UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2022

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.)*
441 Ninth Avenue, Sixth Floor New York, New York	**10001**
(Address of principal executive offices)	*(Zip Code)*

(917) 671-9198
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 Exchange Act). Yes ☐ No ☒

As of January 30, 2023, the number of shares of the registrant's Class A common stock outstanding was 327,125,545, and the number of shares of the registrant's Class B common stock outstanding was 18,894,706.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including, without limitation, statements regarding our execution of and timing of and the expected benefits from our restructuring initiatives and cost-saving measures, the cost savings and other efficiencies of expanding relationships with our third-party partners, details regarding and the timing of the launch of new products and services, our new initiatives with retailer partners and our efforts to optimize our retail store footprint, the prices of our products and services in the future, 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, though not all forward-looking statements use these words or expressions.

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 important factors that could cause actual results to differ materially from those stated, including, but not limited to:

- our ability to achieve and maintain future profitability;
- our ability to attract and maintain Subscribers;
- our ability to accurately forecast consumer demand of our products and services and adequately maintain our inventory;
- our ability to execute and achieve the expected benefits of our restructuring initiatives and other cost-saving measures;
- our ability to effectively manage our growth;
- our ability to anticipate consumer preferences and successfully develop and offer new products and services in a timely manner, or effectively manage the introduction of new or enhanced products and services;
- demand for our products and services and growth of the connected fitness products industry;
- our reliance on a limited number of suppliers, contract manufacturers, and logistics partners for our Connected Fitness Products (as defined below);
- our reliance on and lack of control over suppliers, contract manufacturers and logistics partners for our Connected Fitness Products;
- our ability to predict our long-term performance and declines in our revenue growth as our business matures;
- the effects of increased competition in our markets and our ability to compete effectively;
- declines in sales of our Bike and Bike+;
- the direct and indirect impacts to our business and financial performance from the COVID-19 pandemic;
- our dependence on third-party licenses for use of music in our content;
- actual or perceived defects in, or safety of, our products, including any impact of product recalls or legal or regulatory claims, proceedings or investigations involving our products;
- our ability to maintain, protect, and enhance our intellectual property;
- 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
- those risks and uncertainties described in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I, Item 2, and the sections titled “Risk Factors” in Part I, Item 1A and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022, as such factors may be updated in our filings with the Securities and Exchange Commission (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.

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)

	December 31, 2022 (unaudited)	June 30, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 871.0	$ 1,253.9
Accounts receivable, net	125.1	83.6
Inventories, net	790.6	1,104.5
Prepaid expenses and other current assets	271.6	192.5
Total current assets	2,058.3	2,634.6
Property and equipment, net	485.5	610.9
Intangible assets, net	33.3	41.3
Goodwill	41.2	41.2
Restricted cash	80.9	3.8
Operating lease right-of-use assets, net	573.0	662.5
Other assets	29.0	34.3
Total assets	$ 3,301.1	$ 4,028.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 591.7	$ 797.4
Deferred revenue and customer deposits	210.7	201.1
Current portion of long-term debt and other bank borrowings	7.5	7.5
Operating lease liabilities, current	86.3	86.4
Other current liabilities	7.0	13.2
Total current liabilities	903.2	1,105.5
0% Convertible senior notes, net	985.7	864.0
Term loan, net	690.4	690.0
Operating lease liabilities, non-current	647.2	725.4
Other non-current liabilities	44.1	50.7
Total liabilities	3,270.6	3,435.6
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock, $0.000025 par value; 2,500,000,000 and 2,500,000,000 Class A shares authorized, 324,531,352 and 308,241,938 shares issued and outstanding as of December 31, 2022 and June 30, 2022, respectively; 2,500,000,000 and 2,500,000,000 Class B shares authorized, 20,037,279 and 30,032,078 shares issued and outstanding as of December 31, 2022 and June 30, 2022, respectively.	—	—
Additional paid-in capital	4,423.4	4,291.3
Accumulated other comprehensive income	21.1	12.2
Accumulated deficit	(4,414.0)	(3,710.6)
Total Stockholders' equity	30.5	592.9
Total liabilities and stockholders' equity	$ 3,301.1	$ 4,028.5

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Revenue:				
Connected Fitness Products	$ 381.4	$ 796.4	$ 585.6	$ 1,297.4
Subscription	411.3	337.5	823.6	641.7
Total revenue	792.7	1,133.9	1,409.2	1,939.1
Cost of revenue:				
Connected Fitness Products	424.2	745.0	684.1	1,185.8
Subscription	133.4	107.9	272.9	209.4
Total cost of revenue	557.6	853.0	957.0	1,395.1
Gross profit	235.0	281.0	452.2	544.0
Operating expenses:				
Sales and marketing	217.1	348.9	355.8	633.0
General and administrative	192.6	248.5	386.1	489.0
Research and development	80.0	99.8	168.1	197.5
Impairment expense	9.7	9.4	72.6	9.9
Restructuring expense	49.0	—	155.9	—
Supplier settlements	17.9	—	19.1	—
Total operating expenses	566.4	706.6	1,157.6	1,329.4
Loss from operations	(331.3)	(425.7)	(705.3)	(785.4)
Other (expense) income, net:				
Interest expense	(22.2)	(8.8)	(43.2)	(17.4)
Interest income	5.8	0.3	9.8	0.9
Foreign exchange gain (loss)	11.8	(1.7)	(5.2)	(7.6)
Other income (expense), net	2.4	(0.4)	2.6	(0.4)
Total other (expense), net	(2.2)	(10.6)	(35.9)	(24.6)
Loss before provision for income taxes	(333.5)	(436.3)	(741.2)	(809.9)
Income tax expense	1.9	3.1	2.7	5.4
Net loss	$ (335.4)	$ (439.4)	$ (743.9)	$ (815.3)
Net loss attributable to Class A and Class B common stockholders	$ (335.4)	$ (439.4)	$ (743.9)	$ (815.3)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.98)	$ (1.39)	$ (2.18)	$ (2.64)
Weighted-average Class A and Class B common shares outstanding, basic and diluted	341,930,937	317,110,297	340,516,100	309,119,648
Other comprehensive income:				
Net unrealized losses on marketable securities	$ —	$ (0.2)	$ —	$ (0.4)
Change in foreign currency translation adjustment	3.9	1.9	8.2	2.1
Derivative adjustments:				
Net unrealized loss on hedging derivatives	—	(0.5)	—	(1.5)
Reclassification for derivative adjustments included in Net loss	0.1	—	0.6	—
Total other comprehensive income	4.0	1.2	8.9	0.1
Comprehensive loss	$ (331.4)	$ (438.2)	$ (735.1)	$ (815.2)

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Six Months Ended December 31,	
	2022	2021
Cash Flows from Operating Activities:		
Net loss	$ (743.9)	$ (815.3)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	60.9	64.2
Stock-based compensation expense	263.7	124.8
Non-cash operating lease expense	44.4	41.7
Amortization of premium from marketable securities	—	3.4
Amortization of debt discount and issuance costs	6.7	17.1
Impairment expense	72.6	9.9
Excess and obsolete inventory reserve adjustments	(28.9)	27.8
Net foreign currency adjustments	5.6	6.9
Changes in operating assets and liabilities:		
Accounts receivable	(41.4)	(23.4)
Inventories	316.4	(629.4)
Prepaid expenses and other current assets	13.0	(50.8)
Other assets	5.3	(8.4)
Accounts payable and accrued expenses	(218.5)	172.2
Customer deposits and deferred revenue	9.6	75.8
Operating lease liabilities, net	(43.6)	(24.9)
Other liabilities	(13.1)	0.6
Net cash used in operating activities	(291.3)	(1,007.6)
Cash Flows from Investing Activities:		
Maturities of marketable securities	—	211.0
Sales of marketable securities	—	306.7
Capital expenditures and capitalized internal-use software development costs	(49.5)	(191.0)
Business combinations, net of cash acquired	—	(11.0)
Asset acquisitions, net of cash acquired	—	(16.0)
Net cash (used in) provided by investing activities	(49.5)	299.6
Cash Flows from Financing Activities:		
Proceeds from public offering, net of issuance costs	—	1,218.8
Principal repayment of Term Loan	(3.8)	—
Proceeds from employee stock purchase plan withholdings	2.8	15.2
Proceeds from exercise of stock options	29.9	54.2
Principal repayments of finance leases	(1.0)	(1.0)
Net cash provided by financing activities	27.9	1,287.2
Effect of exchange rate changes	7.1	(20.3)
Net change in cash, cash equivalents, and restricted cash	(305.7)	558.9
Cash, cash equivalents, and restricted cash — Beginning of period	1,257.6	1,135.7
Cash, cash equivalents, and restricted cash — End of period	$ 951.9	$ 1,694.6
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 33.1	$ 0.5
Cash paid for income taxes	$ 7.6	$ 9.1
Supplemental Disclosures of Non-Cash Investing and Financing Information:		

Accrued and unpaid capital expenditures, including software	$ 2.5	$ 36.0
Stock-based compensation capitalized for software development costs	$ 4.4	$ 5.1

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance - September 30, 2021	302.8	$ —	$ 2,748.6	$ 17.1	$ (1,258.8)	$ 1,506.9
Activity related to stock-based compensation	1.5	—	81.5	—	—	81.5
Issuance of common stock pursuant to public offering, net of issuance costs	27.2	—	1,218.75	—	—	1,218.7
Other comprehensive income	—	—	—	1.2	—	1.2
Net loss	—	—	—	—	(439.4)	(439.4)
Balance - December 31, 2021	331.4	$ —	$ 4,048.8	$ 18.3	$ (1,698.2)	$ 2,368.9
Balance - September 30, 2022	339.8	$ —	$ 4,320.0	$ 17.1	$ (4,078.6)	$ 258.5
Activity related to stock-based compensation	4.6	—	103.4	—	—	103.4
Other comprehensive income	—	—	—	4.0	—	4.0
Net loss	—	—	—	—	(335.4)	(335.4)
Balance - December 31, 2022	344.6	$ —	$ 4,423.4	$ 21.1	$ (4,414.0)	$ 30.5

	Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance - June 30, 2021	300.1	$ —	$ 2,618.9	$ 18.2	$ (883.0)	$ 1,754.1
Activity related to stock-based compensation	3.8	—	199.5	—	—	199.5
Issuance of common stock under employee stock purchase plan	0.3	—	11.7	—	—	11.7
Issuance of common stock pursuant to public offering, net of issuance costs	27.2	—	1,218.7	—	—	1,218.7
Other comprehensive income	—	—	—	0.1	—	0.1
Net loss	—	—	—	—	(815.3)	(815.3)
Balance - December 31, 2021	331.4	$ —	$ 4,048.8	$ 18.3	$ (1,698.2)	$ 2,368.9
Balance - June 30, 2022	338.3	$ —	$ 4,291.3	$ 12.2	$ (3,710.6)	$ 592.9
Activity related to stock-based compensation	5.9	—	288.8	—	—	288.8
Issuance of common stock under employee stock purchase plan	0.4	—	3.3	—	—	3.3
Cumulative effect of adopting ASU 2020-06	—	—	(160.1)	—	40.6	(119.5)
Other comprehensive income	—	—	—	8.9	—	8.9
Net loss	—	—	—	—	(743.9)	(743.9)
Balance - December 31, 2022	344.6	$ —	$ 4,423.4	$ 21.1	$ (4,414.0)	$ 30.5

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 (“All-Access Membership”) 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 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, 2022, 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 of the SEC. 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, 2022 (the "Form 10-K"). However, the Company believes that the disclosures provided herein are adequate to prevent the information presented from being misleading.

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

In the opinion of management, the accompanying interim condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, cash flows, and the changes in equity for the interim periods. The results for the three and six months ended December 31, 2022 are not necessarily indicative of the results to be expected for any subsequent quarter, the fiscal year ending June 30, 2023, 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.

Certain immaterial amounts from the prior year have been reclassified to conform with current-year presentation.

Except as described elsewhere in *Note 2 - Summary of Significant Accounting Policies* under the section titled *“Recently Issued Accounting Pronouncements,”* there have been no material changes to the Company’s significant accounting policies as described in the 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, impairment of long-lived and intangible assets, useful lives of long-lived assets, including property and equipment and finite-lived intangible assets, product warranty, goodwill, 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, future restructuring charges, and commitments and contingencies. Actual results may differ from these estimates.

Recently Issued Accounting Pronouncements

Accounting Pronouncements Recently Adopted

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

In August 2020, the FASB issued ASU 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 simplified 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 eliminated 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 is 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 adopted the standard, effective July 1, 2022, using the modified retrospective transition method. Adoption of the new standard resulted in a reduction to Additional paid-in capital of $160.1 million to remove the equity component separately recorded for the conversion features associated with the Notes (as defined in *Note 5 - Fair Value Measurements*), an increase of $119.6 million in the carrying value of its Notes to reflect the full principal amount of the Notes outstanding net of issuance costs, and a decrease to Accumulated deficit of $40.6 million.

Accounting Pronouncements Not Yet Adopted

<u>*ASU 2021-08*</u>

In October 2021, the Financial Accounting Standards Board issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.* The guidance requires that an acquirer recognize and measure contract assets and liabilities acquired in a business combination in accordance with ASC 606, *Revenue from Contracts with Customers*. This standard is effective for annual periods beginning after December 15, 2022, including interim periods therein, with early adoption permitted, and should be applied prospectively to acquisitions occurring on or after the effective date. The Company will continue to evaluate the impact of this guidance, which will depend on the contract assets and liabilities acquired in future business combinations.

3. Revenue

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

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, incentives, and rebates to commercial distributors 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 the standalone selling price based on the 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.

Connected Fitness Products

Connected Fitness Products include the Company's portfolio of Connected Fitness Products and related accessories, Precor branded fitness products, delivery and installation services, Peloton branded apparel, extended warranty agreements, and commercial service contracts. 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 that is recognized over the warranty period and service revenue that is recognized over the term of the service contract. The Company allows customers to return Peloton branded Connected Fitness 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.

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 primarily offered on a month-to-month basis.

Amounts paid for subscription fees, net of refunds are included within Deferred revenue and customer deposits on the Company's Condensed Consolidated Balance Sheets and recognized ratably over the subscription term. 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.

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, Tread+, Row, and Guide 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:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
Balance at beginning of period	$ 36.7	$ 44.4	$ 51.1	$ 51.5
Provision for warranty accrual	8.6	17.3	5.8	23.7
Warranty claims	(9.2)	(13.3)	(20.7)	(26.7)
Balance at end of period	$ 36.2	$ 48.5	$ 36.2	$ 48.5

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 Products for additional periods ranging from 12 to 36 months.

Extended warranty revenue is 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.

Disaggregation of Revenue

The Company's revenue from contracts with customers disaggregated by major product lines, excluding sales-based taxes, are included in *Note 12 - Segment Information*.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
North America	$ 737.5	$ 1,035.0	$ 1,304.1	$ 1,763.8
International	55.2	98.9	105.1	175.3
Total revenue	$ 792.7	$ 1,133.9	$ 1,409.2	$ 1,939.1

During the three and six months ended December 31, 2022, the Company's revenue attributable to the United States was $711.7 million and $1,256.8 million, or 90% and 89% of total revenue, respectively. During the three and six months ended December 31, 2021, the Company's revenue attributable to the United States was $982.7 million and $1,678.9 million, or 87% and 87% of total revenue, respectively.

Customer Deposits and Deferred Revenue

As of December 31, 2022 and June 30, 2022, customer deposits of $121.6 million and $109.2 million, respectively, and deferred revenue of $89.1 million and $91.9 million, respectively, were included in Deferred revenue and customer deposits on the Company's Condensed Consolidated Balance Sheets.

In the six months ended December 31, 2022 and 2021, the Company recognized revenue of $90.7 million and $64.9 million, respectively, that was included in the deferred revenue balance as of June 30, 2022 and 2021, respectively.

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. Customer deposits represent payments received in advance before the Company transfers a good or service to the customer and are refundable.

4. Restructuring

In February 2022, the Company announced and began implementing a restructuring plan to realign the Company's operational focus to support its multi-year growth, scale the business, and improve costs (the "Restructuring Plan"). The Restructuring Plan originally included: (i) reducing the Company's headcount; (ii) closing several assembly and manufacturing plants, including the completion and subsequent sale of the shell facility for the Company's previously planned Peloton Output Park; (iii) closing and consolidating several distribution facilities; and (iv) shifting to third-party logistics providers in most locations. The Company expects the Restructuring Plan to be substantially completed by the end of fiscal 2024.

In July 2022, August 2022 and October 2022, the Company took actions to update the Restructuring Plan. On July 12, 2022, the Company announced it is exiting all owned-manufacturing operations and expanding its current relationship with Taiwanese manufacturer Rexon Industrial Corp. Additionally, on August 12, 2022, the Company announced the decision to perform the following restructuring activities: (i) fully transition its North American Field Operations to third-party providers, including the significant reduction of its delivery workforce teams; (ii) eliminate a significant number of roles on the North America Member Support team and exit its real-estate footprints in its Plano and Tempe locations; and (iii) reduce its North America retail showroom presence. On October 6, 2022, the Company announced approximately 500 global team member positions have been eliminated.

As a result of the Restructuring Plan, the Company incurred the following charges, of which Asset write-downs and write-offs are included within Impairment expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss. The remaining charges incurred due to the Restructuring Plan are included within Restructuring expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss:

	Three Months Ended December 31, 2022	Six Months Ended December 31, 2022
Cash restructuring charges:	(in millions)	
Severance and other personnel costs	$ 34.1	$ 61.1
Professional fees and other related charges	8.9	12.0
Total cash charges	43.0	73.1
Non-cash charges:		
Asset write-downs and write-offs	9.7	72.6
Stock-based compensation expense	6.0	82.8
Write-offs of inventory related to restructuring activities (1)	3.7	3.7
Total non-cash charges	19.3	159.0
Total	$ 62.4	$ 232.2

(1) Write-offs of inventory are included within Cost of revenue: Connected Fitness Products in the Condensed Consolidated Statement of Operations and Comprehensive Loss.

In connection with the Restructuring Plan, the Company committed to the closures of certain warehouse and retail locations, the discontinuation of manufacturing in North America, and the wind down of certain software implementation and development projects. Due to the actions taken, the Company tested certain long-lived assets (asset groups) for recoverability by comparing the carrying values of the asset groups to estimates of their future undiscounted cash flows, which were generally the liquidation value, or for operating lease right-of-use assets, income from a sublease arrangement. Based on the results of the recoverability tests, the Company determined that during the three and six months ended December 31, 2022, the undiscounted cash flows of certain assets (asset groups) were below their carrying values, indicating impairment. The assets were written down to their estimated fair values, which were determined based on their estimated liquidation or sales value, or for operating lease right-of-use assets, discounted cash flows of a sublease arrangement.

The following tables present a roll-forward of cash restructuring-related liabilities, which is included within Accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets, as follows:

	Severance and other personnel costs	Professional fees and other related charges	Total
		(in millions)	
Balance as of September 30, 2022	$ 15.5	$ 1.5	$ 17.1
Charges	34.1	8.9	43.0
Cash payments	(27.4)	(9.3)	(36.7)
Balance as of December 31, 2022	$ 22.3	$ 1.1	$ 23.4

	Severance and other personnel costs	Professional fees and other related charges	Total
		(in millions)	
Balance as of June 30, 2022	$ 10.9	$ —	$ 10.9
Charges	61.1	12.0	73.1
Cash payments	(49.8)	(10.9)	(60.6)
Balance as of December 31, 2022	$ 22.3	$ 1.1	$ 23.4

In addition to the above charges, the Company incurred approximately $1.9 million of capital expenditures related to Peloton Output Park during the six months ended December 31, 2022.

In connection with the Restructuring Plan, the Company estimates that it will incur additional cash charges of approximately $35 million primarily composed of severance and other exit costs, in fiscal year 2023 and beyond. Additionally, the Company expects to recognize additional non-cash charges of approximately $25 million, primarily composed of asset impairment and stock-based compensation charges, in fiscal year 2023 in connection with the Restructuring Plan.

5. Fair Value Measurements

Fair Value Measurements of Other Financial Instruments

The following tables present the estimated fair values of the Company's financial instruments that are not recorded at fair value on the Condensed Consolidated Balance Sheets:

	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
	(in millions)			
0% Convertible Senior Notes	$ —	$ 711.9	$ —	$ 711.9

	As of June 30, 2022			
	Level 1	Level 2	Level 3	Total
	(in millions)			
0% Convertible Senior Notes	$ —	$ 632.2	$ —	$ 632.2

The fair value of the 0% Convertible Senior Notes due February 15, 2026 (the "Notes") is determined based on the closing price on the last trading day of the reporting period.

The carrying value of the Term Loan approximates the fair value of the Term Loan as of December 31, 2022.

6. Inventories

Inventories were as follows:

	December 31, 2022	June 30, 2022
	(in millions)	
Raw materials	$ 60.7	$ 102.5
Work-in-process	—	3.7
Finished products[1]	988.8	1,283.7
Total inventories	1,049.5	1,389.9
Less: Reserves	(258.9)	(285.4)
Total inventories, net	$ 790.6	$ 1,104.5

(1) Includes $40.6 million and $36.4 million of finished goods inventory in transit, products owned by the Company that have not yet been received at a Company distribution center, as of December 31, 2022 and June 30, 2022, respectively.

The Company periodically assesses and adjusts the value of inventory for estimated excess and obsolete inventory based upon estimates of future demand and market conditions, as well as damaged or otherwise impaired goods. The Company recorded inventory reserves as of December 31, 2022 primarily in the amounts of $109.0 million related to excess accessories and apparel inventory that the Company does not expect to sell above its current carrying value, $106.6 million related primarily to returned Connected Fitness Products that the Company does not expect to sell, and $11.7 million in reserves for component parts that the Company estimated would have no future use.

7. Debt

Convertible Notes and the Indenture

In February 2021, the Company issued $1.0 billion aggregate principal amount of 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, $0.000025 par value per share ("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 certain times and upon the occurrence of certain events in the future.

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).

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

	December 31, 2022
	(in millions)
Principal	$ 1,000.0
Unamortized debt issuance costs	(14.3)
Net carrying amount	$ 985.7

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
Amortization of debt discount[(1)]	$ —	$ 7.7	$ —	$ 15.3
Amortization of debt issuance costs	1.1	0.8	2.3	1.6
Less: Interest capitalized	—	(0.2)	—	(0.2)
Total interest expense related to the Notes	$ 1.1	$ 8.3	$ 2.3	$ 16.7

(1) The decreases in total interest expense during the three and six months ended December 31, 2022 were due to the derecognition of the unamortized debt discount, partially offset by the increases in the amortization of issuance costs previously recognized in equity. These changes were the result of the Company's adoption of ASU No. 2020-06, as of July 1, 2022, as described in *Note 2 - Summary of Significant Accounting Policies.*

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.

Second Amended and Restated Credit Agreement

In 2019, the Company entered into an amended and restated revolving credit agreement as amended, modified or supplemented prior to entrance into the Second Amended and Restated Credit Agreement (as defined below). The Amended and Restated Credit Agreement provided for a $500.0 million secured revolving credit facility, including up to the lesser of $250.0 million and the aggregate unused amount of the facility for the issuance of letters of credit.

The Amended and Restated Credit Agreement also permitted the incurrence of indebtedness to permit the Capped Call Transactions and issuance of the Notes.

On May 25, 2022, the Company entered into an Amendment and Restatement Agreement to the Second Amended and Restated Credit Agreement (and as amended, restated or otherwise modified from time to time, the "Second Amended and Restated Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent, and certain banks and financial institutions party thereto as lenders and issuing banks. Pursuant to the Second Amended and Restated Credit Agreement, the Company amended and restated the Amended and Restated Credit Agreement.

The Second Amended and Restated Credit Agreement provides for a $750.0 million term loan facility (the "Term Loan"), which will be due and payable on May 25, 2027 or, if greater than $200.0 million of the Notes are outstanding on November 16, 2025 (the "Springing Maturity Condition"), November 16, 2025 (the "Springing Maturity Date"). The Term Loan amortizes in quarterly installments of 0.25%, payable at the end of each fiscal quarter and on the maturity date.

The Second Amended and Restated Credit Agreement also provides for a $500.0 million revolving credit facility (the "Revolving Facility"), $35.0 million of which will mature on June 20, 2024 (the "Non-Consenting Commitments"), with the rest ($465.0 million) maturing on December 10, 2026 (the "Consenting Commitments") or if the Springing Maturity Condition is met and the Term Loan is outstanding on such date, the Springing Maturity Date. The key terms of the Revolving Facility remain substantially unchanged from those set forth in the Amended and Restated Credit Agreement, including requiring compliance with a total level of liquidity of not less than $250.0 million and maintaining a minimum total four-quarter revenue level of $3.0 billion (which are replaced with a covenant to maintain a minimum debt to adjusted EBITDA ratio upon our meeting a specified adjusted EBITDA threshold).

The Revolving Facility bears interest at a rate equal to, at our option, either at the Adjusted Term SOFR Rate (as defined in the Second Amended and Restated Credit Agreement) plus 2.25% per annum or the Alternate Base Rate (as defined in the Second Amended and Restated Credit Agreement) plus 1.25% per annum for the Consenting Commitments, and bears interest at a rate equal to, at our option, either at the Adjusted Term SOFR Rate plus 2.75% per annum or the Alternate Base Rate plus 1.75% per annum for the Non-Consenting Commitments. The Company is required to pay an annual commitment fee of 0.325% per annum and 0.375% per annum on a quarterly basis based on the unused portion of the Revolving Facility for the Consenting Commitments and the Non-Consenting Commitments, respectively.

The Term Loan bears interest at a rate equal to, at our option, either at the Alternate Base Rate (as defined in the Second Amended and Restated Credit Agreement) plus 5.50% per annum or the Adjusted Term SOFR Rate (as defined in the Second Amended and Restated Credit Agreement) plus 6.5% per annum. As stipulated in the Second Amended and Restated Credit Agreement, the applicable rates increased one time by 0.50% per annum as the Company chose not to obtain a public rating for the Term Loan from S&P Global Ratings or Moody's Investors Services, Inc. on or prior to November 25, 2022. Any borrowing at the Alternate Base Rate is subject to a 1.00% floor and a term loan borrowed at the Adjusted Term SOFR Rate is subject to a 0.50% floor and any revolving loan borrowed at the Adjusted Term SOFR Rate is subject to a 0.00% floor.

The Second Amended and Restated Credit Agreement contains customary affirmative covenants as well as customary covenants that restrict 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 Second Amended and Restated Credit Agreement also contains certain customary events of default. Certain baskets and covenant levels have been decreased and will apply equally to both the Term Loan and Revolving Facility for so long as the Term Loan is outstanding. After the repayment in full of the Term Loan, such baskets and levels will revert to those previously disclosed in connection with the Amended and Restated Credit Agreement.

The obligations under the Second Amended and Restated Credit Agreement with respect to the Term Loan and the Revolving Facility are secured by substantially all of our assets, with certain exceptions set forth in the Second Amended and Restated Credit Agreement, and are required to be guaranteed by certain material subsidiaries of the Company if, at the end of future financial quarters, certain conditions are not met.

During the three and six months ended December 31, 2022, the Company incurred total commitment fees of $0.4 million and $0.8 million, respectively, and $0.3 million and $0.6 million during the three and six months ended December 31, 2021, respectively, which are included in Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

As of December 31, 2022, the Company had drawn the full amount of the Term Loan and the Company had not drawn on the Revolving Facility, and the Company had $746.3 million of total outstanding borrowings under the Second Amended and Restated Credit Agreement.

In connection with the execution of the Second Amended and Restated Credit Agreement, the Company incurred debt issuance costs of $1.1 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 Second Amended and Restated Credit Agreement.

As of December 31, 2022, the Company was in compliance with the covenants under the Second Amended and Restated Credit Agreement. The Company is required to pledge or otherwise restrict a portion of cash and cash equivalents as collateral for standby letters of credit. As of December 31, 2022, the Company had outstanding letters of credit totaling $85.4 million, of which $80.6 million is classified as Restricted cash on the Condensed Consolidated Balance Sheet.

Our proceeds in connection with the Term Loan were $696.4 million, net of discount of $33.8 million and issuance costs of $19.8 million. Both the discount and issuance costs are being amortized to interest expense over the term of the Term Loan using the effective interest rate method. Upon entering the Term Loan, the effective interest rate was 10.2% and on November 25, 2022 the rate was updated to 13.7%.

The net carrying amount of the Term Loan was as follows:

	December 31, 2022	June 30, 2022
	(in millions)	
Principal	$ 750.0	$ 750.0
Principal payments	(3.8)	—
Unamortized debt discount	(30.5)	(33.1)
Unamortized debt issuance costs	(17.9)	(19.4)
Net carrying amount	$ 697.9	$ 697.5

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
Amortization of debt discount	$ 1.4	$ —	$ 2.7	$ —
Amortization of debt issuance costs	0.8	—	1.6	—
Total interest expense related to the Term Loan	$ 2.2	$ —	$ 4.4	$ —

8. Commitments and Contingencies

The Company is subject to minimum guarantee royalty payments associated under certain music license agreements.

The following represents the Company's minimum annual guarantee payments under music license agreements for the next three years as of December 31, 2022:

Fiscal Year	Future Minimum Payments (in millions)
2023 (remaining)	$ 66.5
2024	125.7
2025	43.8
Total	$ 236.0

Product Recall Return Reserves

On May 5, 2021, the Company announced separate, voluntary recalls of its Tread+ and Tread products in collaboration with the U.S. Consumer Product Safety Commission ("CPSC") and halted sales of these products to work on product enhancements. On October 18, 2022, the CPSC and the Company jointly announced that consumers now have more time to get a full refund if they wish to return their recalled Tread+. With the extension of the full refund period by one additional year, to November 6, 2023, the Company expects that more Members will opt for a full refund, and has accordingly increased the Company's return reserve during the three months ended September 30, 2022. The following table details the accrued amount for a reduction to Connected Fitness Products revenue for actual and future returns and costs associated with inventory write-downs and logistics costs that were recorded in Connected Fitness Products cost of revenue.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
Returns accrual for reduction to Connected Fitness Products revenue	$ —	$ 7.4	$ 26.5	$ 18.9
Inventory write-downs and logistics costs	—	5.2	2.5	5.7

Return reserves related to the impacts of the Tread+ recall of $44.5 million and $26.7 million were included within Accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets as of December 31, 2022 and 2021, respectively. The estimated returns reserve is primarily based on historical and expected product returns.

Commitments to Suppliers

The Company utilizes contract manufacturers to build its products and accessories. These contract manufacturers acquire components and build products based on demand forecast information the Company supplies, which typically covers a rolling 12-month period. Consistent with industry practice, the Company acquires inventories from such manufacturers through blanket purchase orders against which orders are applied based on projected demand information and availability of goods. Such purchase commitments typically cover the Company's forecasted product and manufacturing requirements for periods that range a number of months. In certain instances, these agreements allow the Company the option to cancel, reschedule, and/or adjust our requirements based on its business needs for a period of time before the order is due to be fulfilled. While the Company's purchase orders are legally cancellable in many situations, there are some that are not cancellable in the event of a demand plan change or other circumstances, such as where the supplier has procured unique, Peloton-specific designs, and/or specific non-cancellable, non-returnable components based on our provided forecasts.

As of December 31, 2022, the Company's commitments to contract with third-party manufacturers for their inventory on-hand and component purchase commitments related to the manufacture of Peloton products were estimated to be approximately $274.1 million.

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 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 those reported Tread+ incidents, in April 2021, the CPSC unilaterally issued a warning to consumers about the safety hazards associated with the Tread+. While we do not agree with all of the assertions in the CPSC's warning, in May 2021 we initiated a voluntary recall of our Tread+ product in collaboration with the CPSC. In August 2022, the CPSC notified us that the agency staff believes we failed to meet our statutory obligations under the Consumer Product Safety Act (the "CPSA") and, in January 2023, the CPSC announced a settlement involving civil monetary penalties. To continue our cooperation with the CPSC, we agreed to pay the $19.1 million civil penalty, resolving the CPSC's charges that we knowingly failed to immediately report hazards associated with the Tread+, and we continue to work cooperatively with the CPSC to further enhance the safety of our products. In addition, shortly after the May 2021 recalls, the U.S. Department of Justice (the "DOJ") and the Department of Homeland Security (the "DHS") subpoenaed us for documents and other information related to our statutory obligations under the CPSA and is continuing to investigate the matter. The SEC is also investigating our public disclosures concerning the recall, as well as other matters. In addition to the regulatory investigations, 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.

Additionally on April 29, 2021, Ashley Wilson filed a putative securities class action lawsuit against the Company and certain of its officers, captioned Wilson v. Peloton Interactive, Inc., et al., Case No. 1:21-cv-02369-CBA-PK, in the United States District Court for the Eastern District of New York (the "Wilson Action"), and on May 24, 2021, Leigh Drori filed a related putative securities class action lawsuit, captioned Drori v. Peloton Interactive, Inc., et al., Case No. 1:21-cv-02925-CBA-PK, also in the United States District Court for the Eastern District of New York (the "Drori Action"). On November 16, 2021, the district judge consolidated the Wilson and Drori Actions under the caption In re Peloton Interactive, Inc. Securities Litigation, Master File No. 21-cv-02369-CBA-PK, and appointed Richard Neswick as lead plaintiff. On January 21, 2022, lead plaintiff filed an amended consolidated complaint in the action purportedly on behalf of a class consisting of those individuals who purchased or otherwise acquired our common stock between September 11, 2020 and May 5, 2021. Lead plaintiff alleges that the Company and certain of its officers made false or misleading statements in violation of Sections 10(b) and 20(a) of the Exchange Act of 1934 ("Exchange Act") regarding the Company's Tread and Tread+ products and the safety of those products. Defendants served their motion to dismiss the amended consolidated complaint on March 7, 2022, and briefing was complete on April 26, 2022. A hearing on the motion to dismiss was held on June 8, 2022. The court has not yet ruled on the motion to dismiss. On December 15, 2022, the parties reached a settlement-in-principle for which the Company has taken a reserve, and on December 16, 2022, the court stayed the action in light of the settlement-in-principle.

On May 20, 2021, Alan Chu filed a verified shareholder derivative action lawsuit purportedly on behalf of the Company against certain of the Company's executive officers and the members of the Board of Directors, captioned Chu v. Foley, et al., Case No. 1:21-cv-02862, in the United States District Court for the Eastern District of New York (the "Chu Action"). Plaintiff Chu alleges breaches of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, waste, and violations of Section 14(a) of the Exchange Act, as well as a claim for contribution under Sections 10(b) and 21D of the Exchange Act against the Company's Chief Executive Officer and Chief Financial Officer. On August 13, 2021 and August 19, 2021, two related verified shareholder derivative complaints were filed, captioned Genack v. Foley, et al., Case No. 1:21-cv-04583 and Liu v. Foley, et al., Case No. 1:21-cv-04687, also purportedly on behalf of the Company, in the United States District Court for the Eastern District of New York. On October 13, 2021, the parties in the three putative derivative actions filed a stipulation seeking to consolidate the actions, and agreeing to a schedule for plaintiffs to file motions to be appointed lead plaintiff. On October 26, 2021, the court entered the stipulation consolidating the three actions under the caption In re Peloton Interactive, Inc. Derivative Litigation, Master File No. 21-cv-02862-CBA-PK. On November 23, 2021, Anthony Franchi filed a shareholder derivative action in the United States District Court for the Eastern District of New York against certain of the Company's executive officers and members of the board of directors captioned Franchi v. Blachford, et al., Case No. CV 21-06544 (the "Franchi Action"), which alleges breaches of fiduciary duty, unjust enrichment, and violations of Sections 14(a) and 20(a) of the Exchange Act. On January 24, 2022, the court entered a stipulation consolidating the Franchi Action into In re Peloton Interactive, Inc. Derivative Litigation (the "EDNY Derivative Action") and appointed each plaintiff a co-lead plaintiff. On February 3, 2022, the parties filed a stipulation to stay the consolidated derivative action, which the Court entered on February 11, 2022, and the case remains stayed. On November 18, 2022, and December 8, 2022, respectively, shareholders Krikor Arslanian and Michael Smith filed putative verified stockholder derivative actions in the Court of Chancery of the State of Delaware purportedly on behalf of the Company against certain of the Company's executive officers and directors (the "Chancery Actions"), captioned Arslanian v. Blachford, et al., Case No. 2022-1051-KSJM and Smith v. Boone, et al., Case No. 2022-1138-KSJM, asserting similar allegations to those made in the EDNY Derivative Action. On December 14, 2022, the Chancery Actions were consolidated as In re Peloton Interactive, Inc. Stockholder Derivative Litigation and stayed. On December 22, 2022, putative shareholder Charles Blackburn filed a putative stockholder derivative action in the United States District Court for the District of Delaware, asserting similar allegations to those in the EDNY Derivative Action and the Chancery Actions against certain current and former Company officers and directors, captioned Blackburn v. Foley, et al., Case No. 22-cv-01618-GBW. On January 12, 2023, the court stayed the Blackburn action.

On November 18, 2021, the City of Hialeah Employees' Retirement System filed a putative securities class action lawsuit against the Company and certain of its officers in the United States District Court for the Southern District of New York, captioned City of Hialeah Employees' Retirement System v. Peloton Interactive, Inc., Case No. 21-cv-09582-ALC (the "Hialeah Action"), and on December 2, 2021, Anastasia Deulina filed a related putative securities class action against the same defendants also in the United States District Court for the Southern District of New York captioned Deulina v. Peloton Interactive, Inc., Case No. 21-cv-10266-ALC (the "Deulina Action"). On May 5, 2022, the Court consolidated the Hialeah and Deulina Actions and appointed Robeco Capital Growth Funds SICAV – Robeco Global Consumer Trends as lead plaintiff. Lead plaintiff filed its amended complaint on June 25, 2022, purportedly on behalf of a class of individuals who purchased or otherwise acquired the Company's common stock between February 5, 2021 and November 4, 2021, alleging that the Company and certain of its officers made false or misleading statements about demand for the Company's products and engaged in improper trading in violation of Sections 10(b), 20(a), and 20A of the Exchange Act. Defendants filed their motion to dismiss on August 22, 2022, and briefing was completed on November 3, 2022. A hearing on defendants' motion to dismiss has not yet been scheduled, and the court has not ruled on the motion to dismiss.

In April 2021, DISH Technologies L.L.C., and Sling TV L.L.C. ("DISH") filed a complaint in the United States District Court for the Eastern District of Texas. DISH, and, along with DISH DBS Corporation, also filed a complaint in the United States International Trade Commission ("ITC") under Section 337 of the Tariff Act of 1930 against the Company, along with ICON Health & Fitness, Inc. (now iFIT Inc. f/k/a Icon Health & Fitness, Inc.), FreeMotion Fitness, Inc., NordicTrack, Inc., lululemon athletica, inc., and Curiouser Products Inc. d/b/a MIRROR. The complaints allege infringement of various patents related to fitness devices containing internet-streaming enabled video displays. In the ITC matter, on September 9, 2022 an Initial Determination was issued recommending that the ITC enter an exclusion order and a cease and desist order against Peloton's importation and sale of Bike, Bike+, Tread and Tread+ products (and others that operate similarly) on the basis that those products infringed all four asserted patents of DISH. Peloton filed a Petition for Review of that determination to the ITC and the full Commission is reviewing certain portions of the determination. The ITC extended the target date for completion of the investigation to March 7, 2023. In the Eastern District of Texas complaint, DISH is seeking an order permanently enjoining the Company from infringing the asserted patents, an award of damages for the infringement of the asserted patents, and an award of damages for lost sales. The ITC investigation is ongoing and the Texas litigation remains stayed pending resolution to the ITC investigation.

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, except where otherwise indicated, 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.

9. 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, 2022, the number of shares of Class A Common Stock available for issuance under the 2019 Plan was automatically increased according to its terms by 16,913,700 shares. As of December 31, 2022, 50,859,100 shares of Class A Common Stock are available for future award under the 2019 Plan.

Stock Options

The following summary sets forth the stock option activity under the 2015 Plan and 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, 2022	61,815,926	$ 25.28	6.7	$ 93.2
Granted	1,436,736	$ 8.92		
Exercised	(3,436,020)	$ 5.96		$ 17.3
Forfeited or expired	(4,519,777)	$ 34.26		
Outstanding — December 31, 2022	55,296,865	$ 18.11	5.2	$ 64.2
Vested and Exercisable— December 31, 2022	38,329,253	$ 15.58	3.6	$ 64.0

Unvested option activity is as follows:

	Options	Weighted-Average Grant Date Fair Value
Unvested - June 30, 2022	25,347,235	$ 19.35
Granted	1,436,736	$ 6.42
Vested	(6,107,834)	$ 18.28
Forfeited or expired	(3,708,525)	$ 8.04
Unvested - December 31, 2022	16,967,612	$ 18.75

The aggregate intrinsic value of options outstanding and vested and exercisable was calculated as the difference between the exercise price of the options and the fair value of the Company’s common stock as of December 31, 2022. 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. The aggregate intrinsic value of exercised options was $17.3 million and $241.1 million for the six months ended December 31, 2022 and 2021, respectively.

On July 1, 2022, the Compensation Committee approved a one-time repricing of stock option awards that had been granted to date under the 2019 Plan. The repricing impacted stock options held by all employees who remained employed through July 25, 2022. The repricing did not apply to our U.S.-based hourly employees (or employees with equivalent roles in non-U.S. locations) or our C-level executives. The original exercise prices of the repriced stock options ranged from $12.94 to $146.79 per share for the 2,138 total grantees. Each stock option was repriced to have a per share exercise price of $9.13, which was the closing price of the Company’s Class A Common Stock on July 1, 2022. There were no changes to the number of shares, the vesting schedule or the expiration date of the repriced stock options. Incremental stock-based compensation expense resulting from the repricing was $21.9 million in the aggregate. Approximately $4.7 million was recognized immediately during the three months ended September 30, 2022, for vested options, with the remainder to be recognized over the remaining weighted-average vesting term of approximately 2.9 years.

For the six months ended December 31, 2022 and 2021, the weighted-average grant date fair value per option was $6.42 and $43.15, respectively. The fair value of each option was estimated at the grant date using the Black-Scholes method with the following assumptions:

	Six Months Ended December 31, 2022
Weighted average risk-free interest rate [(1)]	3.3 %
Weighted average expected term (in years)	6.2
Weighted average expected volatility [(2)]	81.4 %
Expected dividend yield	—

(1) Based on U.S. Treasury yield curve in effect at the time of grant.

(2) Expected volatility is based on a blended average of average historical stock volatilities of several peer companies over the expected term of the stock options, historical volatility of the Company's stock price, and implied stock price volatility derived from the price of exchange traded options on the Company's stock.

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, 2022	8,977,705	$ 42.49
Granted	16,481,063	$ 9.88
Vested and converted to shares	(2,475,331)	$ 38.63
Cancelled	(4,153,725)	$ 27.07
Outstanding — December 31, 2022	18,829,712	$ 17.85

Employee Stock Purchase Plan

In August 2019, the Board of Directors adopted, and in September 2019, the Company's stockholders approved, the 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, 2022, the number of shares of Class A Common Stock available for issuance under the ESPP was automatically increased according to its terms by 3,382,740 shares. As of December 31, 2022, a total of 13,145,078 shares of Class A Common Stock was 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 ended 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 will 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. During the six months ended December 31, 2022, there were ESPP resets that resulted in total modification charges of $2.7 million, which are recognized over the new two-year offering period ending August 31, 2024.

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

	Six Months Ended December 31, 2022
Weighted average risk-free interest rate	0.7 %
Weighted average expected term (in years)	1.3
Weighted average expected volatility	86.9 %
Expected dividend yield	—

The expected term assumptions were based on each offering period's respective purchase date. The expected volatility was derived from the blended average of 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 of the stock options and the historical volatility of the Company's stock price. Beginning in the fiscal quarter ended March 31, 2022, the expected volatility is based on the historical volatility of the Company's stock price. The risk-free rate assumptions were based on the U.S. treasury yield curve in effect at the time of the grants. The dividend yield assumption was zero as the Company has not historically paid any dividends and does not expect to declare or pay dividends in the foreseeable future.

During the three and six months ended December 31, 2022, the Company recorded Stock-based compensation expense associated with the ESPP of $4.3 million and $11.9 million, respectively, and $4.6 million and $8.2 million for the three and six months ended December 31, 2021, respectively.

In connection with the offering period that ended on August 31, 2022, employees purchased 386,121 shares of Class A Common Stock at a weighted-average price of $8.66 under the ESPP. As of December 31, 2022, total unrecognized compensation cost related to the ESPP was $12.8 million, which will be amortized over a weighted-average remaining period of 1.7 years.

Stock-Based Compensation Expense

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
Cost of revenue				
Connected Fitness Products	$ 2.0	$ 6.6	$ 9.3	$ 11.0
Subscription	10.0	5.1	22.7	8.7
Total cost of revenue	12.0	11.7	32.1	19.7
Sales and marketing	7.5	9.0	18.2	15.5
General and administrative	40.5	38.3	92.8	67.8
Research and development	15.6	12.9	37.8	21.7
Restructuring expense	6.0	—	82.8	—
Total stock-based compensation expense	$ 81.6	$ 71.9	$ 263.7	$ 124.8

As of December 31, 2022, the Company had $607.0 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 2.6 years.

In the six months ended December 31, 2022, nine employees of the Company who were eligible to participate in the Company's Severance and Change in Control Plan (the "Severance Plan") terminated employment. Certain modifications were made to equity awards, including, in certain instances, the post-termination period during which an employee may exercise outstanding stock options was extended from 90 days to one year (or the option expiration date, if earlier), and extended vesting was tied to certain consulting services that were deemed to be non-substantive. In one instance, the post-termination period during which an employee may exercise outstanding stock options was extended from 90 days to approximately 2.8 years. As a result of these modifications, the Company recognized incremental Stock-based compensation expense of $4.9 million and $48.3 million for the three and six months ended December 31, 2022, respectively, within Restructuring expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

10. Income Taxes

The Company recorded a provision from income taxes of $1.9 million and $2.7 million for the three and six months ended December 31, 2022, respectively, and a provision of $3.1 million and $5.4 million for the three and six months ended December 31, 2021, respectively. Furthermore, the Company's effective tax rates were (0.58)% and (0.37)% for the three and six months ended December 31, 2022, respectively, and (0.71)% and (0.67)% for the three and six months ended December 31, 2021, respectively. The income tax provision and the effective tax rate are primarily driven 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.

11. Net Loss Per Share

The computation of loss per share is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	($ in millions except per share amounts)			
Basic and diluted loss per share:				
Net loss attributable to common stockholders	$ (335.4)	$ (439.4)	$ (743.9)	$ (815.3)
Shares used in computation:				
Weighted-average common shares outstanding	341,930,937	317,110,297	340,516,100	309,119,648
Basic and diluted loss per share	$ (0.98)	$ (1.39)	$ (2.18)	$ (2.64)

Basic and diluted loss per share are the same for each class of common stock because they are entitled to the same liquidation and dividend rights.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Employee stock options	14,864,037	44,011,349	15,404,476	47,438,668
Restricted stock units and awards	817,901	104,006	475,649	252,433
Shares estimated to be purchased under ESPP	—	—	—	56,740

Impact of the Notes

The Company expects to settle the principal amount of the Notes in cash upon conversion, and therefore, the Company uses the if-converted 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 six months ended December 31, 2022, 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 basic and diluted loss 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.

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
Connected Fitness Products:				
Revenue	$ 381.4	$ 796.4	$ 585.6	$ 1,297.4
Cost of revenue	424.2	745.0	684.1	1,185.8
Gross profit	$ (42.8)	$ 51.4	$ (98.4)	$ 111.7
Subscription:				
Revenue	$ 411.3	$ 337.5	$ 823.6	$ 641.7
Cost of revenue	133.4	107.9	272.9	209.4
Gross profit	$ 277.9	$ 229.6	$ 550.7	$ 432.3
Consolidated:				
Revenue	$ 792.7	$ 1,133.9	$ 1,409.2	$ 1,939.1
Cost of revenue	557.6	853.0	957.0	1,395.1
Gross profit	$ 235.0	$ 281.0	$ 452.2	$ 544.0

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 before provision for income tax is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	**2021**	**2022**	**2021**
	(in millions)			
Segment Gross Profit	$ 235.0	$ 281.0	$ 452.2	$ 544.0
Sales and marketing	(217.1)	(348.9)	(355.8)	(633.0)
General and administrative	(192.6)	(248.5)	(386.1)	(489.0)
Research and development	(80.0)	(99.8)	(168.1)	(197.5)
Impairment expense	(9.7)	(9.4)	(72.6)	(9.9)
Restructuring expense	(49.0)	—	(155.9)	—
Supplier settlements	(17.9)	—	(19.1)	—
Total other income (expense), net	(2.2)	(10.6)	(35.9)	(24.6)
Loss before provision for income taxes	$ (333.5)	$ (436.3)	$ (741.2)	$ (809.9)

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, 2022, filed with the SEC on September 7, 2022 ("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, uncertainties, assumptions, and other important factors 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 Part I, Item 1A of our Form 10-K.

Overview

Peloton is the largest interactive fitness platform in the world with a loyal community of 6.7 million Members as of December 31, 2022. 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 All-Access Membership, or a paid Peloton App subscription.

Our Connected Fitness Product portfolio includes the Peloton Bike, Bike+, Tread, Tread+, Guide, and Row. Our revenue is generated primarily from recurring Subscription revenue and the sale of our Connected Fitness Products. 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.

Our financial profile has been characterized by strong retention, recurring revenue, and efficient customer acquisition. Our low Average Net Monthly Connected Fitness Churn, together with our high Subscription Contribution Margin, yields an attractive lifetime value (LTV) for our Connected Fitness Subscriptions well in excess of our customer acquisition cost (CAC). Maintaining an attractive LTV/CAC ratio is a primary goal of our customer acquisition strategy.

Second Quarter Fiscal 2023 Update and Recent Developments

As we have previously disclosed, forecasting for our business during and following the COVID-19 pandemic, particularly in its more recent stages, has proven to be very challenging. While we have been able to grow more than we anticipated just over two years ago, fluctuations in demand and supply that we have been navigating during this time period led us to grow our operations beyond what we believe is currently best suited to our business. Although our belief in the positive long-term outlook for Connected Fitness remains unchanged, the long-term cost demands of our business require us to recalibrate our near-term expectations. Additionally, while demand for our Connected Fitness Products has continued to strongly outpace pre-pandemic levels, we have had significant difficulty in forecasting near-term consumer demand and, as a result, our expected near-term operating performance. See *"Risk Factors—Risks Related to Our Business—Our operating results have been, and could in the future be, adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory" in our Form 10-K.*

Product and Content Highlights

Our annual Thanksgiving Day and "Turkey Burn" classes were again a Member hit, with over 790 thousand Members completing 1.3 million workouts. Responding to member feedback for new and innovative class formats, November saw the debut of "LOL Cody", our first "variety class" series created to break down pop culture's biggest moments. Cycling instructor Cody Rigsby hosted a collection of live classes featuring special guests such as Mariah Carey, Carly Rae Jepsen, Bowen Yang, and Matt Rogers, as well as drop-ins by guest Peloton instructors.

November also saw the launch of our "Extra 10" series, a collection of classes designed to provide members ten extra minutes of focused workout time, without warm-up introductions. Extra 10s are a mixture of intervals, climbs, and low-impact cycling and Tread classes, which we plan to extend to additional modalities in the new calendar year. An instant hit with Members, Extra 10s saw over 1.3 million workouts taken in the quarter by over 540 thousand Members.

In December, we officially launched and began deliveries of our new Peloton Row in the U.S.

To support our growing community of Tread users, Logan Aldridge, Hannah Frankson, Camila Ramon, and Alex Toussaint joined our Tread instructor roster during the quarter, bringing our Tread instructor count up to 24. In the quarter, we produced over 700 classes across our running, walking, and Tread bootcamp modalities, bringing our total Tread class count to over 7,300 at quarter's end. Lastly, in December we announced that our award-winning Tread will be available in Australia starting in February.

Restructuring Plan

In February 2022, we announced and began implementing a restructuring plan to realign our operational focus to support our multi-year growth, scale the business, and improve costs (the "Restructuring Plan"). The Restructuring Plan originally included: (i) reducing our headcount; (ii) closing several assembly and manufacturing plants, including the completion and subsequent sale of the shell facility for our previously planned Peloton Output Park; (iii) closing and consolidating several distribution facilities; and (iv) shifting to third-party logistics providers in certain locations. We expect the Restructuring Plan to be substantially implemented by the end of fiscal 2024.

In July 2022, August 2022 and October 2022, we took actions to update the Restructuring Plan. On July 12, 2022, we announced we are exiting all owned-manufacturing operations and our expansion of our current relationship with Taiwanese manufacturer Rexon Industrial Corp.

Additionally, on August 12, 2022, we announced our decision to perform the following additional restructuring activities: (i) fully transition our North American Field Operations to third-party providers, including the significant reduction of our delivery workforce teams; (ii) eliminate a significant number of roles on the North America Member Support team and exit our real-estate footprints in our Plano and Tempe locations; and (iii) reduce our North America retail showroom presence. On October 6, 2022, we announced approximately 500 global team member positions have been eliminated.

Total charges related to the Restructuring Plan were $62.4 million and $232.2 million for the three and six months ended December 31, 2022, respectively. Total charges for the three months ended December 31, 2022 consisted of cash charges of $34.1 million for severance and other personnel costs and $8.9 million for professional fees and other related charges, and non-cash charges of $9.7 million related to non-inventory asset write-downs and write-offs and $6.0 million for stock-based compensation expense. Total charges for the six months ended December 31, 2022 consisted of cash charges of $61.1 million for severance and other personnel costs and $12.0 million for professional fees and other related charges, and non-cash charges of $72.6 million related to non-inventory asset write-downs and write-offs and $82.8 million for stock-based compensation expense.

In connection with the Restructuring Plan, the Company estimates that it will incur additional cash charges of approximately $35 million, primarily composed of severance and other exit costs in fiscal year 2023 and beyond. Additionally, the Company expects to recognize additional non-cash charges of approximately $25 million, primarily composed of asset impairment and stock-based compensation charges in fiscal year 2023 in connection with the Restructuring Plan.

We may not be able to fully realize the cost savings and benefits initially anticipated from the Restructuring Plan, and the expected costs may be greater than expected. See *"Risk Factors—Risks Related to Our Business—We may not successfully execute or achieve the expected benefits of our restructuring initiatives and other cost-saving measures we may take in the future, and our efforts may result in further actions and/or additional asset impairment charges and adversely affect our business" in our Form 10-K.*

Product Recall Update

On May 5, 2021, we announced separate, voluntary recalls of each of our Tread+ and Tread products in collaboration with the Consumer Product Safety Commission (the "CPSC") and halted sales of these products to work on product enhancements. Members were notified that they could return their Tread or Tread+ for a full refund, or wait until a solution is available. Tread+ owners were also given the option to have Peloton move their Tread+ to a different location within their home. We announced a repair for the Tread in August 2021, shortly before resuming sales. We continue to work on potential hardware enhancements for Tread+, which remains recalled. In August 2022, the CPSC notified us that the agency staff believes we failed to meet our statutory obligations under the Consumer Product Safety Act (the "CPSA"), and, in January 2023, the CPSC announced a settlement involving civil monetary penalties. To continue our cooperation with the CPSC, we agreed to pay the $19.1 million civil penalty, resolving the CPSC's charges that we knowingly failed to immediately report hazards associated with the Tread+, and we continue to work cooperatively with the CPSC to further enhance the safety of our products. On October 18, 2022, we announced a one-year extension of the full refund period for our Tread+ if consumers wish to return their Tread+ pursuant to the recall. With the extension of the full refund period by one additional year, to November 6, 2023, the Company expects that more Members will opt for a full refund, and has accordingly increased the Company's return reserve. For the recall-to-date period, the Company recognized a reduction to Connected Fitness Products revenue for actual and estimated future returns of $166.9 million, and return reserves of $44.5 million and $26.7 million were included within Accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets related to the impacts of the recall as of December 31, 2022 and 2021, respectively. We may continue to incur additional costs that could include costs for which we have not accrued or established adequate reserves, including increases to the return reserves, inventory write-downs, logistics costs associated with Member requests to return or move their hardware, subscription waiver variable costs of service, anticipated recall-related hardware development and repair costs, and related legal and advisory fees. Recall charges are based upon estimates associated with our expected and historical consumer response rates. Our plan for the Tread+ recall is 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. See "*Risk Factors—Risks Related to Our Connected Fitness Products and Members—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" in our Form 10-K.*

Key Operational and Business Metrics

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

	Three Months Ended December 31,	
	2022	2021
Ending Connected Fitness Subscriptions	3,033,352	2,766,816
Average Net Monthly Connected Fitness Churn	1.1 %	0.8 %
Subscription Gross Profit (in millions)	$ 277.9	$ 229.3
Subscription Contribution (in millions)(1)	$ 296.6	$ 240.9
Subscription Gross Margin	67.6 %	67.9 %
Subscription Contribution Margin(1)	72.1 %	71.4 %
Net loss (in millions)	$ (335.4)	$ (439.4)
Adjusted EBITDA (in millions)(2)	$ (122.4)	$ (266.5)
Net Cash Used in Operating Activities (in millions)(3)	$ (88.5)	$ (446.6)
Free Cash Flow (in millions)(3)	$ (94.4)	$ (546.7)

(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 measures for investors.

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

(3) Please see the section titled "Non-GAAP Financial Measures—Free Cash Flow" for a reconciliation of net cash used in operating activities to Free Cash Flow and an explanation of why we consider Free Cash Flow to be a helpful measure 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 three months. We do not include canceled or unpaid Connected Fitness Subscriptions in the Connected Fitness Subscription count. A subscription is canceled and ceases to be reflected in the above metrics as of the effective cancellation date, which is the Member's next scheduled billing date.

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. When a Connected Fitness Subscription payment method fails, we communicate with our Members to update their payment method and make multiple attempts over several days to charge the payment method on file and reactivate the subscription. We cancel a Member's Connected Fitness Subscription when it remains unpaid for two days after their billing cycle date. 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.

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, extended warranty agreements, and the sale, service, installation, and delivery contracts of our commercial business. Connected Fitness Product revenue is recognized at the time of delivery, except for extended warranty revenue that is recognized over the warranty period and service revenue that is recognized over the term, 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 Connected Fitness Subscription and Peloton Digital subscription.

As of December 31, 2022, 99% and 88% of our Connected Fitness Subscription and Peloton Digital subscription bases were paying month-to-month, respectively.

If a Connected Fitness Subscription owns a combination of a Bike, Tread, Guide or Row product in the same household, the price of the Subscription remains $44 monthly (price increased from $39 to $44 USD effective as of June 1, 2022). As of December 31, 2022, approximately 7% 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, depreciation of property and equipment, and certain costs related to management, facilities, and personnel-related expenses associated with supply chain logistics.

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, depreciation of property and equipment 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.

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, expenses related to the Peloton App, and depreciation of property and equipment.

General and administrative

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

Research and development

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

Impairment expense

Impairment expense consists of non-cash impairment charges relating to long-lived assets. Impairments are determined using management's judgment about our anticipated ability to continue to use fixed assets in-service and under development, current economic and market conditions and their effects based on information available as of the date of these condensed consolidated financial statements. Management disposes of fixed assets during the regular course of business due to damage, obsolescence, strategic shifts, and loss.

Additionally, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future undiscounted net cash flows expected to be generated by the assets. If the carrying amount of an asset group exceeds its estimated undiscounted net future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset group exceeds its fair value.

Restructuring expense

Restructuring expense consists of severance and other personnel costs, including stock-based compensation expense, professional services, facility closures and other costs associated with exit and disposal activities.

Supplier settlements

Supplier settlements are payments made to third-party suppliers to terminate certain future inventory purchase commitments.

Non-operating income and expenses

Other income (expense), net

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

Income tax provision

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
Consolidated Statement of Operations Data:				
Revenue				
Connected Fitness Products	$ 381.4	$ 796.4	$ 585.6	$ 1,297.4
Subscription	411.3	337.5	823.6	641.7
Total revenue	792.7	1,133.9	1,409.2	1,939.1
Cost of revenue[1][2]				
Connected Fitness Products	424.2	745.0	684.1	1,185.8
Subscription	133.4	107.9	272.9	209.4
Total cost of revenue	557.6	853.0	957.0	1,395.1
Gross profit	235.0	281.0	452.2	544.0
Operating expenses				
Sales and marketing[1][2]	217.1	348.9	355.8	633.0
General and administrative[1][2]	192.6	248.5	386.1	489.0
Research and development[1][2]	80.0	99.8	168.1	197.5
Impairment expense	9.7	9.4	72.6	9.9
Restructuring expense[1]	49.0	—	155.9	—
Supplier settlements	17.9	—	19.1	—
Total operating expenses	566.4	706.6	1,157.6	1,329.4
Loss from operations	(331.3)	(425.7)	(705.3)	(785.4)
Other (expense) income, net:				
Interest expense	(22.2)	(8.8)	(43.2)	(17.4)
Interest income	5.8	0.3	9.8	0.9
Foreign exchange gains (losses)	11.8	(1.7)	(5.2)	(7.6)
Other income (expense), net	2.4	(0.4)	2.6	(0.4)
Total other income (expense), net	(2.2)	(10.6)	(35.9)	(24.6)
Loss before provision for income taxes	(333.5)	(436.3)	(741.2)	(809.9)
Income tax expense	1.9	3.1	2.7	5.4
Net loss	$ (335.4)	$ (439.4)	$ (743.9)	$ (815.3)

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
Cost of revenue				
Connected Fitness Products	$ 2.0	$ 6.6	$ 9.3	$ 11.0
Subscription	10.0	5.1	22.7	8.7
Total cost of revenue	12.0	11.7	32.1	19.7
Sales and marketing	7.5	9.0	18.2	15.5
General and administrative	40.5	38.3	92.8	67.8
Research and development	15.6	12.9	37.8	21.7
Restructuring	6.0	—	82.8	—
Total stock-based compensation expense	$ 81.6	$ 71.9	$ 263.7	$ 124.8

On July 1, 2022, the Compensation Committee of the Board of Directors of the Company (the “Compensation Committee”) approved accelerating the vesting requirement for unvested restricted stock units held by certain employees by one year. This applied to eligible unvested restricted stock units that had more than eight quarterly vesting dates remaining in their vesting schedule. The acceleration resulted in approximately $5.1 million and $31.7 million of stock-based compensation expense being pulled forward and recognized in the three and six months ended December 31, 2022. Additionally, on July 1, 2022, the Compensation Committee approved a one-time repricing of certain stock option awards that had been granted to date under the 2019 Plan. The repricing impacted stock options held by all employees who remained employed through July 25, 2022. The repricing did not apply to our U.S.-based hourly employees (or employees with equivalent roles in non-U.S. locations) or our C-level executives. The modification resulted in incremental stock-based compensation expense of $21.9 million in the aggregate. Approximately $4.7 million was recognized immediately during the three months ended September 30, 2022, for vested options, with the remainder to be recognized over the remaining weighted-average vesting term of approximately 2.9 years.

(2) Includes depreciation and amortization expense as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
Cost of revenue				
Connected Fitness Products	$ 4.7	$ 4.6	$ 7.5	$ 8.2
Subscription	8.8	6.4	17.3	11.9
Total cost of revenue	13.4	11.0	24.8	20.0
Sales and marketing	8.3	8.0	16.7	12.4
General and administrative	6.6	11.9	13.7	21.7
Research and development	2.9	5.1	5.7	10.1
Total depreciation and amortization expense	$ 31.2	$ 36.1	$ 60.9	$ 64.2

Comparison of the Three and Six Months Ended December 31, 2022 and 2021

Revenue

	Three Months Ended December 31,			Six Months Ended December 31,		
	2022	2021	% Change	2022	2021	% Change
			(dollars in millions)			
Revenue:						
Connected Fitness Products	$ 381.4	$ 796.4	(52.1)%	$ 585.6	$ 1,297.4	(54.9)%
Subscription	411.3	337.5	21.8	823.6	641.7	28.3
Total revenue	$ 792.7	$ 1,133.9	(30.1)%	$ 1,409.2	$ 1,939.1	(27.3)%
Percentage of revenue						
Connected Fitness Products	48.1 %	70.2 %		41.6 %	66.9 %	
Subscription	51.9	29.8		58.4	33.1	
Total	100.0 %	100.0 %		100.0 %	100.0 %	

Three and Six Months Ended December 31, 2022 and 2021

Connected Fitness Products revenue decreased $415.0 million and $711.8 million for the three and six months ended December 31, 2022, respectively, compared to the three and six months ended December 31, 2021. These decreases were primarily attributable to fewer Bike, Tread and Accessory deliveries due to a return to our historical seasonality following the strong demand for home fitness in fiscal 2022 attributable to the COVID-19 pandemic. These decreases were partially offset by revenues generated from Peloton Row which launched in the second quarter of fiscal 2023.

Subscription revenue increased $73.7 million and $181.9 million for the three and six months ended December 31, 2022, respectively, compared to the three and six months ended December 31, 2021. These increases were primarily attributable to the year-over-year growth in our Connected Fitness Subscriptions and the price increase of the All-Access membership fee from $39 to $44, effective as of June 1, 2022. The growth of our Connected Fitness Subscriptions was primarily driven by the number of Connected Fitness Products delivered during the fiscal year ended June 30, 2022 and the three months ended September 30, 2022 under new Subscriptions and our low Average Net Monthly Connected Fitness Churn of 1.14% for both the three and six month periods ending December 31, 2022.

Cost of Revenue, Gross Profit, and Gross Margin

	Three Months Ended December 31,			Six Months Ended December 31,		
	2022	2021	% Change	2022	2021	% Change
			(dollars in millions)			
Cost of Revenue:						
Connected Fitness Products	$ 424.2	$ 745.0	(43.1)%	$ 684.1	$ 1,185.8	(42.3)%
Subscription	133.4	107.9	23.6	272.9	209.4	30.3
Total cost of revenue	$ 557.6	$ 853.0	(34.6)%	$ 957.0	$ 1,395.1	(31.4)%
Gross Profit:						
Connected Fitness Products	$ (42.8)	$ 51.4	(183.4)%	$ (98.4)	$ 111.7	(188.2)%
Subscription	277.9	229.6	21.0	550.7	432.3	27.4
Total Gross profit	$ 235.0	$ 281.0	(16.3)%	$ 452.2	$ 544.0	(16.9)%
Gross Margin:						
Connected Fitness Products	(11.2)%	6.5 %		(16.8)%	8.6 %	
Subscription	67.6 %	68.0 %		66.9 %	67.4 %	

Three Months Ended December 31, 2022 and 2021

Connected Fitness Products cost of revenue for the three months ended December 31, 2022 decreased $320.8 million, or 43.1%, compared to the three months ended December 31, 2021. This decrease was primarily driven by fewer deliveries for the three months ended December 31, 2022 compared to the three months ended December 31, 2021.

Our Connected Fitness Products Gross Margin decreased to (11.2)% for the three months ended December 31, 2022 compared to 6.5% for the three months ended December 31, 2021, primarily driven by promotional pricing in place during the quarter as well as inventory reserves and write downs, partially offset by reduced payroll expenses resulting from restructuring efforts.

Subscription cost of revenue for the three months ended December 31, 2022 increased $25.5 million, or 23.6%, compared to the three months ended December 31, 2021. This increase was primarily driven by an increase of $17.9 million in music royalties and platform streaming costs, and an increase of $4.8 million in stock-based compensation expense primarily driven by the acceleration of certain restricted stock unit vesting schedules and an increased number of awards vesting.

Subscription Gross Margin remained consistent for the three months ended December 31, 2022 compared to the three months ended December 31, 2021.

Six Months Ended December 31, 2022 and 2021

Connected Fitness Products cost of revenue for the six months ended December 31, 2022 decreased $501.7 million, or 42.3%, compared to the six months ended December 31, 2021. This decrease was primarily driven by fewer deliveries for the six months ended December 31, 2022 compared to the six months ended December 31, 2021.

Our Connected Fitness Products Gross Margin decreased to (16.8)% for the six months ended December 31, 2022 compared to 8.6% for the six months ended December 31, 2021, primarily driven by inventory reserves and write downs, promotional pricing in place during the quarter, and higher logistics expenses per delivery.

Subscription cost of revenue for the six months ended December 31, 2022 increased $63.5 million, or 30.3%, compared to the six months ended December 31, 2021. This increase was primarily driven by an increase of $35.3 million in music royalties and platform streaming costs, and an increase of $14.0 million in stock-based compensation expense primarily driven by the acceleration of certain restricted stock unit vesting schedules, the repricing of certain stock option awards, and an increased number of awards vesting.

Subscription Gross Margin remained consistent for the six months ended December 31, 2022 compared to the six months ended December 31, 2021.

Operating Expenses

Sales and Marketing

	Three Months Ended December 31,			Six Months Ended December 31,		
	2022	2021	% Change	2022	2021	% Change
	(dollars in millions)					
Sales and marketing	$ 217.1	$ 348.9	(37.8)%	$ 355.8	$ 633.0	(43.8)%
As a percentage of total revenue	27.4 %	30.8 %		25.2 %	32.6 %	

Three and Six Months Ended December 31, 2022 and 2021

Sales and marketing expense decreased $131.8 million and $277.2 million in the three and six months ended December 31, 2022, respectively, when compared to the three and six months ended December 31, 2021. These decreases were primarily due to decreases in spending on advertising and marketing programs of $107.1 million and $244.7 million during the three and six months ended December 31, 2022, respectively. These decreases were also due to decreases in personnel-related expenses of $13.2 million and $20.3 million for the three and six months ended December 31, 2022, respectively, primarily due to decreased average headcount.

General and Administrative

	Three Months Ended December 31,			Six Months Ended December 31,		
	2022	2021	% Change	2022	2021	% Change
	(dollars in millions)					
General and administrative	$ 192.6	$ 248.5	(22.5)%	$ 386.1	$ 489.0	(21.0)%
As a percentage of total revenue	24.3 %	21.9 %		27.4 %	25.2 %	

Three and Six Months Ended December 31, 2022 and 2021

General and administrative expense decreased $55.9 million and $102.8 million in the three and six months ended December 31, 2022, respectively, when compared to the three and six months ended December 31, 2021. These decreases were primarily due to decreases in professional services fees of $27.3 million and $73.2 million during the three and six months ended December 31, 2022, respectively. These decreases were also due to decreases in personnel-related expenses of $17.5 million and $28.1 million for the three and six months ended December 31, 2022, respectively, primarily due to decreased average headcount. The overall decreases were partially offset by increases in stock-based compensation expense of $2.2 million and $25.0 million for the three and six months ended December 31, 2022, respectively, primarily driven by the acceleration of certain restricted stock unit vesting schedules, the repricing of certain stock option awards, and an increased number of awards vesting.

Research and Development

	Three Months Ended December 31,			Six Months Ended December 31,		
	2022	2021	% Change	2022	2021	% Change
	(dollars in millions)					
Research and development	$ 80.0	$ 99.8	(19.8)%	$ 168.1	$ 197.5	(14.9)%
As a percentage of total revenue	10.1 %	8.8 %		11.9 %	10.2 %	

Three and Six Months Ended December 31, 2022 and 2021

Research and development expense decreased $19.8 million and $29.4 million in the three and six months ended December 31, 2022, respectively, when compared to the three and six months ended December 31, 2021. These decreases were primarily due to decreases in product development and research costs associated with development of new software features and products of $7.7 million and $17.4 million during the three and six months ended December 31, 2022, respectively. Additionally, decreases of $4.1 million and $8.0 million for the three and six months ended December 31, 2022, respectively, were driven by decreased costs associated with software and web platform costs. The decreases were also due to decreases in personnel-related expenses of $8.1 million and $15.1 million for the three and six months ended December 31, 2022, respectively, primarily due to decreased average headcount. The overall decreases in research and development expenses were partially offset by increases in stock-based compensation expense of $2.7 million and $16.0 million for the three and six months ended

December 31, 2022, respectively, primarily driven by an acceleration of certain restricted stock unit vesting schedules, the repricing of certain stock option awards, and an increased number of awards vesting.

Impairment expense

	Three Months Ended December 31,			Six Months Ended December 31,		
	2022	2021	% Change	2022	2021	% Change
			(dollars in millions)			
Impairment expense	$ 9.7	$ 9.4	3.7%	$ 72.6	$ 9.9	NM*

*NM - not meaningful

Impairment expense for the three months ended December 31, 2022 was $9.7 million comprised primarily of asset write-downs and write-offs related to retail showroom locations and capitalized software. Impairment expense for the six months ended December 31, 2022 was $72.6 million comprised primarily of write-downs and write-offs related to Connected Fitness assets comprised primarily of connected fitness and supply chain asset impairments related to our exits of our remaining field operations locations, as well as assets at certain corporate office locations and retail showroom locations, which we exited during the six months ended December 31, 2022. We expect additional impairments related to assets associated with retail showroom locations as we continue to reduce our footprint during the fiscal year in connection with the Restructuring Plan.

Restructuring expense

	Three Months Ended December 31,			Six Months Ended December 31,		
	2022	2021	% Change	2022	2021	% Change
			(dollars in millions)			
Restructuring expense	$ 49.0	$ —	NM*	$ 155.9	$ —	NM*

*NM - not meaningful

Restructuring expense for the three and six months ended December 31, 2022 was $49.0 million and $155.9 million, respectively. Restructuring expense consisted of $6.0 million and $82.8 million of stock-based compensation expense for the three and six months ended December 31, 2022, respectively, driven by incremental stock-based compensation expense from exercise window modifications and the acceleration of certain restricted stock unit vesting schedules pursuant to severance arrangements, and $34.1 million and $61.1 million of cash severance and other personnel costs for the three and six months ended December 31, 2022, respectively. In addition, there were increases of $8.9 million and $12.0 million in professional fees and other costs associated with exit and disposal activities for the three and six months ended December 31, 2022, respectively. There were no restructuring expenses for the three and six months ended December 31, 2021.

Supplier Settlements

	Three Months Ended December 31,			Six Months Ended December 31,		
	2022	2021	% Change	2022	2021	% Change
			(dollars in millions)			
Supplier Settlements	$ 17.9	$ —	NM*	$ 19.1	$ —	NM*

Supplier settlements were $17.9 million and $19.1 million for the three and six months ended December 31, 2022, respectively, which consisted of settlement and related costs paid to third-party suppliers to terminate certain future inventory purchase commitments.

Other Income (Expense), Net and Income Tax Expense

	Three Months Ended December 31,			Six Months Ended December 31,		
	2022	2021	% Change	2022	2021	% Change
			(dollars in millions)			
Interest expense	$ (22.2)	$ (8.8)	*NM	$ (43.2)	$ (17.4)	*NM
Interest income	5.8	0.3	*NM	9.8	0.9	*NM
Foreign exchange gains (losses)	11.8	(1.7)	*NM	(5.2)	(7.6)	*NM
Other income (expense), net	2.4	(0.4)	*NM	2.6	(0.4)	*NM
Income tax expense	1.9	3.1	*NM	2.7	5.4	*NM

*NM - not meaningful

Other income, net, was comprised of the following for the three and six months ended December 31, 2022:

- Interest expense primarily related to the amortization of the convertible notes discount and deferred financing costs of $22.2 million and $43.2 million, respectively;
- Interest income from cash, cash equivalents, and short-term investments of $5.8 million and $9.8 million, respectively; and
- Foreign exchange gains (losses) of $11.8 million and $(5.2), respectively.

Other expense, net, was comprised of the following for the three and six months ended December 31, 2021:

- Interest expense primarily related to the amortization of the convertible notes discount and deferred financing costs of $8.8 million and $17.4 million, respectively;
- Interest income from cash, cash equivalents, and short-term investments of $0.3 million and $0.9 million, respectively;
- Foreign exchange losses of $1.7 million and $7.6 million, respectively; and
- Unrealized losses on short-term investments of $0.4 million and $0.4 million, respectively.

Income tax expense for the three and six months ended December 31, 2022 and December 31, 2021 was primarily due to 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

We calculate Adjusted EBITDA as net (loss) income adjusted to exclude: other expense (income), net; income tax expense (benefit); depreciation and amortization expense; stock-based compensation expense; impairment expense; product recall costs; litigation and settlement expenses; transaction and integration costs; reorganization, severance, exit, disposal and other costs associated with restructuring plans; supplier settlements; and other adjustment items that arise outside the ordinary course of our business.

We use Adjusted EBITDA as a measure 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 is 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 expense (income), 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 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 provides consistency and comparability with our past financial performance, facilitate period-to-period comparisons of our core operating results, and may 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 has limitations as an analytical tool, and you should not consider this measure 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 does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA excludes 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 does 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 does 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: (1) the frequency of similar cases that have been brought to date, or are expected to be brought within two years; (2) the complexity of the case; (3) the nature of the remedy(ies) sought, including the size of any monetary damages sought; (4) offensive versus defensive posture of us; (5) the counterparty involved; and (6) our overall litigation strategy;
- Adjusted EBITDA does not reflect transaction and integration costs related to acquisitions;
- Adjusted EBITDA does not reflect impairment charges for goodwill and fixed assets, and gains (losses) on disposals for fixed assets;
- Adjusted EBITDA does not reflect the impact of purchase accounting adjustments to inventory related to the Precor acquisition;

- Adjusted EBITDA does not reflect costs associated with Tread and Tread+ product recalls including increases to the return reserves, Tread+ inventory write-downs, logistics costs associated with Member requests on Tread and Tread+, the cost to move the Tread+ for those that elect the option, subscription waiver costs of service, and recall-related hardware development and repair costs;
- Adjusted EBITDA does not reflect reorganization, severance, exit, disposal and other costs associated with restructuring plans;
- Adjusted EBITDA does not reflect non-recurring supplier settlements; and
- The expenses and other items that we exclude in our calculation of Adjusted EBITDA 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 expenses or other items from these financial measures. Because companies in our industry may calculate such measures differently than we do, their usefulness as comparative measures can be limited.

Because of these limitations, Adjusted EBITDA 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, the most directly comparable financial measure prepared in accordance with GAAP, for each of the periods indicated:

Adjusted EBITDA

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(dollars in millions)			
Net loss	$ (335.4)	$ (439.4)	$ (743.9)	$ (815.3)
Adjusted to exclude the following:				
Other expense, net	2.2	10.6	35.9	24.6
Income tax expense	1.9	3.1	2.7	5.4
Depreciation and amortization expense	31.2	36.1	60.9	64.2
Stock-based compensation expense	75.6	71.9	180.9	124.8
Impairment expense	9.7	9.4	72.6	9.9
Restructuring expense	52.7	—	159.6	—
Supplier settlements	17.9	—	19.1	—
Product recalls(1)	2.3	14.7	31.2	27.5
Litigation and settlement expenses(2)	19.3	25.3	25.0	51.8
Other adjustment items	0.2	1.9	1.0	6.9
Adjusted EBITDA	$ (122.4)	$ (266.5)	$ (155.1)	$ (500.1)

(1) Represents adjustments and charges associated with the Tread and Tread+ product recall, as well as accrual adjustments. These include a reduction to Connected Fitness Products revenue for actual and estimated future returns of zero and $26.5 million, recorded costs in Connected Fitness Products cost of revenue associated with inventory write-downs and logistic costs of zero and $2.5 million, and operating expenses of $2.3 million and $2.3 million associated with recall-related hardware development costs, in each case for the three and six months ended December 31, 2022, respectively. For the three and six months ended December 31, 2021, these include a reduction to Connected Fitness Products revenue for actual and estimated future returns of $7.4 million and $18.9 million, recorded costs in Connected Fitness Products cost of revenue associated with inventory write-downs and logistic costs of $5.2 million and $5.7 million, and operating expenses of $2.1 million and $3.0 million associated with recall-related hardware development costs, respectively.

(2) Includes litigation-related expenses and settlement for certain non-recurring patent infringement litigation, securities litigation, consumer arbitration, and product recalls for the three and six months ended December 31, 2022 and 2021.

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.

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

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

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	**2021**	**2022**	**2021**
	(dollars in millions)			
Subscription Revenue	$ 411.3	$ 337.5	$ 823.6	$ 641.7
Less: Cost of Subscription	133.4	107.9	272.9	209.4
Subscription Gross Profit	$ 277.9	$ 229.6	$ 550.7	$ 432.3
Subscription Gross Margin	67.6 %	68.0 %	66.9 %	67.4 %
Add back:				
Depreciation and amortization expense	$ 8.8	$ 6.4	$ 17.3	$ 11.9
Stock-based compensation expense	10.0	5.1	22.7	8.7
Subscription Contribution	$ 296.6	$ 241.2	$ 590.7	$ 452.9
Subscription Contribution Margin	72.1 %	71.4 %	71.7 %	70.6 %

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. We expect the fixed nature of those expenses to scale over time as we grow our Connected Fitness Subscription base.

Free Cash Flow

We define Free Cash Flow as Net cash (used in) provided by operating activities less capital expenditures and capitalized internal-use software development costs. Free cash flow reflects an additional way of viewing our liquidity that, we believe, when viewed with our GAAP results, provides management, investors and other users of our financial information with a more complete understanding of factors and trends affecting our cash flows.

The use of Free Cash Flow as an analytical tool has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. For example, Free Cash Flow does not incorporate payments made for purchases of marketable securities, business combinations and asset acquisitions. Because of these limitations, Free Cash Flow should be considered along with other operating and financial performance measures presented in accordance with GAAP.

The following table presents a reconciliation of Free Cash Flow to Net cash used in operating activities, the most directly comparable financial measure prepared in accordance with GAAP, for each of the periods indicated:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	**2021**	**2022**	**2021**
	(in millions)			
Net cash used in operating activities	$ (88.5)	$ (446.6)	$ (291.3)	$ (1,007.6)
Capital expenditures and capitalized internal-use software development costs	(5.9)	(100.1)	(49.5)	(191.0)
Free Cash Flow	$ (94.4)	$ (546.7)	$ (340.7)	$ (1,198.6)

Liquidity and Capital Resources

Our operations have been funded primarily through net proceeds from the sales of our equity and convertible debt securities, and term loan, as well as cash flows from operating activities. As of December 31, 2022, we had Cash and cash equivalents of approximately $871.0 million.

We anticipate capital expenditures over the next 12 months which include capitalized labor, investments in content and our studios, product development and systems implementation, offset by any proceeds from the expected eventual sale of Peloton Output Park.

We believe our existing cash and cash equivalent balances and cash flow from operations 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 to adjust our supply chain and cost structures in response to material fluctuations in product demand, timing and amount of spending related to acquisitions, the timing and amount of spending on research and development and manufacturing initiatives, the timing and financial impact of product recalls, sales and marketing activities, the timing of new product introductions, market acceptance of our Connected Fitness Products, timing and investments needed for international expansion, and overall economic conditions. 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.

Restructuring Plan

In February 2022, we announced and began implementing the Restructuring Plan to realign our operational focus to support our multi-year growth, scale the business, and improve costs. The Restructuring Plan originally included: (i) reducing our headcount; (ii) closing several assembly and manufacturing plants, including the completion and subsequent sale of the shell facility for our previously planned Peloton Output Park; (iii) closing and consolidating several distribution facilities; and (iv) shifting to third-party logistics providers in certain locations. We expect the Restructuring Plan to be substantially implemented by the end of fiscal 2024.

In July 2022, August 2022 and October 2022, the Company took actions to update the Restructuring Plan. On July 12, 2022, we announced we are exiting all owned-manufacturing operations and our expansion of our current relationship with Taiwanese manufacturer Rexon Industrial Corporation. Additionally, on August 12, 2022, we announced the decision to perform the following additional restructuring activities: (i) fully transition our North American Field Operations to third-party providers, including the significant reduction of our delivery workforce teams; (ii) eliminate a significant number of roles on the North America Member Support team and exit our real-estate footprints in our Plano and Tempe locations; and (iii) reduce our North America retail showroom presence. On October 6, 2022, we announced approximately 500 global team member positions have been eliminated.

Total charges related to the Restructuring Plan were $62.4 million and $232.2 million for the three and six months ended December 31, 2022, respectively. Total charges for the three months ended December 31, 2022 consisted of cash charges of $34.1 million for severance and other personnel costs and $8.9 million for professional fees and other related charges, and non-cash charges of $9.7 million related to non-inventory asset write-downs and write-offs and $6.0 million for stock-based compensation expense. Total charges for the six months ended December 31, 2022 consisted of cash charges of $61.1 million for severance and other personnel costs and $12.0 million for professional fees and other related charges, and non-cash charges of $72.6 million related to non-inventory asset write-downs and write-offs and $82.8 million for stock-based compensation expense.

In connection with the Restructuring Plan, the Company estimates that it will incur additional cash charges of approximately $35 million, primarily composed of severance and other exit costs in fiscal year 2023 and beyond. Additionally, the Company expects to recognize additional non-cash charges of approximately $25 million, primarily composed of asset impairment and stock-based compensation charges in fiscal year 2023 in connection with the Restructuring Plan.

We may not be able to realize the cost savings and benefits initially anticipated as a result of the Restructuring Plan, and the costs may be greater than expected. See *"Risk Factors—Risks Related to Our Business—We may not successfully execute or achieve the expected benefits of our restructuring initiatives and other cost-saving measures we may take in the future, and our efforts may result in further actions and/or additional asset impairment charges and adversely affect our business*" in our Form 10-K.

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 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 the offering were approximately $977.2 million, after deducting the initial purchasers' discounts and commissions and our offering expenses.

Capped Call Transactions

In connection with the offering of the Notes, we 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 we 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.

Class A Common Stock Offering

On November 16, 2021, we entered into an underwriting agreement (the "Underwriting Agreement") with Goldman Sachs & Co. LLC and J.P. Morgan Securities LLC as representatives of the several underwriters named therein (collectively, the "Representatives") relating to the offer and sale by the Company (the "Offering") of 27,173,912 shares (the "Shares") of the Company's Class A Common Stock, which includes 3,260,869 shares of Class A Common Stock issued and sold pursuant to the exercise in full by the underwriters of their option to purchase additional shares of Class A Common Stock pursuant to the Underwriting Agreement. We sold the Shares to the underwriters at the public offering price of $46.00 per share less underwriting discounts. The net proceeds from the Offering were approximately $1.2 billion, after deducting the underwriters' discounts and commissions and our offering expenses.

Second Amended and Restated Credit Agreement

In 2019, the Company entered into an amended and restated revolving credit agreement (as amended, modified or supplemented prior to entrance into the Second Amended and Restated Credit Agreement (as defined below), the "Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement provided for a $500.0 million secured revolving credit facility, including up to the lesser of $250.0 million and the aggregate unused amount of the facility for the issuance of letters of credit.

The Amended and Restated Credit Agreement also permitted the incurrence of indebtedness to permit the Capped Call Transactions and issuance of the Notes.

On May 25, 2022, the Company entered into an Amendment and Restatement Agreement to the Second Amended and Restated Credit Agreement (as amended, restated or otherwise modified from time to time, the "Second Amended and Restated Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent, and certain banks and financial institutions party thereto as lenders and issuing banks. Pursuant to the Second Amended and Restated Credit Agreement, the Company amended and restated the Amended and Restated Credit Agreement.

The Second Amended and Restated Credit Agreement provides for a $750.0 million term loan facility (the "Term Loan"), which will be due and payable on May 25, 2027 or, if greater than $200.0 million of the Notes are outstanding on November 16, 2025 (the "Springing Maturity Condition"), November 16, 2025 (the "Springing Maturity Date"). The Term Loan amortizes in quarterly installments of 0.25%, payable at the end of each fiscal quarter and on the maturity date.

The Second Amended and Restated Credit Agreement also provides for a $500.0 million revolving credit facility (the "Revolving Facility"), $35.0 million of which will mature on June 20, 2024 (the "Non-Consenting Commitments"), with the rest ($465.0 million) maturing on December 10, 2026 (the "Consenting Commitments") or if the Springing Maturity Condition is met and the Term Loan is outstanding on such date, the Springing Maturity Date. The key terms of the Revolving Facility remain substantially unchanged from those set forth in the Amended and Restated Credit Agreement, including requiring compliance with a total level of liquidity of not less than $250.0 million and maintaining a minimum total four-quarter revenue level of $3.0 billion (which are replaced with a covenant to maintain a minimum debt to adjusted EBITDA ratio upon our meeting a specified adjusted EBITDA threshold).

The Revolving Facility bears interest at a rate equal to, at our option, either at the Adjusted Term SOFR Rate (as defined in the Second Amended and Restated Credit Agreement) plus 2.25% per annum or the Alternate Base Rate (as defined in the Second Amended and Restated Credit Agreement) plus 1.25% per annum for the Consenting Commitments, and bears interest at a rate equal to, at our option, either at the Adjusted Term SOFR Rate plus 2.75% per annum or the Alternate Base Rate plus 1.75% per annum for the Non-Consenting Commitments. The Company is required to pay an annual commitment fee of 0.325% per annum and 0.375% per annum on a quarterly basis based on the unused portion of the Revolving Facility for the Consenting Commitments and the Non-Consenting Commitments, respectively.

The Term Loan bears interest at a rate equal to, at our option, either at the Alternate Base Rate (as defined in the Second Amended and Restated Credit Agreement) plus 5.50% per annum or the Adjusted Term SOFR Rate (as defined in the Second Amended and Restated Credit Agreement) plus 6.50% per annum. As stipulated in the Second Amended and Restated Credit Agreement, the applicable rates increased one time by 0.50% per annum as the Company chose not to obtain a public rating for the Term Loan from S&P Global Ratings or Moody's Investors Services, Inc. on or prior to November 25, 2022. Any borrowing at the Alternate Base Rate is subject to a 1.00% floor and a term loan borrowed at the Adjusted Term SOFR Rate is subject to a 0.50% floor and any revolving loan borrowed at the Adjusted Term SOFR Rate is subject to a 0.00% floor.

The Second Amended and Restated Credit Agreement contains customary affirmative covenants as well as customary covenants that restrict 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 Second Amended and Restated Credit Agreement also contains certain customary events of default. Certain baskets and covenant levels have been decreased and will apply equally to both the Term Loan and Revolving Facility for so long as the Term Loan is outstanding. After the repayment in full of the Term Loan, such baskets and levels will revert to those previously disclosed in connection with the Amended and Restated Credit Agreement.

The obligations under the Second Amended and Restated Credit Agreement with respect to the Term Loan and the Revolving Facility are secured by substantially all of our assets, with certain exceptions set forth in the Second Amended and Restated Credit Agreement, and are required to be guaranteed by certain material subsidiaries of the Company if, at the end of future financial quarters, certain conditions are not met.

As of December 31, 2022, we were in compliance with the covenants under the Second Amended and Restated Credit Agreement. As of December 31, 2022, we had drawn the full amount of the Term Loan and we had not drawn on the Revolving Facility, and we therefore had $746.3 million total outstanding borrowings under the Second Amended and Restated Credit Agreement. As of December 31, 2022, we had outstanding letters of credit totaling $85.4 million, of which $80.6 million is classified as Restricted cash on the Condensed Consolidated Balance Sheet. Upon entering the Term Loan, the effective interest rate was 10.2% and on November 25, 2022 the rate was updated to 13.7%.

Cash Flows

	Six Months Ended December 31,	
	2022	2021
	(in millions)	
Net cash used in operating activities	$ (291.3)	$ (1,007.6)
Net cash (used in) provided by investing activities	(49.5)	299.6
Net cash provided by financing activities	27.9	1,287.2

Operating Activities

Net cash used in operating activities of $291.3 million for the six months ended December 31, 2022 was primarily due to a net loss of $743.9 million and a net increase in operating assets and liabilities of $27.7 million, partially offset by an increase in non-cash adjustments of $425.0 million. The increase in operating assets and liabilities was primarily due to a $218.5 million decrease in accounts payable and accrued expenses as a result of a decrease in accrued expense and payables due to supplier settlements and decreased inventory spending, partially offset by a $316.4 million decrease in inventory. Non-cash adjustments primarily consisted of stock-based compensation expense, long-lived asset impairment expense, depreciation and amortization, non-cash operating lease expense, and net foreign currency adjustments.

Investing activities

Net cash used in investing activities for the six months ended December 31, 2022 of $49.5 million was a result of capital expenditures primarily related to software development, and the continued build out of our warehouses and studios.

Financing activities

Net cash provided by financing activities of $27.9 million for the six months ended December 31, 2022 was primarily related to exercises of stock options of $29.9 million, partially offset by a $3.8 million principal repayment to the Term Loan.

Commitments

As of December 31, 2022, our contractual obligations were as follows:

	Payments due by period				
Contractual obligations:	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in millions)		
Lease obligations (1)	$ 963.3	$ 123.4	$ 214.5	$ 184.5	$ 441.0
Minimum guarantees (2)	236.0	149.5	86.5	—	—
Unused credit facility fee payments (3)	6.2	1.6	3.1	1.4	—
Other purchase obligations (4)	165.7	59.9	47.7	58.1	—
Convertible senior notes (5)	1,000.0	—	—	1,000.0	—
Supplier settlements (6)	19.8	19.8	—	—	—
Term loan	746.3	7.5	15.0	723.8	—
Total	$ 3,137.3	$ 361.7	$ 366.8	$ 1,967.7	$ 441.0

(1) Lease obligations relate to our office space, warehouses, production studios, equipment, and retail showrooms and microstores. The original 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. The Company has finance lease obligations of $1.2 million, also included above.

(2) We are subject to minimum royalty payments associated with our license agreements for the use of licensed content. See *"Risk Factors — Risks Related to Our Business— 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" in our Form 10-K.*

(3) Pursuant to the Second Amended and Restated Credit Agreement, we are required to pay a commitment fee of 0.325% and 0.375% on a quarterly basis based on the unused portion of the Revolving Facility for the revolving loans maturing on December 10, 2026 and June 20, 2024, respectively. As of December 31, 2022, we had outstanding letters of credit totaling $85.4 million, of which $80.6 million was classified as Restricted cash.

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

(5) Refer to *Note 7 - Debt* in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details regarding our convertible senior notes obligations.

(6) Supplier settlements relate to payments to third-party suppliers to exit purchase commitments.

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.

We utilize contract manufacturers to build our products and accessories. These contract manufacturers acquire components and build products based on demand forecast information we supply, which typically covers a rolling 12-month period. Consistent with industry practice, we acquire inventories from such manufacturers through blanket purchase orders against which orders are applied based on projected demand information and availability of goods. Such purchase commitments typically cover our forecasted product and manufacturing requirements for periods that range a number of months. In certain instances, these agreements allow us the option to cancel, reschedule, and/or adjust our requirements based on our business needs for a period of time before the order is due to be fulfilled. While our purchase orders are legally cancellable in many situations, some purchase orders are not cancellable in the event of a demand plan change or other circumstances, such as where the supplier has procured unique, Peloton-specific designs, and/or specific non-cancellable, non-returnable components based on our provided forecasts.

As of December 31, 2022, our commitments to contract with third-party manufacturers for their inventory on-hand and component purchase commitments related to the manufacture of our products were estimated to be approximately $274.1 million. See *"Risk Factors—Risks Related to Our Business—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*" in our Form 10-K.

Off-Balance Sheet Arrangements

We did not have any undisclosed off-balance sheet arrangements as of December 31, 2022.

Critical Accounting 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, 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 *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates"* in Part I, Item 7 of our Form 10-K.

Revenue Recognition

As described in *Note 8 - Commitments and Contingencies* in the Notes to Condensed Consolidated Financial Statements, the Company announced voluntary recalls of the Company's Tread+ and Tread products, permitting customers to return the products for a refund. The amount of a refund customers are eligible to receive may differ based on the status of an approved remediation of the issue driving the recall, and the age of the Connected Fitness Unit being returned. We estimate a returns reserve primarily based on historical and expected product returns, product warranty, and service call trends. We also consider current trends in consumer behavior in order to identify correlations to current trends in returns. However, with current uncertainty in the global economy, negative press and general sentiment surrounding Peloton's post-pandemic business and financial performance, and the absence of a complete remediation plan with the CPSC for our Tread+ product, predicting expected product returns based on historical returns becomes less relevant, requiring reliance on highly subjective estimates based on our interpretation of how current conditions and factors will drive consumer behavior.

On October 18, 2022, the CPSC and the Company jointly announced that consumers now have more time to get a full refund if they wish to return their Tread+. With the extension of the full refund period for one additional year, to November 6, 2023, the Company expects that more Members will opt for a full refund, and accordingly has increased the Company's return reserve. As of December 31, 2022 and June 30, 2022, our returns reserve related to the impacts of the recalls was $44.5 million and $40.8 million, respectively.

Recent Accounting Pronouncements

See *Note 2 - Summary of Significant Accounting Policies* in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q under the section titled *"Recently Issued Accounting Pronouncements"* for a discussion about new accounting pronouncements adopted and not yet adopted as of the date of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

We had Cash and cash equivalents of $871.0 million as of December 31, 2022. 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 in this Quarterly Report on Form 10-Q 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 Second Amended and Restated Credit Agreement. We monitor our cost of borrowing under our facilities, 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 Second Amended and Restated 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, some of our contract manufacturing takes place in Taiwan and the related agreements are denominated in foreign currencies and not in U.S. dollars. 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. 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. We have the ability to 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

Given the recent rise in inflation, there have been and may continue to be additional pressures on the ongoing increases in supply chain and logistics costs, materials costs, and labor costs. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we have recently experienced the effects of inflation on our results of operations and financial condition. Our business could be more affected by inflation in the future which could have an adverse effect on our ability to maintain current levels of gross margin and operating expenses as a percentage of net revenue if we are unable to fully offset such higher costs through price increases. Additionally, because we purchase component parts from our suppliers, we may be adversely impacted by their inability to adequately mitigate inflationary, industry, or economic pressures.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2022.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. As described below, we previously identified material weaknesses in our internal control over financial reporting. Solely as a result of these material weaknesses, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2022 due to the material weaknesses in our internal control over financial reporting described below.

Previously Reported Material Weaknesses

As reported in Part II, Item 9A. "Controls and Procedures" of our Form 10-K, we previously identified a material weakness in our internal control over financial reporting related to controls around the existence, completeness, and valuation of inventory.

While management has made enhancements to its physical inventory compilation process throughout fiscal years 2022 and 2023, we identified ongoing deficiencies in the operation of controls to validate the completeness and accuracy of key reports used in compiling and reviewing the results of our physical inventory counts.

These same reports are also used in other controls over the valuation of ending inventory balances which results in those controls also being deficient. We continue to implement remediation efforts, which include:

- Increasing our communication with third-party logistics providers and our oversight over third-party logistics providers' inventory management policies and procedures.
- Implementing additional monitoring controls to ensure consistency of inventory data across Peloton internal systems, our warehouses, and third-party logistics providers.
- Evaluating the effectiveness of our current cycle count program and controls, including IT general controls over systems facilitating cycle counts, to automate inventory count and reporting.
- Providing training of standard operating procedures and internal controls to key stakeholders within the supply chain, logistics, and inventory processes.

In addition, in connection with our assessment of the effectiveness of internal control over financial reporting as of June 30, 2022, control deficiencies were identified that, in the aggregate, represent a material weakness in our internal control over financial reporting. These control deficiencies relate to (i) the design of our controls associated with the application of fair value measurements pertaining to goodwill and long-lived asset impairment analyses, as well as (ii) evidence of the review supporting the validation of the inputs and assumptions used in our goodwill and long-lived asset impairment testing and restructuring assessment. In order to remediate this material weakness, we are implementing the following measures:

- Enhancing the design of our controls and implementing guidelines setting forth specific requirements for documenting our procedures for validating the data used in our impairment analysis and restructuring assessment.
- Implementing additional review and analysis procedures to validate compliance with our guidelines and our policies outlining the application fair value in accounting processes when required, including steps to improve the operation and monitoring of control activities and procedures associated with our impairment assessments.
- Determining any additional resources that may be necessary to effectively implement additional review and analysis procedures over the assumptions, inputs, and methodologies described herein.

The actions that we are taking are subject to ongoing senior management review, as well as oversight of the audit committee of our Board of Directors. We also may conclude that additional measures may be required to remediate the material weaknesses or determine to modify the remediation plans described above. We will not be able to conclude that we have remediated the material weaknesses until the applicable controls are fully implemented and operate for a sufficient period of time and management has concluded, through formal testing, that these controls are operating effectively. We will continue to monitor the design and effectiveness of these and other processes, procedures, and controls and make any further changes management deems appropriate.

These material weaknesses did not result in any material misstatements in our financial statements or disclosures. Based on additional procedures and post-closing review, management concluded that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations, and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Changes in Internal Control over Financial Reporting

Other than the remediation efforts described above, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2022 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. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in claims and proceedings arising in the ordinary course of our business. The outcome of any such claims or proceedings, regardless of the merits, is inherently uncertain.

For a discussion of legal and other proceedings in which we are involved, see *Note 8 - Commitments and Contingencies* in the Notes to 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 previously disclosed under the section titled "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2022, together with all of the other information contained 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 included elsewhere in this Quarterly Report on Form 10-Q and in our Form 10-K and our other public filings before deciding whether to invest in shares of our Class A Common Stock. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties that we are unaware of or that we currently deem immaterial may also become important factors that adversely affect our business. If any of the previously disclosed 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. There have been no material changes to our risk factors since the Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Title	Incorporated by Reference				Filed or Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation.	10-Q	001-39058	3.1	11/06/2019	
3.2	Amended and Restated Bylaws.	8-K	001-39058	3.1	04/27/2020	
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.					XX
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.					XX
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

*Indicates a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.
X Filed herewith.
XX Furnished herewith.
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, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PELOTON INTERACTIVE, INC.

Date: February 1, 2023

By: /s/ Barry McCarthy
Barry McCarthy
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Elizabeth F Coddington
Elizabeth F Coddington
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER 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, Barry McCarthy, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: February 1, 2023

By: /s/ Barry McCarthy

Barry McCarthy
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER 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, Elizabeth F Coddington, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)) and 15(d)-15(f)) 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. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: February 1, 2023

By: /s/ Elizabeth F Coddington

Elizabeth F Coddington
Chief Financial Officer
(Principal Financial Officer)

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

I, Barry McCarthy, Chief Executive Officer of Peloton Interactive, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended December 31, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition, and results of operations of the Company.

Date: February 1, 2023

By: /s/ Barry McCarthy

Barry McCarthy
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Elizabeth F Coddington, Chief Financial Officer of Peloton Interactive, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended December 31, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition, and results of operations of the Company.

Date: February 1, 2023

By: /s/ Elizabeth F Coddington

Elizabeth F Coddington
Chief Financial Officer
(Principal Financial Officer)