UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

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)*

(929) 567-0006

(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 April 28, 2023, the number of shares of the registrant's Class A common stock outstanding was 336,128,664, and the number of shares of the registrant's Class B common stock outstanding was 18,209,460.

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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 "Risk Factors" in Part II, Item 1A in this Quarterly Report on Form 10-Q 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)

	March 31, 2023 (unaudited)	June 30, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 873.6	$ 1,253.9
Accounts receivable, net	108.3	83.6
Inventories, net	625.7	1,104.5
Prepaid expenses and other current assets	210.0	192.5
Total current assets	1,817.6	2,634.6
Property and equipment, net	478.6	610.9
Intangible assets, net	29.3	41.3
Goodwill	41.2	41.2
Restricted cash	79.3	3.8
Operating lease right-of-use assets, net	545.7	662.5
Other assets	24.6	34.3
Total assets	$ 3,016.3	$ 4,028.5
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 514.9	$ 797.4
Deferred revenue and customer deposits	200.5	201.1
Current portion of long-term debt and other bank borrowings	7.5	7.5
Operating lease liabilities, current	87.9	86.4
Other current liabilities	2.5	13.2
Total current liabilities	813.2	1,105.5
0% Convertible senior notes, net	986.9	864.0
Term loan, net	690.6	690.0
Operating lease liabilities, non-current	619.5	725.4
Other non-current liabilities	33.1	50.7
Total liabilities	3,143.3	3,435.6
Commitments and contingencies (Note 8)		
Stockholders' (deficit) equity		
Common stock, $0.000025 par value; 2,500,000,000 and 2,500,000,000 Class A shares authorized, 336,026,041 and 308,241,938 shares issued and outstanding as of March 31, 2023 and June 30, 2022, respectively; 2,500,000,000 and 2,500,000,000 Class B shares authorized, 18,209,460 and 30,032,078 shares issued and outstanding as of March 31, 2023 and June 30, 2022, respectively.	—	—
Additional paid-in capital	4,543.0	4,291.3
Accumulated other comprehensive income	19.9	12.2
Accumulated deficit	(4,690.0)	(3,710.6)
Total Stockholders' (deficit) equity	(127.0)	592.9
Total liabilities and stockholders' (deficit) equity	$ 3,016.3	$ 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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
Revenue:				
Connected Fitness Products	$ 324.1	$ 594.4	$ 909.8	$ 1,891.9
Subscription	424.7	369.9	1,248.3	1,011.6
Total revenue	748.9	964.3	2,158.1	2,903.4
Cost of revenue:				
Connected Fitness Products	341.7	662.3	1,025.8	1,848.1
Subscription	136.9	117.8	409.8	327.2
Total cost of revenue	478.7	780.1	1,435.6	2,175.3
Gross profit	270.2	184.2	722.4	728.2
Operating expenses:				
Sales and marketing	154.6	227.7	510.4	860.8
General and administrative	249.2	242.3	635.3	731.3
Research and development	78.2	77.1	246.3	274.6
Goodwill impairment	—	181.9	—	181.9
Impairment expense	39.4	32.5	111.9	42.5
Restructuring expense	12.0	158.5	167.9	158.5
Supplier settlements	2.9	—	22.0	—
Total operating expenses	536.2	920.0	1,693.8	2,249.4
Loss from operations	(266.0)	(735.8)	(971.3)	(1,521.2)
Other (expense) income, net:				
Interest expense	(26.6)	(9.1)	(69.7)	(26.5)
Interest income	7.9	0.2	17.7	1.1
Foreign exchange gain (loss)	9.1	(11.5)	3.9	(19.1)
Other income, net	0.4	1.2	3.0	0.7
Total other expense, net	(9.1)	(19.2)	(45.1)	(43.8)
Loss before provision for income taxes	(275.2)	(755.0)	(1,016.4)	(1,565.0)
Income tax expense	0.8	2.1	3.5	7.5
Net loss	$ (275.9)	$ (757.1)	$ (1,019.9)	$ (1,572.4)
Net loss attributable to Class A and Class B common stockholders	$ (275.9)	$ (757.1)	$ (1,019.9)	$ (1,572.4)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.79)	$ (2.27)	$ (2.97)	$ (4.96)
Weighted-average Class A and Class B common shares outstanding, basic and diluted	350,426,631	333,864,579	343,753,996	317,245,844
Other comprehensive (loss) income:				
Net unrealized losses on marketable securities	$ —	$ —	$ —	$ (0.4)
Change in foreign currency translation adjustment	(1.5)	(5.6)	6.7	(3.5)
Derivative adjustments:				
Net unrealized loss on hedging derivatives	—	(3.6)	—	(4.7)
Reclassification for derivative adjustments included in Net loss	0.3	1.4	1.0	0.9
Total other comprehensive (loss) income	(1.2)	(7.9)	7.7	(7.8)
Comprehensive loss	$ (277.1)	$ (765.0)	$ (1,012.2)	$ (1,580.2)

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Nine Months Ended March 31,	
	2023	2022
Cash Flows from Operating Activities:		
Net loss	$ (1,019.9)	$ (1,572.4)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	93.1	102.4
Stock-based compensation expense	333.7	241.9
Non-cash operating lease expense	62.5	66.8
Amortization of premium from marketable securities	—	3.4
Amortization of debt discount and issuance costs	10.0	25.5
Impairment expense	111.9	42.5
Goodwill impairment	—	181.9
Net foreign currency adjustments	(5.3)	19.1
Changes in operating assets and liabilities:		
Accounts receivable	(24.9)	(3.6)
Inventories	435.1	(473.3)
Prepaid expenses and other current assets	53.6	(40.5)
Other assets	5.2	(6.6)
Accounts payable and accrued expenses	(296.6)	(260.4)
Customer deposits and deferred revenue	(0.7)	46.4
Operating lease liabilities, net	(65.8)	(49.1)
Other liabilities	(24.2)	(1.6)
Net cash used in operating activities	(332.2)	(1,677.8)
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	(63.8)	(267.7)
Business combinations, net of cash acquired	—	(11.0)
Asset acquisitions, net of cash acquired	—	(16.0)
Proceeds from sales of net assets	12.4	—
Net cash (used in) provided by investing activities	(51.4)	223.0
Cash Flows from Financing Activities:		
Proceeds from public offering, net of issuance costs	—	1,218.8
Principal repayment of Term Loan	(5.6)	—
Proceeds from employee stock purchase plan withholdings	5.1	14.9
Proceeds from exercise of stock options	72.6	76.7
Principal repayments of finance leases	(2.0)	(1.3)
Net cash provided by financing activities	70.0	1,309.0
Effect of exchange rate changes	8.9	(23.6)
Net change in cash, cash equivalents, and restricted cash	(304.7)	(169.4)
Cash, cash equivalents, and restricted cash — Beginning of period	1,257.6	1,135.7
Cash, cash equivalents, and restricted cash — End of period	$ 952.9	$ 966.2
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 56.7	$ 1.0
Cash paid for income taxes	$ 12.9	$ 13.7
Supplemental Disclosures of Non-Cash Investing and Financing Information:		

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

Accrued and unpaid capital expenditures, including software	$ 1.5	$ 36.0
Stock-based compensation capitalized for software development costs	$ 7.7	$ 8.0

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance - December 31, 2021	331.4	$ —	$ 4,048.8	$ 18.3	$ (1,698.2)	$ 2,368.9
Activity related to stock-based compensation	5.2	—	138.9	—	—	138.9
Issuance of common stock under employee stock purchase plan	0.4	—	10.2	—	—	10.2
Other comprehensive loss	—	—	—	(7.9)	—	(7.9)
Net loss	—	—	—	—	(757.1)	(757.1)
Balance - March 31, 2022	337.1	$ —	$ 4,197.9	$ 10.4	$ (2,455.3)	$ 1,753.0
Balance - December 31, 2022	344.6	$ —	$ 4,423.4	$ 21.1	$ (4,414.0)	$ 30.5
Activity related to stock-based compensation	9.1	—	115.1	—	—	115.1
Issuance of common stock under employee stock purchase plan	0.5	—	4.5	—	—	4.5
Other comprehensive loss	—	—	—	(1.2)	—	(1.2)
Net loss	—	—	—	—	(275.9)	(275.9)
Balance - March 31, 2023	354.2	$ —	$ 4,543.0	$ 19.9	$ (4,690.0)	$ (127.0)

	Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance - June 30, 2021	300.1	$ —	$ 2,618.9	$ 18.2	$ (883.0)	$ 1,754.1
Activity related to stock-based compensation	9.1	—	338.4	—	—	338.4
Issuance of common stock under employee stock purchase plan	0.7	—	21.9	—	—	21.9
Issuance of common stock pursuant to public offering, net of issuance costs	27.2	—	1,218.7	—	—	1,218.7
Other comprehensive loss	—	—	—	(7.8)	—	(7.8)
Net loss	—	—	—	—	(1,572.4)	(1,572.4)
Balance - March 31, 2022	337.1	$ —	$ 4,197.9	$ 10.4	$ (2,455.3)	$ 1,753.0
Balance - June 30, 2022	338.3	$ —	$ 4,291.3	$ 12.2	$ (3,710.6)	$ 592.9
Activity related to stock-based compensation	15.0	—	403.9	—	—	403.9
Issuance of common stock under employee stock purchase plan	0.9	—	7.9	—	—	7.9
Cumulative effect of adopting ASU 2020-06	—	—	(160.1)	—	40.6	(119.5)
Other comprehensive income	—	—	—	7.7	—	7.7
Net loss	—	—	—	—	(1,019.9)	(1,019.9)
Balance - March 31, 2023	354.2	$ —	$ 4,543.0	$ 19.9	$ (4,690.0)	$ (127.0)

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 App 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 nine months ended March 31, 2023 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, product recall and corrective action cost, 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

ASU 2020-06

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

ASU 2021-08

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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
Balance at beginning of period	$ 36.2	$ 48.5	$ 51.1	$ 51.5
Provision for warranty accrual	7.0	14.7	12.8	38.4
Warranty claims	(13.4)	(18.7)	(34.1)	(45.4)
Balance at end of period	$ 29.8	$ 44.5	$ 29.8	$ 44.5

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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
North America	$ 692.5	$ 873.2	$ 1,996.6	$ 2,637.0
International	56.4	91.2	161.4	266.5
Total revenue	$ 748.9	$ 964.3	$ 2,158.1	$ 2,903.4

During the three and nine months ended March 31, 2023, the Company's revenue attributable to the United States was $666.8 million and $1,923.6 million, or 89% and 89% of total revenue, respectively. During the three and nine months ended March 31, 2022, the Company's revenue attributable to the United States was $824.3 million and $2,503.2 million, or 85% and 86% of total revenue, respectively.

Customer Deposits and Deferred Revenue

As of March 31, 2023 and June 30, 2022, customer deposits of $101.6 million and $109.2 million, respectively, and deferred revenue of $98.9 million and $91.9 million, respectively, were included in Deferred revenue and customer deposits on the Company's Condensed Consolidated Balance Sheets.

In the nine months ended March 31, 2023 and 2022, the Company recognized revenue of $92.0 million and $68.2 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 certain 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 transitioning its North American Field Operations to third-party providers, including the significant reduction of its delivery workforce teams; (ii) eliminating a significant number of roles on the North America Member Support team and exiting its real-estate footprints in its Plano and Tempe locations; and (iii) reducing its 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 March 31, 2023	Nine Months Ended March 31, 2023
Cash restructuring charges:	**(in millions)**	
Severance and other personnel costs	$ 6.9	$ 68.0
Professional fees and other related charges	4.4	16.4
Total cash charges	11.3	84.4
Non-cash charges:		
Asset write-downs and write-offs	36.0	108.6
Stock-based compensation expense	0.7	83.5
Write-offs of inventory related to restructuring activities (1)	—	3.7
Total non-cash charges	36.8	195.8
Total	$ 48.0	$ 280.2

(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 nine months ended March 31, 2023, 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 December 31, 2022	$ 22.3	$ 1.1	$ 23.4
Charges	6.9	4.4	11.3
Cash payments	(16.3)	(5.5)	(21.9)
Balance as of March 31, 2023	$ 12.8	$ —	$ 12.8

	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	68.0	16.4	84.4
Cash payments	(66.1)	(16.4)	(82.5)
Balance as of March 31, 2023	$ 12.8	$ —	$ 12.8

In addition to the above charges, the Company incurred approximately $1.9 million of capital expenditures related to Peloton Output Park during the nine months ended March 31, 2023.

In connection with the Restructuring Plan, the Company estimates that it will incur additional cash charges of approximately $20 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 $35 million, primarily composed of asset impairment and stock-based compensation charges 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 March 31, 2023			
	Level 1	Level 2	Level 3	Total
	(in millions)			
0% Convertible Senior Notes	$ —	$ 760.0	$ —	$ 760.0

	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 (as defined below) approximates the fair value of the Term Loan as of March 31, 2023.

6. Inventories

Inventories were as follows:

	March 31, 2023	June 30, 2022
	(in millions)	
Raw materials	$ 50.0	$ 102.5
Work-in-process	—	3.7
Finished products[1]	792.2	1,283.7
Total inventories	842.2	1,389.9
Less: Reserves	(216.4)	(285.4)
Total inventories, net	$ 625.7	$ 1,104.5

(1) Includes $21.1 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 March 31, 2023 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 March 31, 2023 primarily in the amounts of $99.4 million related to excess accessories and apparel inventory that the Company does not expect to sell above its current carrying value and $86.0 million primarily related to returned Connected Fitness Products that the Company does not expect to sell.

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:

	March 31, 2023
	(in millions)
Principal	$ 1,000.0
Unamortized debt issuance costs	(13.1)
Net carrying amount	$ 986.9

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

	Three Months Ended March 31,		**Nine Months Ended March 31,**	
	2023	**2022**	**2023**	**2022**
	(in millions)			
Amortization of debt discount(1)	$ —	$ 7.7	$ —	$ 23.0
Amortization of debt issuance costs	1.1	0.8	3.4	2.5
Less: Interest capitalized	—	(0.1)	—	(0.3)
Total interest expense related to the Notes	$ 1.1	$ 8.5	$ 3.4	$ 25.2

(1) The decreases in total interest expense during the three and nine months ended March 31, 2023 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 (the "Amended and Restated 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 provided for a $500.0 million revolving credit facility (the "Revolving Facility"), $35.0 million of which would 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. On August 24, 2022, the Company amended the Second Amended and Restated Credit Agreement (the "First Amendment") such that the Company is only required to meet the total liquidity covenant, set at $250.0 million (the "Liquidity Covenant"), and the total revenues covenant, set at $3.0 billion for the four-quarter trailing period, to the extent any revolving loans are borrowed and outstanding. On May 2, 2023, the Company further amended the Second Amended and Restated Credit Agreement (the "Second Amendment") to, among other things, (i) reduce the aggregate revolving credit commitments from $500.0 million to $400.0 million, with the Non-Consenting Commitments reduced to $28.0 million and the Consenting Commitments reduced to $372.0 million, and (ii) remove the covenant requiring the Company to maintain a minimum total four-quarter revenue level of $3.0 billion at any time when revolving loans are outstanding. Following the Second Amendment, borrowings under the Revolving Facility will be limited to the lesser of (a) $400.0 million and (b) an amount equal to the "Subscription" revenue of the Company and its subsidiaries for the most recently completed fiscal quarter of the Company. The Liquidity Covenant will still be replaced with a covenant to maintain a minimum secured 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 applicable to the Term Loan 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 nine months ended March 31, 2023, the Company incurred total commitment fees of $0.4 million and $1.2 million, respectively, and $0.4 million and $1.0 million during the three and nine months ended March 31, 2022, respectively, which are included in Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

As of March 31, 2023, 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 $744.4 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 March 31, 2023, we were fully undrawn under our Revolving Facility and as such did not have to test the financial 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 March 31, 2023, the Company had outstanding letters of credit totaling $79.3 million, which 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 into 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:

	March 31, 2023	June 30, 2022
	(in millions)	
Principal	$ 750.0	$ 750.0
Principal payments	(5.6)	—
Unamortized debt discount	(29.2)	(33.1)
Unamortized debt issuance costs	(17.1)	(19.4)
Net carrying amount	$ 698.1	$ 697.5

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
Amortization of debt discount	$ 1.3	$ —	$ 4.0	$ —
Amortization of debt issuance costs	0.8	—	2.4	—
Total interest expense related to the Term Loan	$ 2.1	$ —	$ 6.4	$ —

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 March 31, 2023:

Fiscal Year	Future Minimum Payments (in millions)
2023 (remaining)	$ 30.5
2024	132.0
2025	48.8
2026	5.0
Total	$ 216.4

Tread+ and Tread Product Recall Return Reserves and Cost Estimates

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 Tread+. With the extension of the full refund period for one additional year, to November 6, 2023, the Company previously estimated that more Members would opt for a full refund, and accordingly increased the Company's return reserve during the three months ended September 30, 2022. During the three months ended March 31, 2023, based on lower actual returns than previously estimated, the Company has updated its return reserve assumptions and decreased the Company's return reserve. In addition, during the three months ended March 31, 2023, the Company recognized a contingent liability for the cost associated with the Tread+ product recall.

The following table details the (benefit)/reduction to Connected Fitness Products revenue for actual and future returns and costs associated with Tread+ and Tread product recalls that were recorded in Connected Fitness Products cost of revenue.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
Returns accrual for reduction to Connected Fitness Products revenue	$ (11.9)	$ 17.5	$ 14.6	$ 36.3
Costs of product recalls	13.2	2.0	15.7	7.6

Return reserves related to the impacts of the Tread+ recall of $29.3 million and $36.7 million were included within Accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets as of March 31, 2023 and 2022, respectively. The estimated return reserves are primarily based on historical and expected product returns.

Bike Corrective Action Plan

During the three months ended March 31, 2023, we accrued $8.4 million of estimated contingent loss expense related to a voluntary corrective action plan ("CAP") involving certain seat posts in our original model Peloton Bike (not Peloton Bike+). We have voluntarily notified the U.S. Consumer Product Safety Commission ("CPSC") regarding this issue and are cooperating with the CPSC to finalize a voluntary CAP. The contingent liability accrual was based on an amount that was deemed probable and estimable. It is reasonably possible that any additional accruals for contingent losses related to this matter could be material to the financial statements, however, we are unable to estimate the amount of such additional losses at this time. For more detail on the potential impacts of the CAP to our business, see Part II, Item 1A "*Risk Factors - Risks Related to Our Connected Fitness Products and Members.*"

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 March 31, 2023, 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 $211.9 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, in May 2021 we initiated a voluntary recall of our Tread+ product in collaboration with the CPSC. In December 2022, to continue our cooperation with the CPSC, we entered into a settlement agreement with the CPSC regarding matters related to the Tread+ recall. In the settlement, which was publicly announced in January 2023, we agreed to pay a $19.1 million civil penalty, resolving the CPSC's charges that we violated the Consumer Product Safety Act ("CPSA"). 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 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. On December 15, 2022, the parties reached a settlement-in-principle and on December 16, 2022, the court stayed the action in light of that settlement-in-principle. On April 17, 2023, the parties entered into a settlement agreement to resolve the action for $14.0 million, for which the Company had previously taken a reserve, and submitted the agreement to the court for approval. Under the terms of this agreement, defendants continue to deny any liability or wrongdoing. The settlement remains subject to court approval.

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 February 21, 2023 shareholders Allison Manzella and Clark Ovruchesky filed a putative verified stockholder derivative action in the Court of Chancery in the State of Delaware on behalf of the Company against certain of the Company’s officers and directors, captioned Manzella v. Cortese, et al., C.A. No. 2023-0224-KSJM, alleging the defendants breached their fiduciary duties by purportedly making false statements about demand for the company’s products and engaging in improper trading. On March 20, 2023, shareholder Daniel Banks likewise filed a putative verified stockholder derivative action in the Court of Chancery in the State of Delaware on behalf of the Company, captioned *Banks v. Foley, et al.,* C.A. No. 2023-0340-KSJM, asserting substantially similar allegations. On April 18, 2023, plaintiffs in the Chancery Actions moved to consolidate their action with the Manzella and Banks actions. On April 28, 2023, shareholder Karen Florentino filed a putative verified stockholder derivative action in the Court of Chancery in the State of Delaware on behalf of the Company, captioned Florentino v. Cortese, et al., C.A. No. 2023-0468, asserting substantially similar allegations as those in the Manzella and Banks actions.

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. On March 30, 2023, the court granted defendants’ motion to dismiss. Lead plaintiff has until May 5, 2023 to file an amended complaint.

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 alleged 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. On March 8, 2023, the ITC issued an opinion finding that Peloton had imported products which infringe certain claims of the patents asserted by DISH. On the basis of that finding, the ITC issued a limited exclusion order and cease and desist order (“remedial orders”). The remedial orders were subject to a 60-day Presidential Review Period ending on May 7, 2023. Absent presidential disapproval, after May 7, 2023, the remedial orders would have prohibited (i) the sale, distribution, marketing, transferring, or advertising in the United States of products that have the infringing functionality installed on them, and (ii) the importation of such products unless and until Customs and Border Protection (“CBP”) deems them non-infringing. On May 1, 2023, Peloton executed a Settlement, Patent License, and Release Agreement with DISH resolving the ITC matter and the Eastern District of Texas matter, pursuant to which Peloton paid a one time settlement payment of $75.0 million to DISH and DISH is seeking to terminate the related legal proceedings.

On August 4, 2022, Mayville Engineering Company, Inc. (“MEC”) filed suit against Peloton in the Supreme Court of the State of New York, Index No. 652735/2022, alleging claims for breach of contract, or, in the alternative, breach of the implied duty of good faith and fair dealing. MEC alleges that Peloton breached a supply agreement under which MEC agreed to supply certain parts for Peloton products, and that it is entitled to damages in an amount exceeding $107.0 million, plus pre-judgment interest, fees, and costs. On September 23, 2022, Peloton moved to dismiss MEC's complaint. On January 6, 2023, the Court partially granted and partially denied Peloton's motion to dismiss, dismissing MEC’s alternative claim for breach of the implied duty of good faith and fair dealing with prejudice, but allowing MEC's claim for breach of contract to move forward. The matter is ongoing.

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 March 31, 2023, 43,845,942 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	1,437,950	$ 8.92		
Exercised	(11,076,872)	$ 5.65		$ 82.6
Forfeited or expired	(7,765,745)	$ 32.02		
Outstanding — March 31, 2023	44,411,259	$ 19.47	5.5	$ 105.7
Vested and Exercisable— March 31, 2023	29,968,347	$ 17.14	4.0	$ 91.7

Unvested option activity is as follows:

	Options	Weighted-Average Grant Date Fair Value
Unvested - June 30, 2022	25,347,235	$ 19.35
Granted	1,437,950	$ 6.42
Vested	(7,751,971)	$ 18.49
Forfeited or expired	(4,590,302)	$ 8.66
Unvested - March 31, 2023	14,442,912	$ 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 March 31, 2023. 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 $82.6 million and $369.5 million for the nine months ended March 31, 2023 and 2022, respectively.

On July 1, 2022, the Compensation Committee of the Board of Directors of the Company 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.

For the nine months ended March 31, 2023 and 2022, the weighted-average grant date fair value per option was $6.42 and $23.07, respectively. The fair value of each option was estimated at the grant date using the Black-Scholes method with the following assumptions:

	Nine Months Ended March 31, 2023
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	27,850,762	$ 10.92
Vested and converted to shares	(3,976,734)	$ 34.49
Cancelled	(5,267,192)	$ 25.81
Outstanding — March 31, 2023	27,584,541	$ 14.95

Employee Stock Purchase Plan

In August 2019, the Board of Directors adopted, and in September 2019, the Company's stockholders approved, the Employee Stock Purchase Plan ("ESPP"), through which eligible employees may purchase shares of the Company's Class A Common Stock at a discount through accumulated payroll deductions. The ESPP became effective on the date the registration statement, in connection with the Company's initial public offering, 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 March 31, 2023, a total of 12,626,752 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 nine months ended March 31, 2023, 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:

	Nine Months Ended March 31, 2023
Weighted average risk-free interest rate	0.8 %
Weighted average expected term (in years)	1.3
Weighted average expected volatility	87.5 %
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 nine months ended March 31, 2023, the Company recorded stock-based compensation expense associated with the ESPP of $3.1 million and $15.0 million, respectively, and $2.4 million and $10.6 million for the three and nine months ended March 31, 2022, 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. In connection with the offering period that ended on February 28, 2023, employees purchased 518,326 shares of Class A Common Stock at a weighted-average price of $8.74 under the ESPP. As of March 31, 2023, total unrecognized compensation cost related to the ESPP was $11.1 million, which will be amortized over a weighted-average remaining period of 1.9 years.

Stock-Based Compensation Expense

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
Cost of revenue				
Connected Fitness Products	$ 2.4	$ 5.7	$ 11.7	$ 16.7
Subscription	9.7	6.3	32.4	15.0
Total cost of revenue	12.0	12.0	44.1	31.8
Sales and marketing	5.8	7.5	23.9	23.0
General and administrative	37.0	41.1	129.8	108.9
Research and development	14.5	11.7	52.3	33.4
Restructuring expense	0.7	44.9	83.5	44.9
Total stock-based compensation expense	$ 70.0	$ 117.1	$ 333.7	$ 241.9

As of March 31, 2023, the Company had $640.1 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 2.8 years.

In the nine months ended March 31, 2023, 13 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 $1.3 million and $49.6 million for the three and nine months ended March 31, 2023, 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 $0.8 million and $3.5 million for the three and nine months ended March 31, 2023, respectively, and a provision of $2.1 million and $7.5 million for the three and nine months ended March 31, 2022, respectively. Furthermore, the Company's effective tax rates were (0.30)% and (0.35)% for the three and nine months ended March 31, 2023, respectively, and (0.27)% and (0.48)% for the three and nine months ended March 31, 2022, 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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	($ in millions except per share amounts)			
Basic and diluted loss per share:				
Net loss attributable to common stockholders	$ (275.9)	$ (757.1)	$ (1,019.9)	$ (1,572.4)
Shares used in computation:				
Weighted-average common shares outstanding	350,426,631	333,864,579	343,753,996	317,245,844
Basic and diluted loss per share	$ (0.79)	$ (2.27)	$ (2.97)	$ (4.96)

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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
Employee stock options	14,528,761	31,148,210	15,112,571	42,008,515
Restricted stock units and awards	3,699,225	154,564	1,550,174	219,810
Shares estimated to be purchased under ESPP	—	—	—	37,826

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 nine months ended March 31, 2023, 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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
Connected Fitness Products:				
Revenue	$ 324.1	$ 594.4	$ 909.8	$ 1,891.9
Cost of revenue	341.7	662.3	1,025.8	1,848.1
Gross profit	$ (17.6)	$ (67.9)	$ (116.0)	$ 43.8
Subscription:				
Revenue	$ 424.7	$ 369.9	$ 1,248.3	$ 1,011.6
Cost of revenue	136.9	117.8	409.8	327.2
Gross profit	$ 287.8	$ 252.1	$ 838.5	$ 684.4
Consolidated:				
Revenue	$ 748.9	$ 964.3	$ 2,158.1	$ 2,903.4
Cost of revenue	478.7	780.1	1,435.6	2,175.3
Gross profit	$ 270.2	$ 184.2	$ 722.4	$ 728.2

Reconciliation of Gross Profit

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
Segment Gross Profit	$ 270.2	$ 184.2	$ 722.4	$ 728.2
Sales and marketing	(154.6)	(227.7)	(510.4)	(860.8)
General and administrative	(249.2)	(242.3)	(635.3)	(731.3)
Research and development	(78.2)	(77.1)	(246.3)	(274.6)
Goodwill impairment	—	(181.9)	—	(181.9)
Impairment expense	(39.4)	(32.5)	(111.9)	(42.5)
Restructuring expense	(12.0)	(158.5)	(167.9)	(158.5)
Supplier settlements	(2.9)	—	(22.0)	—
Total other expense, net	(9.1)	(19.2)	(45.1)	(43.8)
Loss before provision for income taxes	$ (275.2)	$ (755.0)	$ (1,016.4)	$ (1,565.0)

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 March 31, 2023. 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.

Third Quarter Fiscal 2023 Update and Recent Developments

As we have previously disclosed, forecasting for our business during and following the COVID-19 pandemic has proven to be very challenging. 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

Hardware/Software: In February we were pleased to introduce our Peloton Tread to the Australian market, completing our international roll-out. Our software investments across the Peloton platform continue to make it easier for Members to navigate our thousands of diverse classes and more easily find a great workout. In the three months ended March 31, 2023, we improved class search query results on Bike, Tread, and Row and continued to streamline the experience of taking multiple consecutive classes. We have also invested in further personalization of the Peloton home-screen, so that each Member sees content they are likely to enjoy based on their workout history.

Tread, Row, and Guide are delivering the best user experience for their respective modalities. On Tread, we launched Run Achievements, celebrating running and walking specific milestones like your fastest mile, and improved Auto-Incline to make it easier to follow hill workouts. On Row, we launched the innovative Tips and Praise features, which leverages our deep hardware-software integration to give rowers actionable feedback on their rowing form in real time. And on Guide, we paired our ongoing improvement of Rep and Weight Tracking with some of the most Member-requested fixes, including more Rep Tracking classes and improved remote connectivity.

Content: Peloton Programs offer structured class collections designed to meet specific Member goals and have been enthusiastically embraced by our Members. Program exclusive workouts were up 97% as compared to the three months ended December 31, 2022 across over 625 Program-exclusive classes. Leveraging this success and in pursuit of greater levels of content personalization, during the three months ended March 31, 2023, we launched Beginner Pilates with Kristin McGee, German language versions of Beginner Yoga and You Can Ride, Straight to the Core with Rebecca Kennedy, and Ben Alldis's Stronger You. Looking ahead, the focus of our Program development will be further expansion of our Strength & Floor fitness modalities. In support of our new Peloton Row, in the three months ended March 31, 2023, we launched Live Row classes and Guided Scenic classes in San Diego.

Subsequent to quarter's end: We continue our work on third-party device integrations, and in April, we announced that Peloton Connected Fitness hardware will now automatically integrate with smartwatches from Samsung, Google, Fossil, and other manufacturers using Wear OS 3. That includes not only Peloton’s bikes and treadmill but also our rower and Guide strength training system.

On April 5th, we announced the expansion of our industry-first partnership with Hilton to equip nearly every Hilton portfolio hotel in Canada, Germany and the U.K. with Peloton Bikes. In addition, Hilton Honors members will receive special limited time offers for an extended Peloton App free trial and partnership pricing on Peloton Connected Fitness hardware.

Most recently, we extended our popular bike rental offering to Canada on April 25th, representing the first international expansion market for our rental program.

<u>Restructuring Plan</u>

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 transitioning our North American Field Operations to third-party providers, including the significant reduction of our delivery workforce teams; (ii) eliminating a significant number of roles on the North America Member Support team and exiting our real-estate footprints in our Plano and Tempe locations; and (iii) reducing our 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 $48.0 million and $280.2 million for the three and nine months ended March 31, 2023, respectively. Total charges for the three months ended March 31, 2023 consisted of cash charges of $6.9 million for severance and other personnel costs and $4.4 million for professional fees and other related charges, and non-cash charges of $36.0 million related to non-inventory asset write-downs and write-offs and $0.7 million for stock-based compensation expense. Total charges for the nine months ended March 31, 2023 consisted of cash charges of $68.0 million for severance and other personnel costs and $16.4 million for professional fees and other related charges, and non-cash charges of $108.6 million related to non-inventory asset write-downs and write-offs, $83.5 million for stock-based compensation expense, and $3.7 million for write-offs of inventory related to restructuring activities.

In connection with the Restructuring Plan, the Company estimates that it will incur additional cash charges of approximately $20 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 $35 million, primarily composed of asset impairment and stock-based compensation charges 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.

<u>Tread+ and Tread Product Recall Return Reserves and Cost Estimates</u>

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 December 2022, to continue our cooperation with the CPSC, we entered into a settlement agreement with the CPSC regarding matters related to the Tread+ recall. In the settlement, which was publicly announced in January 2023, we agreed to pay a $19.1 million civil penalty, resolving the CPSC's charges that we violated the Consumer Product Safety Act ("CPSA"). 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 for one additional year, to November 6, 2023, the Company previously estimated that more Members would opt for a full refund, and accordingly increased the Company's return reserve. During the three months ended March 31, 2023, based on lower actual returns than previously estimated, the Company has updated its return reserve assumptions and decreased 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 $154.4 million, and return reserves of $29.3 million and $36.7 million were included within Accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets as of March 31, 2023 and 2022, respectively, related to the impacts of the recall.

We may continue to incur additional costs that could include costs for which we have not accrued or established adequate reserves, including adjustments 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 March 31,			
	2023		2022	
Ending Connected Fitness Subscriptions		3,107,121		2,961,767
Average Net Monthly Connected Fitness Churn		1.1 %		0.8 %
Subscription Gross Profit (in millions)	$	287.8	$	252.1
Subscription Contribution (in millions)(1)	$	307.2	$	265.2
Subscription Gross Margin		67.8 %		68.1 %
Subscription Contribution Margin(1)		72.3 %		71.7 %
Net loss (in millions)	$	(275.9)	$	(757.1)
Adjusted EBITDA (in millions)(2)	$	(18.7)	$	(194.0)
Net Cash Used in Operating Activities (in millions)	$	(40.9)	$	(670.1)
Free Cash Flow (in millions)(3)	$	(55.3)	$	(746.7)

(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 App 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 App subscription.

As of March 31, 2023, 99% and 85% of our Connected Fitness Subscription and Peloton App 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 March 31, 2023, 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.

Goodwill impairment

Goodwill impairment consists of non-cash impairment charges relating to Goodwill. We review goodwill for impairment annually on April 1 and more frequently if events or changes in circumstances indicate that an impairment may exist. If the carrying value of the reporting unit continues to exceed its fair value, the fair value of the reporting unit’s goodwill is calculated, and an impairment loss equal to the excess is recorded.

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 (expense) income, net

Other (expense) income, 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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
Consolidated Statement of Operations Data:				
Revenue				
Connected Fitness Products	$ 324.1	$ 594.4	$ 909.8	$ 1,891.9
Subscription	424.7	369.9	1,248.3	1,011.6
Total revenue	748.9	964.3	2,158.1	2,903.4
Cost of revenue(1)(2)				
Connected Fitness Products	341.7	662.3	1,025.8	1,848.1
Subscription	136.9	117.8	409.8	327.2
Total cost of revenue	478.7	780.1	1,435.6	2,175.3
Gross profit	270.2	184.2	722.4	728.2
Operating expenses				
Sales and marketing(1)(2)	154.6	227.7	510.4	860.8
General and administrative(1)(2)	249.2	242.3	635.3	731.3
Research and development(1)(2)	78.2	77.1	246.3	274.6
Goodwill impairment	—	181.9	—	181.9
Impairment expense	39.4	32.5	111.9	42.5
Restructuring expense(1)	12.0	158.5	167.9	158.5
Supplier settlements	2.9	—	22.0	—
Total operating expenses	536.2	920.0	1,693.8	2,249.4
Loss from operations	(266.0)	(735.8)	(971.3)	(1,521.2)
Other (expense) income, net:				
Interest expense	(26.6)	(9.1)	(69.7)	(26.5)
Interest income	7.9	0.2	17.7	1.1
Foreign exchange gains (losses)	9.1	(11.5)	3.9	(19.1)
Other income, net	0.4	1.2	3.0	0.7
Total other expense, net	(9.1)	(19.2)	(45.1)	(43.8)
Loss before provision for income taxes	(275.2)	(755.0)	(1,016.4)	(1,565.0)
Income tax expense	0.8	2.1	3.5	7.5
Net loss	$ (275.9)	$ (757.1)	$ (1,019.9)	$ (1,572.4)

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
Cost of revenue				
Connected Fitness Products	$ 2.4	$ 5.7	$ 11.7	$ 16.7
Subscription	9.7	6.3	32.4	15.0
Total cost of revenue	12.0	12.0	44.1	31.8
Sales and marketing	5.8	7.5	23.9	23.0
General and administrative	37.0	41.1	129.8	108.9
Research and development	14.5	11.7	52.3	33.4
Restructuring expense	0.7	44.9	83.5	44.9
Total stock-based compensation expense	$ 70.0	$ 117.1	$ 333.7	$ 241.9

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 $3.9 million and $35.6 million of stock-based compensation expense being pulled forward and recognized in the three and nine months ended March 31, 2023, respectively. 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.

(2) Includes depreciation and amortization expense as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
Cost of revenue				
Connected Fitness Products	$ 5.6	$ 5.8	$ 13.1	$ 14.0
Subscription	9.8	6.8	27.1	18.7
Total cost of revenue	15.4	12.7	40.2	32.7
Sales and marketing	7.5	8.4	24.3	20.8
General and administrative	6.4	11.8	20.1	33.5
Research and development	2.9	5.3	8.6	15.3
Total depreciation and amortization expense	$ 32.2	$ 38.1	$ 93.1	$ 102.4

Comparison of the Three and Nine Months Ended March 31, 2023 and 2022

Revenue

	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2023	2022		2023	2022	
			(dollars in millions)			
Revenue:						
Connected Fitness Products	$ 324.1	$ 594.4	(45.5)%	$ 909.8	$ 1,891.9	(51.9)%
Subscription	424.7	369.9	14.8	1,248.3	1,011.6	23.4
Total revenue	$ 748.9	$ 964.3	(22.3)%	$ 2,158.1	$ 2,903.4	(25.7)%
Percentage of revenue						
Connected Fitness Products	43.3 %	61.6 %		42.2 %	65.2 %	
Subscription	56.7	38.4		57.8	34.8	
Total	100.0 %	100.0 %		100.0 %	100.0 %	

Three and Nine Months Ended March 31, 2023 and 2022

Connected Fitness Products revenue decreased $270.3 million and $982.1 million for the three and nine months ended March 31, 2023, respectively, compared to the three and nine months ended March 31, 2022. 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 $54.8 million and $236.7 million for the three and nine months ended March 31, 2023, respectively, compared to the three and nine months ended March 31, 2022. 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 six months ended December 31, 2022 under new Subscriptions and our low Average Net Monthly Connected Fitness Churn of 1.1% for both the three- and nine-month periods ending March 31, 2023.

Cost of Revenue, Gross Profit, and Gross Margin

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2023	2022	% Change	2023	2022	% Change
			(dollars in millions)			
Cost of Revenue:						
Connected Fitness Products	$ 341.7	$ 662.3	(48.4)%	$ 1,025.8	$ 1,848.1	(44.5)%
Subscription	136.9	117.8	16.2	409.8	327.2	25.3
Total cost of revenue	$ 478.7	$ 780.1	(38.6)%	$ 1,435.6	$ 2,175.3	(34.0)%
Gross Profit:						
Connected Fitness Products	$ (17.6)	$ (67.9)	(74.1)%	$ (116.0)	$ 43.8	(364.9)%
Subscription	287.8	252.1	14.2	838.5	684.4	22.5
Total Gross profit	$ 270.2	$ 184.2	46.7%	$ 722.4	$ 728.2	(0.8)%
Gross Margin:						
Connected Fitness Products	(5.4)%	(11.4)%		(12.8)%	2.3 %	
Subscription	67.8 %	68.1 %		67.2 %	67.7 %	

Three Months Ended March 31, 2023 and 2022

Connected Fitness Products cost of revenue for the three months ended March 31, 2023 decreased $320.6 million, or 48.4%, compared to the three months ended March 31, 2022. This decrease was primarily driven by fewer deliveries for the three months ended March 31, 2023 compared to the three months ended March 31, 2022.

Our Connected Fitness Products Gross Margin increased to (5.4)% for the three months ended March 31, 2023 compared to (11.4)% for the three months ended March 31, 2022, primarily driven by lower inventory reserves and write-downs and reduced payroll expenses resulting from restructuring efforts, partially offset by net charges associated with product recall related matters.

Subscription cost of revenue for the three months ended March 31, 2023 increased $19.1 million, or 16.2%, compared to the three months ended March 31, 2022. This increase was primarily driven by increases of $7.8 million in music royalties and platform streaming costs, $3.3 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, $2.9 million in depreciation and amortization expense, and $1.5 million in payment processing fees.

Subscription Gross Margin remained consistent for the three months ended March 31, 2023 compared to the three months ended March 31, 2022.

Nine Months Ended March 31, 2023 and 2022

Connected Fitness Products cost of revenue for the nine months ended March 31, 2023 decreased $822.3 million, or 44.5%, compared to the nine months ended March 31, 2022. This decrease was primarily driven by fewer deliveries for the nine months ended March 31, 2023 compared to the nine months ended March 31, 2022.

Our Connected Fitness Products Gross Margin decreased to (12.8)% for the nine months ended March 31, 2023 compared to 2.3% for the nine months ended March 31, 2022, primarily driven by promotional pricing in place during the nine months ended March 31, 2023, as well as inventory reserves and write-downs and net charges associated with product recall related matters, partially offset by reduced payroll expenses resulting from restructuring efforts.

Subscription cost of revenue for the nine months ended March 31, 2023 increased $82.6 million, or 25.3%, compared to the nine months ended March 31, 2022. This increase was primarily driven by an increase of $43.1 million in music royalties and platform streaming costs. Additional increases are due to $17.4 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, and $8.4 million of depreciation and amortization expense.

Subscription Gross Margin remained consistent for the nine months ended March 31, 2023 compared to the nine months ended March 31, 2022.

Operating Expenses

Sales and Marketing

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2023	**2022**	**% Change**	**2023**	**2022**	**% Change**
			(dollars in millions)			
Sales and marketing	$ 154.6	$ 227.7	(32.1)%	$ 510.4	$ 860.8	(40.7)%
As a percentage of total revenue	20.6 %	23.6 %		23.7 %	29.6 %	

Three and Nine Months Ended March 31, 2023 and 2022

Sales and marketing expense decreased $73.1 million and $350.3 million in the three and nine months ended March 31, 2023, respectively, compared to the three and nine months ended March 31, 2022. These decreases were primarily due to decreases in spending on advertising and marketing programs of $47.0 million and $291.6 million during the three and nine months ended March 31, 2023, respectively. These decreases were also due to decreases in personnel-related expenses of $15.0 million and $35.3 million for the three and nine months ended March 31, 2023, respectively, primarily due to decreased average headcount.

General and Administrative

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2023	**2022**	**% Change**	**2023**	**2022**	**% Change**
			(dollars in millions)			
General and administrative	$ 249.2	$ 242.3	2.8%	$ 635.3	$ 731.3	(13.1)%
As a percentage of total revenue	33.3 %	25.1 %		29.4 %	25.2 %	

Three and Nine Months Ended March 31, 2023 and 2022

General and administrative expense increased $6.8 million for the three months ended March 31, 2023, compared to the three months ended March 31, 2022, primarily driven by the Dish settlement amount of $75.0 million, partially offset by decreases in professional services fees, comprised of legal, accounting, and consulting fees of $43.4 million, personnel-related expenses of $13.5 million primarily due to decreased average headcount, depreciation and amortization expense of $5.4 million, and stock-based compensation expense of $4.1 million. General and administrative expense decreased $96.0 million in the nine months ended March 31, 2023, compared to the nine months ended March 31, 2022, primarily due to a decrease in professional services fees, comprised of legal, accounting, and consulting fees of $116.6 million, personnel-related expenses of $41.6 million, primarily due to decreased average headcount, and depreciation and amortization expense of $13.5 million. The decreases were partially offset by the Dish settlement amount of $75.0 million.

Research and Development

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2023	**2022**	**% Change**	**2023**	**2022**	**% Change**
			(dollars in millions)			
Research and development	$ 78.2	$ 77.1	1.4%	$ 246.3	$ 274.6	(10.3)%
As a percentage of total revenue	10.4 %	8.0 %		11.4 %	9.5 %	

Three and Nine Months Ended March 31, 2023 and 2022

Research and development expense increased $1.1 million for the three months ended March 31, 2023, compared to the three months ended March 31, 2022, primarily driven by an increase in product development and research costs associated with development of new software features and products of $4.1 million, partially offset by a decrease in personnel-related expenses of $3.1 million, primarily due to decreased average headcount. Research and development expense decreased $28.3 million in the nine months ended March 31, 2023 compared to the nine months ended March 31, 2022, primarily due to a decrease in personnel-related expenses of $18.2 million, which was primarily due to decreased average headcount, a decrease in product development and research costs associated with development of new software features and products of $13.3 million, a decrease of $8.0 million driven by decreased costs associated with software and web platform costs, and a decrease in depreciation and amortization expense of $6.7 million. These decreases in research and development expenses for the nine months ended March 31, 2023 were partially offset by an increase in stock-based compensation expense of $18.9 million, 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.

Goodwill impairment

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2023	2022	% Change	2023	2022	% Change
			(dollars in millions)			
Goodwill impairment	$ —	$ 181.9	NM*	$ —	$ 181.9	NM*

*NM - not meaningful

Three and Nine Months Ended March 31, 2023 and 2022

We review goodwill for impairment annually on April 1 and more frequently if events or changes in circumstances indicate that an impairment may exist ("a triggering event"). No Goodwill impairment was recorded for the three and nine months ended March 31, 2023. During the three months ended March 31, 2022, management identified various qualitative factors that collectively, indicated we had a triggering event, including (i) softening demand; (ii) increased costs of inventory and logistics; and (iii) sustained decrease in stock price. The Company performed a valuation of the Connected Fitness Products reporting unit using liquidation value and discounted cash flow methodologies. These forecasts and assumptions are highly subjective. See "*Risk Factors—General Risk Factors— If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected*" in our Form 10-K. Given the results of our quantitative assessment, we determined that the Connected Fitness Products reporting unit's goodwill was impaired. For both the three and nine months ended March 31, 2022, the Company recognized a goodwill impairment charge of $181.9 million representing the entire amount of Goodwill related to the Connected Fitness Products reporting unit in the Connected Fitness Products Segment.

Impairment expense

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2023	2022	% Change	2023	2022	% Change
			(dollars in millions)			
Impairment expense	$ 39.4	$ 32.5	21.1%	$ 111.9	$ 42.5	163.7%

Three and Nine Months Ended March 31, 2023 and 2022

Impairment expense was $39.4 million for the three months ended March 31, 2023, primarily related to Peloton Output Park, the closure of retail showroom locations, and other manufacturing assets. Impairment expense for the nine months ended March 31, 2023 was $111.9 million primarily related to exiting corporate office locations and retail showrooms, capitalized software, Peloton Output Park, and Connected Fitness and supply chain assets.

Impairment expense for the three and nine months ended March 31, 2022 was $32.5 million and $42.5 million, respectively, primarily due to asset write-downs and write-offs related to our restructuring initiative for the three and nine months ended March 31, 2022, and by the disposal of lease build out costs for the nine months ended March 31, 2022.

Restructuring expense

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2023	2022	% Change	2023	2022	% Change
			(dollars in millions)			
Restructuring expense	$ 12.0	$ 158.5	(92.4)%	$ 167.9	$ 158.5	5.9%

Three and Nine Months Ended March 31, 2023 and 2022

Restructuring expense decreased $146.5 million for the three months ended March 31, 2023, compared to the three months ended March 31, 2022, primarily due to a decrease of $92.5 million in cash severance and other personnel costs and a decrease of $44.2 million in stock-based compensation expense. Additionally, there was a decrease of $9.8 million in professional fees and other costs associated with exit and disposal activities for the three months ended March 31, 2023. Restructuring expense increased $9.4 million for the nine months ended March 31, 2023, compared to the nine months ended March 31, 2022, primarily related to an increase of $38.6 million of stock-based compensation expense for the nine months ended March 31, 2023, 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 an increase of $2.2 million in professional fees and other costs associated with exit and disposal activities. These increases were partially offset by a decrease of $31.4 million of cash severance and other personnel costs for the nine months ended March 31, 2023.

Supplier Settlements

	Three Months Ended March 31,				% Change	Nine Months Ended March 31,				% Change
	2023		2022			2023		2022		
					(dollars in millions)					
Supplier Settlements	$	2.9	$	—	NM*	$	22.0	$	—	NM*

*NM - not meaningful

Three and Nine Months Ended March 31, 2023 and 2022

Supplier settlements were $2.9 million and $22.0 million for the three and nine months ended March 31, 2023, respectively, which consisted of settlement and related costs paid to third-party suppliers to terminate certain future inventory purchase commitments.

Total Other Expense, Net and Income Tax Expense

	Three Months Ended March 31,				% Change	Nine Months Ended March 31,				% Change
	2023		2022			2023		2022		
					(dollars in millions)					
Interest expense	$	(26.6)	$	(9.1)	191.2%	$	(69.7)	$	(26.5)	162.9%
Interest income		7.9		0.2	3,477.1%		17.7		1.1	1,457.5%
Foreign exchange gains (losses)		9.1		(11.5)	NM*		3.9		(19.1)	NM*
Other income, net		0.4		1.2	(66.1)%		3.0		0.7	318.8%
Income tax expense		0.8		2.1	(61.4)%		3.5		7.5	(53.3)%

*NM - not meaningful

Total other expense, net, was comprised of the following for the three and nine months ended March 31, 2023:

- Interest expense primarily related to the amortization of the convertible notes discount and deferred financing costs of $26.6 million and $69.7 million, respectively;
- Interest income from cash, cash equivalents, and short-term investments of $7.9 million and $17.7 million, respectively;
- Foreign exchange gains of $9.1 million and $3.9 million, respectively; and
- Other income, net of $0.4 million and $3.0 million, respectively.

Total other expense, net, was comprised of the following for the three and nine months ended March 31, 2022:

- Interest expense primarily related to the amortization of the convertible notes discount and deferred financing costs of $9.1 million and $26.5 million, respectively;
- Interest income from cash, cash equivalents, and short-term investments of $0.2 million and $1.1 million, respectively;
- Foreign exchange losses of $11.5 million and $19.1 million, respectively; and
- Other income, net of $1.2 million and $0.7 million, respectively.

Income tax expense for the three and nine months ended March 31, 2023 and March 31, 2022 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; goodwill impairment; impairment expense; product recall related matters; 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 product recall related matters including adjustments to the return reserves, inventory write-downs, logistics costs associated with Member requests, the cost to move the recalled product 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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(dollars in millions)			
Net loss	$ (275.9)	$ (757.1)	$ (1,019.9)	$ (1,572.4)
Adjusted to exclude the following:				
Total other expense, net	9.1	19.2	45.1	43.8
Income tax expense	0.8	2.1	3.5	7.5
Depreciation and amortization expense	32.2	38.1	93.1	102.4
Stock-based compensation expense	69.3	72.3	250.2	197.1
Impairment expense	39.4	32.5	111.9	42.5
Goodwill impairment	—	181.9	—	181.9
Restructuring expense	12.0	158.5	171.6	158.5
Supplier settlements	2.9	—	22.0	—
Product recall related matters[1]	9.7	21.4	40.9	49.0
Litigation and settlement expenses[2]	81.8	36.2	106.9	88.0
Other adjustment items	—	1.0	1.0	7.9
Adjusted EBITDA	$ (18.7)	$ (194.0)	$ (173.7)	$ (694.2)

(1) Represents adjustments and charges associated with product recall related matters, as well as accrual adjustments. These include adjustments to Connected Fitness Products revenue for actual and estimated future returns of $(11.9) million and $14.6 million, recorded costs in Connected Fitness Products cost of revenue associated with recall related matters of $21.6 million and $24.1 million, and operating expenses of zero and $2.3 million associated with recall-related hardware development costs, in each case for the three and nine months ended March 31, 2023, respectively. For the three and nine months ended March 31, 2022, these also include a reduction to Connected Fitness Products revenue for actual and estimated future returns of $17.5 million and $36.3 million, recorded costs in Connected Fitness Products cost of revenue associated with inventory write-downs and logistic costs of $2.0 million and $7.6 million, and operating expenses of $2.0 million and $5.0 million associated with recall-related hardware development costs, respectively.

(2) Includes Dish settlement accrual of $75.0 million and other litigation-related expenses and settlements for certain non-recurring patent infringement litigation, securities litigation, and consumer arbitration for the three and nine months ended March 31, 2023. Includes litigation-related expenses for certain non-recurring patent infringement litigation and consumer arbitration for the three and nine months ended March 31, 2022.

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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(dollars in millions)			
Subscription Revenue	$ 424.7	$ 369.9	$ 1,248.3	$ 1,011.6
Less: Cost of Subscription	136.9	117.8	409.8	327.2
Subscription Gross Profit	$ 287.8	$ 252.1	$ 838.5	$ 684.4
Subscription Gross Margin	67.8 %	68.1 %	67.2 %	67.7 %
Add back:				
Depreciation and amortization expense	$ 9.8	$ 6.8	$ 27.1	$ 18.7
Stock-based compensation expense	9.7	6.3	32.4	15.0
Subscription Contribution	$ 307.2	$ 265.2	$ 898.0	$ 718.1
Subscription Contribution Margin	72.3 %	71.7 %	71.9 %	71.0 %

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 March 31,		Nine Months Ended March 31,	
	2023	2022	2023	2022
	(in millions)			
Net cash used in operating activities	$ (40.9)	$ (670.1)	$ (332.2)	$ (1,677.8)
Capital expenditures and capitalized internal-use software development costs	(14.3)	(76.6)	(63.8)	(267.7)
Free Cash Flow	$ (55.3)	$ (746.7)	$ (396.0)	$ (1,945.5)

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 March 31, 2023, we had Cash and cash equivalents of approximately $873.6 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 transitioning our North American Field Operations to third-party providers, including the significant reduction of our delivery workforce teams; (ii) eliminating a significant number of roles on the North America Member Support team and exiting our real-estate footprints in our Plano and Tempe locations; and (iii) reducing our 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 $48.0 million and $280.2 million for the three and nine months ended March 31, 2023, respectively. Total charges for the three months ended March 31, 2023 consisted of cash charges of $6.9 million for severance and other personnel costs and $4.4 million for professional fees and other related charges, and non-cash charges of $36.0 million related to non-inventory asset write-downs and write-offs and $0.7 million for stock-based compensation expense. Total charges for the nine months ended March 31, 2023 consisted of cash charges of $68.0 million for severance and other personnel costs and $16.4 million for professional fees and other related charges, and non-cash charges of $108.6 million related to non-inventory asset write-downs and write-offs, $83.5 million for stock-based compensation expense, and $3.7 million for write-offs of inventory related to restructuring activities.

In connection with the Restructuring Plan, the Company estimates that it will incur additional cash charges of approximately $20 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 $35 million, primarily composed of asset impairment and stock-based compensation charges 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 provided for a $500.0 million revolving credit facility (the "Revolving Facility"), $35.0 million of which would 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. On August 24, 2022, the Company amended the Second Amended and Restated Credit Agreement (the "First Amendment") such that the Company is only required to meet the total liquidity covenant, set at $250.0 million (the "Liquidity Covenant"), and the total revenues covenant, set at $3.0 billion for the four-quarter trailing period, to the extent any revolving loans are borrowed and outstanding. On May 2 2023, the Company further amended the Second Amended and Restated Credit Agreement (the "Second Amendment") to, among other things, (i) reduce the aggregate revolving credit commitments from $500.0 million to $400.0 million, with the Non-Consenting Commitments reduced to $28.0 million and the Consenting Commitments reduced to $372.0 million, and (ii) remove the covenant requiring the Company to maintain a minimum total four-quarter revenue level of $3.0 billion at any time when revolving loans are outstanding. Following the Second Amendment, borrowings under the Revolving Facility will be limited to the lesser of (a) $400.0 million and (b) an amount equal to the "Subscription" revenue of the Company and its subsidiaries for the most recently completed fiscal quarter of the Company. The Liquidity Covenant will still be replaced with a covenant to maintain a minimum secured 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 applicable to the Term Loan 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 March 31, 2023, we were fully undrawn under our Revolving Facility and as such did not have to test the financial covenants under the Second Amended and Restated Credit Agreement. As of March 31, 2023, we had drawn the full amount of the Term Loan, and we therefore had $744.4 million total outstanding borrowings under the Second Amended and Restated Credit Agreement. As of March 31, 2023, we had outstanding letters of credit totaling $79.3 million, which is classified as Restricted cash on the Condensed Consolidated Balance Sheet. Upon entering into the Term Loan, the effective interest rate was 10.2% and on November 25, 2022 the rate was updated to 13.7%.

Cash Flows

	Nine Months Ended March 31,	
	2023	2022
	(in millions)	
Net cash used in operating activities	$ (332.2)	$ (1,677.8)
Net cash (used in) provided by investing activities	(51.4)	223.0
Net cash provided by financing activities	70.0	1,309.0

Operating Activities

Net cash used in operating activities of $332.2 million for the nine months ended March 31, 2023 was primarily due to a net loss of $1,019.9 million, partially offset by a net increase in operating assets and liabilities of $81.8 million and an increase in non-cash adjustments of $605.9 million. The increase in operating assets and liabilities was primarily due to a $435.1 million increase in inventory, partially offset by a $296.6 million decrease in accounts payable and accrued expenses due to lower supplier settlements owed, decreased inventory spending, and a $65.8 million decrease in net operating lease liabilities due to lease payments and lease terminations. Non-cash adjustments primarily consisted of stock-based compensation expense, long-lived asset impairment expense, and depreciation and amortization.

Investing activities

Net cash used in investing activities for the nine months ended March 31, 2023 of $51.4 million was primarily a result of capital expenditures, primarily related to software development and the continued build out of our studios.

Financing activities

Net cash provided by financing activities of $70.0 million for the nine months ended March 31, 2023 was primarily related to exercises of stock options of $72.6 million, partially offset by $5.6 million in principal repayments on the Term Loan.

Commitments

As of March 31, 2023, 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)	$ 922.1	$ 118.9	$ 206.5	$ 177.4	$ 419.3
Minimum guarantees (2)	216.4	147.5	68.9	—	—
Unused credit facility fee payments (3)	5.8	1.7	3.1	1.1	—
Other purchase obligations (4)	158.9	61.9	50.9	46.0	—
Convertible senior notes (5)	1,000.0	—	1,000.0	—	—
Supplier settlements (6)	4.0	4.0	—	—	—
Term loan	744.4	7.5	15.0	721.9	—
Total	$ 3,051.5	$ 341.5	$ 1,344.4	$ 946.4	$ 419.3

(1) Lease obligations relate to our office space, warehouses, production studios, equipment, and retail showrooms. 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 $1.0 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 March 31, 2023, we had outstanding letters of credit totaling $79.3 million, which is classified as Restricted cash on the Condensed Consolidated Balance Sheet.

(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 March 31, 2023, 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 $211.9 million. 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.

Off-Balance Sheet Arrangements

We did not have any undisclosed off-balance sheet arrangements as of March 31, 2023.

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 return reserves 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, 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 previously estimated that more Members would opt for a full refund, and accordingly increased the Company's return reserve during the three months ended September 30, 2022. During the three months ended March 31, 2023, based on lower actual returns than previously estimated, the Company has updated its return reserve assumptions and has recognized an $11.9 million benefit to revenue. As of March 31, 2023 and June 30, 2022, our return reserves related to the impacts of the recalls was $29.3 million and $39.9 million, respectively.

Product Recall Related Matters

The Company accrues cost of product recalls and potential corrective actions based on management estimate of when it is probable that a liability has been incurred and the amount can be reasonably estimated, which occurs when management commits to a corrective action plan or when required by regulatory requirements. Costs of product recalls and corrective actions are recognized in Connected Fitness Products cost of revenue, which may include the cost of the development of the product being replaced, logistics costs, and other related costs such as product scrap cost, inventory write-down and cancellation of any supplier commitments. The accrued cost is based on management's estimate of the cost to repair each affected product and the estimated number of products to be repaired based on actions taken by the impacted customers. Estimating both cost to repair each affected product and the number of units to be repaired is highly subjective and requires significant management judgment. Based on information that is currently available, management believes that the accruals are adequate. It is possible that substantial additional charges may be required in future periods based on new information, changes in facts and circumstances, and actions the Company may commit to or be required to undertake. During the three months ended March 31, 2023, the Company accrued an additional $21.6 million liability related to its product recall related matters. As of March 31, 2023 and June 30, 2022, accruals related to product recall related matters were $23.8 million and $1.8 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 $873.6 million as of March 31, 2023. 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 March 31, 2023.

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 March 31, 2023 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 March 31, 2023 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 described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated financial statements and the accompanying notes and the information 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 following risks occur, our business, financial condition, operating results, and future prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment. Except for as stated below, there have been no material changes to our risk factors since the Form 10-K.

Risks Related to Our Connected Fitness Products and Members

Safety issues involving our products could adversely affect our business and result in harm to our reputation.

We offer complex hardware, and our products may be alleged, and have been alleged, to have defects that result in potential product safety issues. Any defects could impact our customer experience, tarnish our brand reputation, or make our products and services unsafe and create a risk of property damage and/or personal injury. We also may become subject to the risks and uncertainties of product liability claims and related litigation. For example, in May 2021, we initiated a voluntary recall of our Tread+ product in coordination with the U.S. Consumer Product Safety Commission ("CPSC") in response to reports of injuries associated with our Tread+, one of which led to the death of a child. In 2020, we conducted a voluntary recall in coordination with the CPSC of first generation clip-in pedals in our Peloton Bike, our original model bike, due to a risk that the pedal can break during use, causing injuries. In addition, we have determined that there is a potential product safety issue involving the seat post in the original model Peloton Bike (not Peloton Bike+) and have voluntarily notified the CPSC. During the three months ended March 31, 2023, we determined that a corrective action plan ("CAP") is warranted and are cooperating with the CPSC to finalize the proposed CAP. As of April 30, 2023, the Company has identified 35 reports, out of over 2.4 million units sold in the U.S. and Canada, in which the seat post has broken during use. Of these reports, 12 have included reports of injuries, including one wrist fracture. Once finalized, we would make available the approved remedy to original model Bike owners. During the three months ended March 31, 2023, we accrued expenses in connection with implementation of the proposed CAP, which were not material to the current period financial performance. We may incur incremental expenses or face other challenges in connection with the implementation of the CAP beyond what we have currently estimated to be probable and reasonably estimable, including if the number of reported incidents materially increases, which may adversely impact our operating results, brand reputation, demand for our products, and business, although we do not currently anticipate that the total expenses related to implementation of the CAP will be material to our financial position. The CAP also may require significant management attention, and we could become subject to class action litigation, private personal injury claims, and other regulatory proceedings related to this matter that, regardless of their merits, could harm our reputation, divert management's attention from our operations, and result in substantial legal fees, judgments, fines, penalties, and other costs. See *Note 8 – Commitment and Contingencies* in the Notes to our Condensed Consolidated Financial Statements in Part I, Item 1.

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

We are reporting the following information in lieu of reporting on a Current Report on Form 8-K under:

(i) Item 1.01 Entry into a Material Definitive Agreement

On May 2, 2023, the Company entered into the Second Amendment with JPMorgan Chase Bank, N.A., as administrative agent, and the revolving lenders party thereto. The Second Amendment amends the Second Amended and Restated Credit Agreement to, among other things, (i) reduce the aggregate revolving credit commitments from $500.0 million to $400.0 million, with the Non-Consenting Commitments reduced to $28.0 million and the Consenting Commitments reduced to $372.0 million, and (ii) remove the covenant requiring the Company to maintain a minimum total four-quarter revenue level of $3.0 billion at any time when revolving loans are outstanding. Following the Second Amendment, borrowings under the Revolving Facility will be limited to the lesser of (a) $400.0 million and (b) an amount equal to the "Subscription" revenue of the Company and its subsidiaries for the most recently completed fiscal quarter of the Company. For more information, see *Liquidity and Capital Resources* in the Management's Discussion and Analysis of Financial Condition and Results of Operation in Part I, Item 2 of this Quarterly Report on Form 10-Q under the section titled *"Second Amended and Restated Credit Agreement."*

(ii) Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On May 1, 2023, the Board of Directors of the Company, based upon a recommendation from its Compensation Committee, approved an annual base salary increase from $1.0 million to $1.25 million, effective as of May 8, 2023 for Barry McCarthy, the Company's Chief Executive Officer and President. All other terms of Mr. McCarthy's employment, including the terms of his existing equity awards, remain unchanged.

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	
10.1*	Second Amendment to Second Amended and Restated Credit Agreement, dated as of May 2, 2023, among the Company, the revolving lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent.					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					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

*Certain schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company will supplementally furnish copies of omitted schedules and exhibits to the SEC or its staff upon its request.
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: May 4, 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)

Exhibit 10.1
EXECUTION VERSION

SECOND AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT, dated as of May 2, 2023 (this "Amendment"), is entered into among Peloton Interactive, Inc., a Delaware corporation (the "Borrower"), the Revolving Lenders party hereto and JPMorgan Chase Bank, N.A., as Administrative Agent (in such capacity, the "Administrative Agent").

WHEREAS, the Borrower, the several banks and other financial institutions party thereto and the Administrative Agent entered into that certain Amendment and Restatement Agreement, dated as of May 25, 2022 (the "Amendment and Restatement Agreement" and the Second Amended and Restated Credit Agreement attached to the Amendment and Restatement Agreement, as amended by the First Amendment, dated as of August 24, 2022, and as further amended, supplemented or otherwise modified prior to the Second Amendment to Second Amended and Restated Credit Agreement Effective Date (as defined below), the "Existing Credit Agreement"; the Existing Credit Agreement, as amended by this Amendment, the "Amended Credit Agreement"; capitalized terms used but not defined in this Amendment shall have the meanings assigned to such terms in the Amended Credit Agreement);

WHEREAS, pursuant to Section 9.02 of the Existing Credit Agreement and the definition of "Required Lenders" as set forth in the Existing Credit Agreement, the Borrower, Lenders constituting the Required Revolving Lenders and the Administrative Agent may amend the Existing Credit Agreement as set forth herein; and

WHEREAS, in reliance on the foregoing, upon the terms and subject to the conditions set forth in this Agreement, effective as of the Second Amendment to Second Amended and Restated Credit Agreement Effective Date, the Borrower, Lenders party hereto (which Lenders as of the date hereof constitute the "Required Revolving Lenders" under and as defined in the Existing Credit Agreement) and the Administrative Agent agree to amend the Existing Credit Agreement as set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Amendments; Reduction of Revolving Commitments.

(a) On the Second Amendment to Second Amended and Restated Credit Agreement Effective Date, the Existing Credit Agreement is hereby amended as follows:

(i) The definition of "2021 Consenting Commitments" in Section 1.01 of the Existing Credit Agreement is hereby amended and replaced in its entirety as follows:

""**2021 Consenting Commitments**" means the Revolving Commitments of the Consenting Lenders, as defined in the Second Amendment. The initial amount of each Lender's 2021 Consenting Commitment as of the Second Amendment to Second Amended and Restated Credit Agreement Effective Date is set forth on Schedule 2.01. The aggregate amount of the Lenders' 2021 Consenting Commitments as of the Second Amendment to Second Amended and Restated Credit Agreement Effective Date is $372,000,000."

(ii) The definition of "2021 Non-Consenting Commitments" in Section 1.01 of the Existing Credit Agreement is hereby amended and replaced in its entirety as follows:

““**2021 Non-Consenting Commitments**” means the Revolving Commitments of the Lenders that are not Consenting Lenders, as defined in the Second Amendment. The initial amount of each Lender’s 2021 Non-Consenting Commitment as of the Second Amendment to Second Amended and Restated Credit Agreement Effective Date is set forth on Schedule 2.01. The aggregate amount of the Lenders’ 2021 Non-Consenting Commitments as of the Second Amendment to Second Amended and Restated Credit Agreement Effective Date is $28,000,000.”

(iii) The definition of “Required Lenders” in Section 1.01 of the Existing Credit Agreement is hereby amended and replaced in its entirety as follows:

““**Required Lenders**” means, at any time:

(1) with respect to (i) any amendment or other modification of Section 6.10 (or for the purposes of determining compliance with Section 6.10, any defined terms used therein), (ii) any waiver or consent to any Default or Event of Default resulting from a breach of Section 6.10, (iii) any alteration of the rights or remedies of the Required Revolving Lenders arising pursuant to Article 7 as a result of a breach of Section 6.10, (iv) any waiver of any condition precedent set forth in Section 4.02 with respect to any extension of credit involving a Revolving Credit Facility or (v) any amendment or other modification to (a) the definition of “Total Revolving Credit Utilization Cap” or (b) the calculation and implementation thereof under this Agreement, means the Required Revolving Lenders only;

(2) to the extent clause (1) is not applicable, means (i) both the Required Revolving Lenders and Lenders having Revolving Credit Exposures, Term Loans and unused Commitments representing more than 50% of the sum of the total Revolving Credit Exposures, outstanding Term Loans and unused Commitments of all Lenders at such time, or (ii) at any time after the Commitments of all Lenders shall have been terminated, both clause (b) of Required Revolving Lenders and Lenders holding more than 50% of the total Revolving Credit Exposures and Term Loans at such time;

provided that, for purposes of this definition of “Required Lenders”, a Lender and its Affiliates shall be deemed to be one Lender. The Revolving Credit Exposure, Term Loan and Commitment of any Defaulting Lender shall be disregarded in determining Required Lenders at any time.”

(iv) Section 1.01 of the Existing Credit Agreement is hereby amended to include the following definitions in appropriate alphabetical order:

“**Second Amendment to Second Amended and Restated Credit Agreement**” means the Second Amendment to Second Amended and Restated Credit Agreement, dated as of May 2, 2023.

“**Second Amendment to Second Amended and Restated Credit Agreement Effective Date**” has the meaning given to such term in the Second Amendment to Second Amended and Restated Credit Agreement.

“**Total Revolving Credit Utilization Cap**” means, at any date of determination, the lesser of (a) the sum of all Revolving Commitments of all Revolving Lenders in effect as of such date and (b) an amount equal to the “Subscription” revenue of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP, for the most recently completed fiscal quarter of the Borrower ended prior to such date, as shown on the most recent income statement of the Borrower delivered pursuant to Section 5.01(a) or (b) (each date on which such income statement is delivered, a “**Total Revolving Credit Utilization Cap Measurement Date**”). For the avoidance of doubt, the Total Revolving Credit Utilization Cap shall only be adjusted upward or downward on each Total Revolving Credit Utilization Cap Measurement Date.

“**Total Revolving Credit Utilization Cap Measurement Date**” has the meaning specified in the definition of “Total Revolving Credit Utilization Cap”.

(v) The first paragraph of Section 2.01 of the Existing Credit Agreement is hereby amended and replaced in its entirety as follows:

“Subject to the terms and conditions set forth herein, (a) each Revolving Lender severally agrees to make Revolving Loans in Dollars and, after any Alternative Currency Effective Date, each applicable Alternative Currency, to the Borrower from time to time during the applicable Availability Period in an aggregate principal amount that will not result in (i) the Dollar Equivalent of such Revolving Lender’s Revolving Credit Exposure exceeding such Revolving Lender’s Revolving Commitment or (ii) the sum of the Dollar Equivalents of the total Revolving Credit Exposures of all Revolving Lenders exceeding the total Revolving Commitments of all Revolving Lenders or (iii) the sum of the Dollar Equivalents of the total Revolving Credit Exposures of all Revolving Lenders exceeding the Total Revolving Credit Utilization Cap as in effect on the most recent Total Revolving Credit Utilization Cap Measurement Date and (b) each Initial Term Lender severally agrees to make to the Borrower Initial Term Loans in an amount equal to such Initial Term Lender’s Initial Term Commitment on the Second Restatement Effective Date. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans. Amounts repaid or prepaid in respect of Term Loans may not be reborrowed (it being understood, however, that prepayments will be taken into account for purposes of any Prepayment-Based Incremental Facility to the extent provided by Section 2.18).”

(vi) Section 2.08(c) of the Existing Credit Agreement is hereby amended and replaced in its entirety as follows:

“(c) The Borrower shall (i) from time to time prepay the Revolving Loans to the extent necessary so that the aggregate principal amount of all outstanding Revolving Loans shall not at any time exceed the Revolving Commitments of such Class then in effect and (ii) on or prior to the date that is five (5) Business Days after each Total Revolving Credit Utilization Cap Measurement Date, prepay the Revolving Loans to the extent necessary so that the aggregate Revolving Credit Exposure of all Revolving Lenders shall not exceed the aggregate Total Revolving Credit Utilization Cap as in effect on the most recent Total Revolving Credit Utilization Cap Measurement Date.”

(vii) Section 2.08(d) of the Existing Credit Agreement is hereby amended and replaced in its entirety as follows:

“If (i) other than as a result of fluctuations in currency exchange rates, (A) the Dollar Equivalent of the relevant Lenders’ aggregate Revolving Credit Exposures in respect of any Class (calculated, with respect to any LC Exposure denominated in an Alternative Currency, as of the most recent Revaluation Date with respect to such LC Exposure) exceeds the aggregate Revolving Commitments of such Class then in effect or (B) the Dollar Equivalent of all Lenders’ aggregate Revolving Credit Exposures (calculated, with respect to any LC Exposure denominated in an Alternative Currency, as of the most recent Revaluation Date with respect to such LC Exposure) exceeds the Total Revolving Credit Utilization Cap as in effect on the most recent Total Revolving Credit Utilization Cap Measurement Date, or (ii) solely as a result of fluctuations in currency exchange rates, (A) the Dollar Equivalent of the relevant Lenders’ aggregate Revolving Credit Exposures in respect of any Class (so calculated), as of the most recent Revaluation Date, exceeds one hundred ten percent (110%) of the aggregate Revolving Commitments of such Class then in effect or (B) the Dollar Equivalent of the Lenders’ aggregate Revolving Credit Exposures as of the most recent Revaluation Date, exceeds one hundred ten percent (110%) of the Total Revolving Credit Utilization Cap as in effect on the most recent Total Revolving Credit Utilization Cap Measurement Date, the Borrower shall immediately (or, if the Revolving Credit Exposures exceed the Total Revolving Credit Utilization Cap then in effect as set forth in clause (i)(B) above, on or prior to the date that is five (5) Business Days after the applicable Total Revolving Credit Utilization Cap Measurement Date) repay Borrowings and/or cash collateralize LC Exposure in accordance with the procedures set forth in Section 2.17(d) in an aggregate principal amount sufficient to cause the Dollar Equivalent of the relevant Lenders' aggregate Revolving Credit Exposures in respect of such Class (so calculated) or the Dollar Equivalent of all Lenders’ aggregate Revolving Credit Exposures, as applicable, to be less than or equal to the aggregate Revolving Commitments of such Class then in effect or the Total Revolving Credit Utilization Cap then in effect, as applicable.”

(viii) The last sentence of Section 2.19(a) of the Existing Credit Agreement is hereby amended and replaced in its entirety as follows:

“Notwithstanding anything herein to the contrary, (i) the Borrower shall not request, and no Issuing Bank shall issue, any Letter of Credit the proceeds of which would be made to any Person (A) to fund any activity or business of or with any Sanctioned Person, or in any country, region or territory, that at the time of such funding is a Sanctioned Country or (B) in any manner that would result in a violation of any Sanctions by any party to this Agreement, (ii) no Issuing Bank shall have any obligation hereunder to issue any Letter of Credit if the issuance of such Letter of Credit would violate one or more policies of such Issuing Bank now or hereafter in effect applicable to letters of credit generally, (iii) the Borrower shall not request, and no Issuing Bank shall issue, any Letter of Credit if (A) the Dollar Equivalent of the aggregate outstanding amount of Letters of Credit issued by such Issuing Bank would exceed such amount as has been agreed by such Issuing Bank in its sole discretion (or $100,000,000, in the case of JPMorgan Chase Bank, N.A. in its capacity as an Issuing Bank) or (B) after giving effect to such issuance of a Letter of Credit, (1) the Dollar Equivalent of any Lender’s Revolving Credit

Exposure would exceed such Lender's Revolving Commitment, (2) the sum of the Dollar Equivalents of the total Revolving Credit Exposures of all Lenders would exceed the total Revolving Commitments of all Lenders or (3) the sum of the Dollar Equivalents of the total Revolving Credit Exposures of all Lenders would exceed the Total Revolving Credit Utilization Cap then in effect and (iv) in no event shall Goldman Sachs Lending Partners LLC be required to issue any Letters of Credit denominated in New Taiwan Dollars."

(ix) Section 6.10 of the Existing Credit Agreement is hereby amended and replaced in its entirety as follows:

"Solely for the benefit of the Revolving Facility,

(a)

(i) Prior to the Conversion Date, the Borrower will not, and will not permit any of its Subsidiaries to, permit Total Liquidity, at any time when any Revolving Loan is borrowed or outstanding, to be less than $250,000,000.

(ii) Notwithstanding anything to the contrary herein or in any other Loan Document, on and after the Conversion Date, the covenant set forth in the foregoing clause (a)(i) shall cease to be in effect for any purpose of the Loan Documents.

(b) With respect to each Measurement Period ending on or after the Conversion Date, the Borrower will not permit the Senior Secured Net Leverage Ratio as of the last day of such Measurement Period to be greater than 3.00 to 1.00."

(b) Pursuant to Section 2.06 of the Existing Credit Agreement, the Borrower hereby notifies the Administrative Agent that, effective on the Second Amendment to Second Amended and Restated Credit Agreement Effective Date, the 2021 Consenting Commitments and the 2021 Non-Consenting Commitments each shall be reduced to the amounts set forth in Annex A to this Amendment, and the Borrower and the Required Revolving Lenders hereby agree that any notice period set forth in the Credit Agreement with respect to reductions to the Revolving Commitments of any Class shall not apply to the reductions set forth in this Section 1(b). On the Second Amendment to Second Amended and Restated Credit Agreement Effective Date, the tables set forth directly under "2021 Consenting Commitments" and "2021 Non-Consenting Commitments" in Schedule 2.01 to the Existing Credit Agreement are hereby amended and restated in their entirety as set forth in Annex A to this Amendment.

SECTION 2. Conditions Precedent to Effectiveness. This Agreement shall become effective on the first date (the "Second Amendment to Second Amended and Restated Credit Agreement Effective Date") on which all the following conditions are satisfied:

(a) The Administrative Agent (or its counsel) shall have received from each party hereto, including Lenders constituting the "Required Revolving Lenders" under and as defined in the Existing Credit Agreement, a counterpart of this Amendment signed on behalf of such party.

(b) The Administrative Agent shall have received a reaffirmation agreement in respect of the Security Agreement, executed and delivered by each Loan Party and in form and substance reasonably acceptable to the Administrative Agent.

(c) Both prior to and after giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing on the Second Amendment to Second Amended and Restated Credit Agreement Effective Date.

(d) As of the Second Amendment to Second Amended and Restated Credit Agreement Effective Date (both prior to and after giving effect to this Amendment) all representations and warranties contained in Section 3 of this Amendment and in Article 3 of the Existing Credit Agreement shall be true and correct in all material respects, except that (i) for purposes of this clause (d), the representations and warranties contained in Section 3.04(a) of the Existing Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b) (subject, in the case of unaudited financial statements furnished pursuant to clause (b), to year-end audit adjustments and the absence of footnotes), respectively, of Section 5.01 of the Existing Credit Agreement, (ii) to the extent that such representations and warranties specifically refer to an earlier date, they shall be true and correct in all material respects as of such earlier date and (iii) to the extent that such representations and warranties are already qualified or modified by materiality in the text thereof, they shall be true and correct in all respects.

(e) The Lenders party hereto and the Administrative Agent shall have received on or before the Second Amendment to Second Amended and Restated Credit Agreement Effective Date payment of all expenses required to be reimbursed by the Borrower for which invoices have been presented at least two (2) Business Days prior to the Second Amendment to Second Amended and Restated Credit Agreement Effective Date.

SECTION 3. Representations and Warranties. In order to induce the Lenders party hereto to enter into this Amendment, the Borrower hereby represents and warrants to the Lenders that (a) this Amendment has been duly authorized by all necessary organizational actions and, if required, actions by equity holders of the Borrower and (b) this Amendment has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 4. Continuing Effect; No Novation. Except as expressly amended, waived or modified hereby, the Loan Documents shall continue to be and shall remain in full force and effect in accordance with their respective terms. This Amendment shall not constitute an amendment, waiver or modification of any provision of any Loan Document not expressly referred to herein and shall not be construed as an amendment, waiver or modification of any action on the part of the Borrower or the other Loan Parties that would require an amendment, waiver or consent of the Administrative Agent or the Lenders except as expressly stated herein, or be construed to indicate the willingness of the Administrative Agent or any Lender to further amend, waive or modify any provision of any Loan Document amended, waived or modified hereby for any other period, circumstance or event. Except as expressly modified by this Amendment, the Loan Documents are ratified and confirmed and are, and shall continue to be, in full force and effect in accordance with their respective terms. Except as expressly set forth herein, each Lender and the Administrative Agent reserves all of its rights, remedies, powers and privileges under the Existing Credit Agreement, the other Loan Documents, applicable law and/or equity. Any reference to the "Credit Agreement" in any Loan Document or any related documents shall be deemed to be a reference to the Existing Credit Agreement as amended and restated by this Amendment and the term "Loan Documents" in the Amended Credit Agreement and the other Loan Documents shall include this Amendment. Neither this Amendment nor the execution, delivery or effectiveness of this Amendment shall extinguish the obligations outstanding under the Existing Credit Agreement. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Existing Credit Agreement, which shall remain in full force and effect, except to any extent modified hereby or by instruments executed concurrently herewith. Nothing implied in this Amendment, the Amended Credit Agreement, the Security Documents, the other Loan Documents or in any other document contemplated hereby or thereby shall be construed as a release or other discharge of any of Borrower or any other Loan Party from any of its obligations and liabilities as a "Borrower," "Guarantor," or "Loan Party," under the Existing Credit Agreement or any other Loan Document. Each of the Existing Credit Agreement, the Security Documents and the other Loan Documents shall remain in full force and effect, until (as applicable) and except to any extent modified hereby or in connection herewith.

SECTION 5. Governing Law. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. Entire Agreement. This Amendment, the Amended Credit Agreement and the other Loan Documents represent the entire agreement of the Loan Parties, the Administrative Agent, the Agents and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent, any other Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the Amended Credit Agreement or the other Loan Documents.

SECTION 7. Loan Document. This Amendment is a Loan Document and shall (unless otherwise expressly indicated herein) be construed, administered and applied in accordance with the terms and provisions of the Amended Credit Agreement. For the avoidance of doubt, the provisions of Sections 9.03 and 9.14 of the Existing Credit Agreement are incorporated herein, mutatis mutandis, as if such provisions were set forth herein in their entirety, and such provisions shall apply to this Amendment.

SECTION 8. Counterparts. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery of an executed counterpart of a signature page of this Amendment by telecopy, emailed pdf. or any other electronic means that reproduces an image of the actual executed signature page shall be effective as delivery of a manually executed counterpart of this Amendment. The words "execution," "signed," "signature," "delivery," and words of like import in or relating to this Amendment, any document to be signed in connection herewith and the transactions contemplated hereby shall be deemed to include Electronic Signatures (as defined below), electronic deliveries or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be; *provided* that nothing herein shall require the Administrative Agent to accept electronic signatures in any form or format without its prior written consent. "Electronic Signatures" means any electronic symbol or process attached to, or associated with, any contract or other record and adopted by a person with the intent to sign, authenticate or accept such contract or record. Without limiting the generality of the foregoing, each Loan Party hereby (i) agrees that, for all purposes, including without limitation, in connection with any workout, restructuring, enforcement of remedies, bankruptcy proceedings or litigation among the Administrative Agent, the Lenders and the Loan Parties, electronic images of this Amendment or any other Loan Documents (in each case, including with respect to any signature pages thereto) shall have the same legal effect, validity and enforceability as any paper original, and (ii) waives any argument, defense or right to contest the validity or enforceability of the Loan Documents based solely on the lack of paper original copies of any Loan Documents, including with respect to any signature pages thereto.

SECTION 9. Headings. Section headings used in this Amendment are for convenience of reference only, are not part of this Amendment and are not to affect the construction of, or to be taken into consideration in interpreting, this Amendment.

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

PELOTON INTERACTIVE, INC.,
as the Borrower

By: /s/ Michael Stanton
Name: Michael Stanton
Title: Treasurer

[*Second Amendment to Second Amended and Restated Credit Agreement*]

JPMORGAN CHASE BANK, N.A.,
as the Administrative Agent and a Revolving Lender

By: /s/ Shiv Kariwala
Name: Shiv Kariwala
Title: Authorized Officer

[*Second Amendment to Second Amended and Restated Credit Agreement*]

GOLDMAN SACHS LENDING PARTNERS LLC,
as a Revolving Lender

By: /s/ Keshia Leday
Name: Keshia Leday
Title: Authorized Signatory

Citibank, N.A.,
as a Revolving Lender

By: /s/ Kyle Scanlon
Name: Kyle Scanlon
Title: Authorized Signatory

[*Second Amendment to Second Amended and Restated Credit Agreement*]

BARCLAYS BANK PLC,
as a Revolving Lender

By: /s/ Sean Duggan
Name: Sean Duggan

[*Second Amendment to Second Amended and Restated Credit Agreement*]

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: May 4, 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: May 4, 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 March 31, 2023 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: May 4, 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 March 31, 2023 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: May 4, 2023

By: /s/ Elizabeth F Coddington

Elizabeth F Coddington
Chief Financial Officer
(Principal Financial Officer)