement, dated March 18, 2021), which amended and restated the loan and security agreement that we previously entered into in November 2017, providing for a $285.0 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.

<u>Other Risks Related to Our Connected Fitness Products and Members</u>

***Our products and services may be affected from time to time by design and manufacturing defects, real or perceived, 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 defects could make our products and services unsafe and create a risk of environmental or property damage and/or personal injury. We may also become subject to the hazards and uncertainties of product liability claims and related litigation. For example, we have received reports of injuries associated with our Tread+ product, one of which led to the death of a child. As a result of the aforementioned injuries associated with these reported Tread+ incidents, in April 2021, CPSC unilaterally issued a warning to consumers about the safety hazards associated with the Tread+ and is continuing to investigate the matter. While we do not agree with all of the assertions in CPSC’s warning, we announced on May 5, 2021 that we will initiate a voluntary recall of our Tread+ product in collaboration with the CPSC. The recall, the possibility that the CPSC could assess penalties or fines against us, and the risk that the CPSC or we could determine to recall any other product now or in the future, may adversely impact our operating results, brand reputation, and business. For example, in connection with the voluntary recall of the Tread+, we are working to develop additional safety features for the Tread+, including a digital passcode to further protect against unauthorized use, and to develop additional physical hardware to further enhance the safety of the product. If we are unable to develop a product solution to further enhance the safety of our Tread+ product (or our Tread product, which is also subject to a separate voluntary recall issued on the same day), we may not be able to sell that product for a significant period of time, if ever, and may face substantial costs associated with the development of such features and implementation of the recall. In addition to the CPSC investigation, we are presently subject to class action litigation and private personal injury claims related to these perceived defects in the Tread+ and incidents reported to result from its use that, regardless of their merits, could harm our reputation, divert management's attention from our operations, and result in substantial legal fees, judgments, and other costs. Specifically, on April 20, 2021, purported Peloton Member Shannon Albright filed a putative class action lawsuit against the Company alleging violations of various California state laws related to the Tread+ and the matters contained in the CPSC warning, including violation of the Consumer Legal Remedies Act, breach of the Implied Warranty of Merchantability, and violations of California Business and Professions Code Sections 17200, et seq., and 17500, et seq. Given that such proceedings are subject to uncertainty, there can be no assurance that such legal proceedings, either individually or in the aggregate, will not have a material adverse effect on our business, results of operations, financial condition or cash flows. Furthermore, the occurrence of real or perceived defects in any of our products, now or in the future, could result in additional negative publicity, regulatory investigations, or lawsuits filed against us, particularly if Members or others who use or purchase our Connected Fitness Products are injured. Even if injuries are not the result of any defects, if they are perceived to be, we may incur expenses to defend or settle any claims and our brand and reputation may be harmed.

In addition, from time to time we may experience outages, service slowdowns, hardware issues, or software errors that affect our ability to deliver our fitness and wellness programming through our Connected Fitness platform. As a result, our services may not perform as anticipated and may not meet our expectations, or legal or regulatory requirements, or the expectations of our Members. 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 or investigations against us.

We maintain general liability insurance; however, design and manufacturing defects, real or perceived, 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 Bikes or Treads by first-time purchasers for a full refund within 30 days of delivery. The occurrence of any defects, real or perceived, 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, or as the removal of lockdowns drive consumers to go back to their pre-COVID routines. 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 or other factors prevent us from performing in-home deliveries and/or 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. For example, we have received reports of a number of injuries associated with our Tread+ product, one of which led to the death of a child. As a result of the aforementioned injuries associated with these reported Tread+ incidents, in April 2021, CPSC unilaterally issued a warning to consumers about the safety hazards associated with the Tread+ and is continuing to investigate the matter. After further discussion with the CPSC, on May 5, 2021, we decided to issue a voluntary product recall of our Tread+, which we are conducting in collaboration with the CPSC. On the same day, we issued a separate voluntary recall on our Tread product. These recalls, the possibility that the CPSC could assess penalties or fines against us, and the risk that the CPSC or we could determine to recall any other product now or in the future, may adversely impact our operating results, brand reputation, and business. Furthermore, we are presently, and may in the future be, subject to warranty claims and lawsuits related to injuries sustained by Members or their friends and family members, or others who use or purchase the Tread+ and other Connected Fitness Products, that regardless of their merits, could harm our reputation, divert management's attention from our operations and result in substantial legal fees and other costs.

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 investigations or 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. Injuries sustained by Members or their friends and family members, or others who use or purchase our Connected Fitness Products, could subject us to regulatory proceedings and litigation by governance agencies and private litigants brought against us, that regardless of their merits, could harm our reputation, divert management's attention from our operations and result in substantial legal fees and other costs. For example, we are presently subject to a CPSC investigation and other litigation related to injuries sustained by Members and others who use or purchase the Tread+, and we have reporting obligations to safety regulators in all jurisdictions where we sell Connected Fitness Products, where reporting may trigger further regulatory investigations. More recently, in April 2021, purported Peloton Member Shannon Albright filed a putative class action lawsuit against the Company, alleging violations of various California state laws related to the Tread+ and the matters contained in the CPSC warning, and plaintiff Ashley Wilson filed a putative securities class action lawsuit against the Company, our Chief Executive Officer and our Chief Financial Officer (the "Defendants"), purportedly on behalf of a class consisting of those individuals who purchased or otherwise acquired our common stock between September 11, 2020 and April 16, 2021, alleging that the Defendants made false and/or misleading statements in violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Litigation and regulatory proceedings, such as CPSC investigations and related personal injury or class action claims and lawsuits, as well as securities and intellectual property infringement matters that we are currently facing or could face, can 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 legal costs for any of these matters, either alone or in the aggregate 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 products, components, or 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 April 30, 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;
- the timing and our ability to develop certain product solutions to enhance the safety of our Tread+ or Tread products to the satisfaction of the CPSC in connection with the Company's voluntary safety recalls, which it is conducting in collaboration with the CPSC;
- 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;
- our acquisition of Precor or other investments or acquisitions in the future;
- 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 297,862,258 shares of our Class A common stock and Class B common stock outstanding as of March 31, 2021. 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 March 31, 2021, we had options outstanding that, if fully exercised, would result in the issuance of 45,879,446 shares of Class B common stock and 14,185,463 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 March 31, 2021, 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.

**Risks Related to the Ownership of Our Convertible Senior Notes**

***The Notes are effectively subordinated to our existing and future secured indebtedness and structurally subordinated to the liabilities of our subsidiaries.***

The Notes are our senior, unsecured obligations and rank equal in right of payment with our existing and future senior, unsecured indebtedness, senior in right of payment to our existing and future indebtedness that is expressly subordinated to the Notes and effectively subordinated to our existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness. In addition, because none of our subsidiaries will guarantee the Notes, the Notes are structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent we are not a holder thereof) preferred equity, if any, of our subsidiaries. As of March 31, 2021, we had approximately $1.0 billion in total indebtedness and approximately $280.2 million of available borrowing capacity under our Amended Credit Agreement (after deducting $4.8 million of outstanding letters of credit). Our subsidiaries had no outstanding indebtedness as of March 31, 2021. The indenture governing the Notes does not prohibit us or our subsidiaries from incurring additional indebtedness, including senior or secured indebtedness, in the future.

If a bankruptcy, liquidation, dissolution, reorganization or similar proceeding occurs with respect to us, then the holders of any of our secured indebtedness may proceed directly against the assets securing that indebtedness. Accordingly, those assets will not be available to satisfy any outstanding amounts under our unsecured indebtedness, including the Notes, unless the secured indebtedness is first paid in full. The remaining assets, if any, would then be allocated pro rata among the holders of our senior, unsecured indebtedness, including the Notes. There may be insufficient assets to pay all amounts then due.

If a bankruptcy, liquidation, dissolution, reorganization or similar proceeding occurs with respect to any of our subsidiaries, then we, as a direct or indirect common equity owner of that subsidiary (and, accordingly, holders of our indebtedness, including the Notes), will be subject to the prior claims of that subsidiary's creditors, including trade creditors and preferred equity holders. We may never receive any amounts from that subsidiary to satisfy amounts due under the Notes.

***We may be unable to raise the funds necessary to repurchase the Notes for cash following a fundamental change or to pay any cash amounts due upon conversion, and our other indebtedness limits our ability to repurchase the Notes or pay cash upon their conversion.***

Noteholders may require us to repurchase their Notes following a fundamental change at a cash repurchase price generally equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any. In addition, upon conversion, we will satisfy part or all of our conversion obligation in cash unless we elect to settle conversions solely in shares of our Class A common stock. We may not have enough available cash or be able to obtain financing at the time we are required to repurchase the Notes or pay the cash amounts due upon conversion. In addition, applicable law, regulatory authorities and the agreements governing our other indebtedness may restrict our ability to repurchase the Notes or pay the cash amounts due upon conversion. Our failure to repurchase Notes or to pay the cash amounts due upon conversion when required will constitute a default under the indenture.

A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our other indebtedness, which may result in that other indebtedness becoming immediately payable in full. We may not have sufficient funds to satisfy all amounts due under the other indebtedness and the Notes.

***Our indebtedness and liabilities could limit the cash flow available for our operations, expose us to risks that could adversely affect our business, financial condition and results of operations and impair our ability to satisfy our obligations under the Notes.***

As of March 31, 2021, we had $1.0 billion indebtedness. We may also incur additional indebtedness to meet future financing needs. Our indebtedness could have significant negative consequences for our security holders and our business, results of operations and financial condition by, among other things:

- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing;

- requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, which will reduce the amount of cash available for other purposes;
- limiting our flexibility to plan for, or react to, changes in our business;
- diluting the interests of our existing stockholders as a result of issuing shares of our Class A common stock upon conversion of the notes; and
- placing us at a possible competitive disadvantage with competitors that are less leveraged than us or have better access to capital.

Our business may not generate sufficient funds, and we may otherwise be unable to maintain sufficient cash reserves, to pay amounts due under our indebtedness, including the notes, and our cash needs may increase in the future. In addition, our existing $285.0 million revolving credit facility contains, and any future indebtedness that we may incur may contain, financial and other restrictive covenants that limit our ability to operate our business, raise capital or make payments under our other indebtedness. If we fail to comply with these covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that and our other indebtedness becoming immediately payable in full.

***The accounting method for the Notes could adversely affect our reported financial condition and results.***

The accounting method for reflecting the Notes on our balance sheet, accruing interest expense for the Notes and reflecting the underlying shares of our Class A common stock in our reported diluted earnings per share may adversely affect our reported earnings and financial condition.

Under applicable accounting principles, the initial liability carrying amount of the Notes is the fair value of a similar debt instrument that does not have a conversion feature, valued using our cost of capital for straight, non-convertible debt. We reflected the difference between the net proceeds from our offering of the Notes and the initial carrying amount as a debt discount for accounting purposes, which will be amortized into interest expense over the term of the Notes. As a result of this amortization, the interest expense that we expect to recognize for the Notes for accounting purposes will be greater than the cash interest payments we will pay on the Notes, which will result in lower reported income or higher reported loss. The lower reported income or higher reported loss resulting from this accounting treatment could depress the trading price of our Class A common stock and the Notes. However, in August 2020, the Financial Accounting Standards Board published an Accounting Standards Update, which we refer to as ASU 2020-06, that in certain cases will eliminate the separate accounting for the debt and equity components as described above. ASU 2020-06 will be effective for SEC-reporting entities for fiscal years beginning after December 15, 2021 (or, in the case of smaller reporting companies, December 15, 2023), including interim periods within those fiscal years. However, early adoption is permitted in certain circumstances for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. When effective, we expect to qualify for the elimination of the separate accounting described above which, as a result, will reduce the interest expense that we expect to recognize for the Notes for accounting purposes.

In addition, because we intend to settle conversions by paying the conversion value in cash up to the principal amount being converted and any excess in shares, we expect to be eligible to use the treasury stock method to reflect the shares underlying the Notes in our diluted earnings per share. Under this method, if the conversion value of the Notes exceeds their principal amount for a reporting period, then we will calculate our diluted earnings per share assuming that all the Notes were converted and that we issued shares of our Class A common stock to settle the excess. However, if reflecting the Notes in diluted earnings per share in this manner is anti-dilutive, or if the conversion value of the Notes does not exceed their principal amount for a reporting period, then the shares underlying the Notes will not be reflected in our diluted earnings per share. In addition, if accounting standards change in the future and we are not permitted to use the treasury stock method, then our diluted earnings per share may decline. For example, ASU 2020-06 amends these accounting standards, effective as of the dates referred to above, to eliminate the treasury stock method for convertible instruments and instead require application of the “if-converted” method. Under that method, diluted earnings per share would generally be calculated assuming that all the Notes were converted solely into shares of Class A common stock at the beginning of the reporting period, unless the result would be anti-dilutive. The application of the if-converted method may reduce our reported diluted earnings per share.

Furthermore, if any of the conditions to the convertibility of the Notes is satisfied, then we may be required under applicable accounting standards to reclassify the liability carrying value of the Notes as a current, rather than a long-term, liability. This reclassification could be required even if no noteholders convert their Notes and could materially reduce our reported working capital.

***The capped call transactions may affect the value of the Notes and our Class A common stock.***

In connection with the Notes, we entered into capped call transactions with certain financial institutions (the option counterparties). The capped call transactions are expected generally to reduce the potential dilution to our Class A common stock upon any conversion of the Notes and/or offset any potential cash payments we are required to make in excess of the principal amount upon conversion of any Notes, with such reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the capped call transactions, the option counterparties and/or their respective affiliates purchased shares of our Class A common stock and/or entered into various derivative transactions with respect to our Class A common stock. This activity could have increased (or reduced the size of any decrease in) the market price of our Class A common stock or the Notes at that time.

In addition, the option counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A common stock and/or purchasing or selling our Class A common stock in secondary market transactions (and are likely to do so following any conversion of Notes, any repurchase of the Notes by us on any fundamental change repurchase date, any redemption date or any other date on which the Notes are retired by us). This activity could also cause or avoid an increase or a decrease in the market price of our Class A common stock or the Notes.

The potential effect, if any, of these transactions and activities on the market price of our Class A common stock or the Notes will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our Class A common stock.

***We are subject to counterparty risk with respect to the capped call transactions, and the capped call may not operate as planned***

The option counterparties are financial institutions, and we will be subject to the risk that they might default under the capped call transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. Global economic conditions have from time to time resulted in the actual or perceived failure or financial difficulties of many financial institutions, including the bankruptcy filing by Lehman Brothers Holdings Inc. and its various affiliates. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under our transactions with that option counterparty. Our exposure will depend on many factors, but, generally, the increase in our exposure will be correlated with increases in the market price or the volatility of our Class A common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our Class A common stock. We can provide no assurances as to the financial stability or viability of any option counterparty.

In addition, the capped call transactions are complex, and they may not operate as planned. For example, the terms of the capped call transactions may be subject to adjustment, modification or, in some cases, renegotiation if certain corporate or other transactions occur. Accordingly, these transactions may not operate as we intend if we are required to adjust their terms as a result of transactions in the future or upon unanticipated developments that may adversely affect the functioning of the capped call transactions.

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

***Unregistered Sales of Equity Securities***

In February 2021, we issued $1.0 billion in aggregate principal amount of 0% convertible senior notes due February 15, 2026, or the Notes, in a private placement to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. The Notes are convertible into shares of our Class A common stock on the terms set forth in the indenture governing the Notes. Information relating to the issuance of the Notes was provided in a Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2021.

***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.

**Registrant Purchases of Equity Securities**

None.

## Item 6. Exhibits

| Exhibit Number | Exhibit Title | Incorporated by Reference | | | | Filed or Furnished Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date | |
| 4.1 | Indenture, dated as of February 11, 2021, between the Registrant and U.S. Bank National Association, as trustee | 8-K | 001-39058 | 4.1 | 02/11/2021 | |
| 4.2 | Form of 0.00% Convertible Senior Notes due 2026 (included in Exhibit 4.1) | 8-K | 001-39058 | 4.2 | 02/11/2021 | |
| 10.1 | Form of Base Capped Call Transaction Confirmation | 8-K | 001-39058 | 10.1 | 02/11/2021 | |
| 10.2 | Form of Additional Capped Call Transaction Confirmation | 8-K | 001-39058 | 10.2 | 02/11/2021 | |
| 10.3 | First Amendment to the Amended and Restated Revolving Credit Agreement, dated as of February 8, 2021, by and among the Registrant, JPMorgan Chase Bank, N.A., as administrative agent, and the other parties thereto | 8-K | 001-39058 | 10.3 | 02/11/2021 | |
| 10.4 | Joinder Agreement, by and between the Registrant, Citibank, N.A., and JPMorgan Chase Bank, N.A., dated March 18, 2021 | | | | | 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 : May 6, 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)*

**JOINDER AGREEMENT**

March 18, 2021

Reference is made to the Amended and Restated Revolving Credit Agreement, dated as of June 20, 2019 (as amended by the First Amendment, dated as of February 8, 2021, and as otherwise amended, restated, amended and restated, supplemented or otherwise modified, refinanced or replaced from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined), among Peloton Interactive, Inc., a Delaware corporation (the "Borrower"), the several banks and other financial institutions or entities from time to time party thereto (the "Lenders") and JPMorgan Chase Bank, N.A., as Administrative Agent.

1. Upon execution and delivery of this Joinder Agreement (this "Joinder") by the parties hereto, Citibank, N.A. (the "New Lender") hereby (a) becomes a Lender having the New Commitment set forth under such Lender's name in Schedule 1 hereto, effective as of the date hereof, and (b) agrees to be bound by the provisions of the Credit Agreement.

2. It is understood and agreed that, after giving effect to this Joinder, Schedule 2.01 to the Credit Agreement will be amended by replacing the table set forth therein with the table set forth in Schedule 2 hereto, which shall be the Commitments set forth in Schedule 2.01 to the Credit Agreement for all purposes thereof.

3. The New Lender (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Joinder and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it satisfies the requirements, if any, specified in the Credit Agreement that are required to be satisfied by it in order to become a Lender, (iii) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.01 thereof, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Joinder on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender and (iv) if it is a Foreign Lender, it has delivered to the Administrative Agent any documentation required to be delivered by it pursuant to the terms of the Credit Agreement and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

4. The Administrative Agent acknowledges that the notice and timing requirements under Section 2.18(a) have been satisfied. This Joinder is a Loan Document for all purposes under the Credit Agreement.

5. THIS JOINDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

6. This Joinder may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery of an executed counterpart of a signature page of this Joinder by telecopy, emailed pdf. or any other electronic means that reproduces an image of the actual executed signature page shall be effective as delivery of a manually executed counterpart of this Joinder. The words “execution,” “signed,” “signature,” “delivery,” and words of like import in or relating to this Joinder, any document to be signed in connection herewith and the transactions contemplated hereby shall be deemed to include any electronic sound, symbol, or process attached to, or associated with, this Joinder or such other document, as applicable, and adopted by a Person with the intent to sign, authenticate or accept such contract or record and any delivery or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act; provided that nothing herein shall require the Administrative Agent to accept electronic signatures in any form or format without its prior written consent. Without limiting the generality of the foregoing, the Borrower hereby (i) agrees that, for all purposes, including without limitation, in connection with any workout, restructuring, enforcement of remedies, bankruptcy proceedings or litigation among the Administrative Agent, the Lenders and the Loan Parties, electronic images of this Joinder (including with respect to any signature pages thereto) shall have the same legal effect, validity and enforceability as any paper original, and (ii) waives any argument, defense or right to contest the validity or enforceability of this Joinder based solely on the lack of paper original copies of the Joinder, including with respect to any signature pages hereto.

*[Signature pages follow]*

IN WITNESS WHEREOF, the parties hereto have caused this Joinder to be duly executed and delivered by their proper and duly authorized officers as of the date first written above.

CITIBANK, N.A., as New Lender

By: /s/ Collene M. Greenlee

Name: Collene M. Greenlee

Title: Director

[Signature Page to Joinder Agreement]

Accepted and agreed:

PELOTON INTERACTIVE, INC.,
as Borrower

By: /s/ Jill Woodworth
Name: Jill Woodworth
Title: Chief Financial Officer

[Signature Page to Joinder Agreement]

Accepted and agreed:

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

By: /s/ Lauren Daley

Name: Lauren Daley

Title: Authorized Officer

[Signature Page to Joinder Agreement]

[Signature Page to Joinder Agreement]

**SCHEDULE 1**

**NEW COMMITMENT AND NOTICE ADDRESS OF NEW LENDER**

Name of Lender: Citibank, N.A.
Notice Address: Attn: Kyle Scanlon
388 Greenwich St
New York, NY 10013

Email: [*****]

**New Commitment:** $35,000,000.00

# SCHEDULE 2

## SCHEDULE 2.01

### Commitments

| | |
|---|---|
| JPMorgan Chase Bank, N.A. | $72,500,000 |
| Goldman Sachs Lending Partners LLC | $72,500,000 |
| Silicon Valley Bank | $35,000,000 |
| Bank of America, N.A. | $35,000,000 |
| Barclays Bank PLC | $35,000,000 |
| Citibank, N.A. | $35,000,000 |
| **Total** | **$285,000,000** |

# 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 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: May 6, 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: May 6, 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 March 31, 2021 (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: May 6, 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 March 31, 2021 (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: May 6, 2021

/s/ Jill Woodworth

Jill Woodworth
Chief Financial Officer
*(Principal Financial Officer)*