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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 28, 2019
or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**
Commission File Number: 001-38603

SONOS, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)
614 Chapala Street
Santa Barbara, CA
(Address of principal executive offices)

03-0479476
(I.R.S. Employer Identification No.)
93101
(Zip code)

Registrant's telephone number, including area code: (805) 965-3001

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.001 par value	SONO	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the shares of SONO common stock held by non-affiliates of the registrant as of March 29, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was \$760.8 million based on the closing price of \$10.29 as reported by The Nasdaq Global Select Market System.

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As of November 8, 2019, the registrant had 108,418,445 shares of common stock outstanding, \$0.0001 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant's definitive proxy statement (the "2019 Proxy Statement") relating to its 2020 Annual Meeting of Stockholders. The 2019 Proxy Statement will be filed with the United States Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding future operations, are forward-looking statements. In some cases, forward-looking statements may be identified by words such as "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "could," "would," "expect," "objective," "plan," "potential," "seek," "grow," "target," "if," and similar expressions intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the section titled "Risk Factors" set forth in Part I, Item 1A of this Annual Report on Form 10-K and in our other 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 Annual Report on Form 10-K may not occur, and actual results may differ materially and adversely from those anticipated or implied in the forward-looking statements. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- *our expectations regarding our results of operations, including gross margin, financial condition and cash flows;*
- *our expectations regarding the development and expansion of our business;*
- *anticipated trends, challenges and opportunities in our business and in the markets in which we operate;*
- *our ability to successfully develop and introduce new products at an increased pace;*
- *our ability to manage our international expansion;*
- *the effects of tariffs, trade barriers and retaliatory trade measures;*
- *our ability to expand our customer base and expand sales to existing customers;*
- *our expectations regarding development of our direct-to-consumer sales channels;*
- *expansion of our partner network;*
- *our ability to retain and hire necessary employees and staff our operations appropriately;*
- *the timing and amount of certain expenses and our ability to achieve operating leverage over time; and*
- *our ability to maintain, protect and enhance our intellectual property.*

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

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, levels of activity, performance or achievements. Except as required by law, we do not intend to update any of these forward-looking statements after the date of this Annual Report on Form 10-K or to conform these statements to actual results or revised expectations.

You should read this Annual Report on Form 10-K with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

PART I

Item 1: Business

Overview

Sonos is one of the world's leading sound experience brands. As the inventor of multi-room wireless audio products, Sonos' innovation helps the world listen better by giving people access to the content they love and allowing them to control it however they choose. Known for delivering unparalleled sound experience, thoughtful design aesthetic, simplicity of use and an open platform, Sonos makes the breadth of audio content available to anyone.

Our sound system provides an immersive listening experience created by our thoughtfully designed speakers and components, our proprietary software platform and the ability to wirelessly stream the content our customers love from the services they prefer. We manage the complexity of delivering a seamless customer experience in a multi-user and open-platform environment. The Sonos sound system is easy to set up, use and expand to bring audio to any room in the home. Through our software platform, we frequently enhance features and services on our products, improving functionality and customer experience.

Sonos sits at the intersection of emerging consumer technology and entertainment trends. The proliferation of streaming services and the rapid adoption of voice assistants are significantly changing audio consumption habits and how consumers interact with the internet. As a leading sound system for consumers, content partners and developers, Sonos is capitalizing on the large market opportunity created by these dynamics.

We debuted the world's first multi-room wireless sound system in 2005 and have since been a leading innovator in wireless home audio. Today, our products include wireless speakers, home theater speakers and components to address consumers' evolving home audio needs. We launched our first voice-enabled wireless speaker, Sonos One, in October 2017 and our first voice-enabled home theater speaker, Sonos Beam, in July 2018. In September 2019, we introduced Sonos Move, our first battery-powered, WiFi and Bluetooth-enabled speaker for use both indoors and outdoors, marking our first step outside the home. In fiscal 2019, we launched our first significant product partnerships - architectural in-ceiling, in-wall and outdoor speakers in partnership with Sonance as well as a bookshelf speaker and table lamp speaker launched in partnership with IKEA.

In addition to new product launches, we frequently introduce new features across our platform, providing our customers with enhanced functionality, improved sound and an enriched user experience. We are committed to continuous technological innovation, as evidenced by our growing global patent portfolio. We believe our patents comprise the foundational intellectual property for wireless multi-room audio technology.

Our network of partners provides our customers with access to voice control, streaming music, internet radio, podcasts and audiobook content, enabling them to control and listen to an expansive range of audio entertainment. In fiscal 2019, many of our speaker products added Google Assistant functionality, marking the first time consumers are able to buy a single smart speaker and have a voice assistant choice in addition to Amazon Alexa. Our platform has attracted a broad range of approximately 100 streaming content providers, such as Apple Music, Pandora, Spotify and TuneIn. These partners find value in our independent platform and access to our millions of desirable and engaged customers.

As of September 28, 2019, we added nearly 1.7 million new households in approximately 9.1 million households globally and our customers registered nearly 26.1 million products. As of September 28, 2019, 62% of our 9.1 million households had registered more than one Sonos product, and our customers have typically purchased additional Sonos products over time. We also estimate that our customers listened to 7.7 billion hours of audio content using our products in fiscal 2019, which represents 29% growth from fiscal 2018.

Our innovative products, seamless customer experience and expanding global footprint have driven 14 consecutive years of sustained revenue growth since our first product launch. We generate revenue from the sale of our wireless speakers, home theater speakers and component products, as new customers buy our products and existing customers continue to add products to their Sonos sound systems. In fiscal 2019, existing customers accounted for approximately 37% of new product registrations. We sell our products primarily through over 10,000 third-party physical retail stores, including custom installers of home audio

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systems. We also sell through select e-commerce retailers and our website sonos.com. Our products are distributed in over 50 countries, with 50.0% of our revenue in fiscal 2019 generated outside the United States.

Our products

Our portfolio of products encourages customers to uniquely tailor their Sonos sound systems to best meet their sound and design preferences.

- *Wireless speakers.* Our wireless speakers include Play:1, Play:5, Sonos One SL and our voice-enabled speakers Sonos One and Sonos Move. Sonos Move was introduced in September 2019 and is our first battery-powered, WiFi and Bluetooth-enabled, portable speaker with voice control built for use both indoors and outside of the home.
- *Home theater speakers.* Our home theater products include Playbar, Playbase, Sub and Sonos Beam and are designed to play audio content from TV/video. Sonos Beam also includes voice control.
- *Components.* Our Connect, Sonos Port, and Sonos Amp, as well as our architectural speakers recently released in connection with our Sonance partnership, allow customers to convert third-party wired speakers, stereo systems and home theater setups into our easy-to-use, wirelessly controlled streaming music system.
- *Other.* Sonos and third-party accessories, such as Sonos Boost, speaker stands and wall mounts, allow our customers to integrate our products seamlessly into their homes. Our other products also include module units, which are comprised of hardware and embedded software that are integrated into final products that are manufactured and sold by our partners such as IKEA.

Our software

Our proprietary software is the foundation of the Sonos sound system and further differentiates our products from those of our competitors. Our software provides the following key benefits:

- *Multi-room experience.* Our system enables our speakers to work individually or together in synchronized playback groups, powered by wireless mesh network capabilities to route and play audio optimally.
- *Enhanced functionality.* Our platform enables us to understand and enhance our customers' listening and control experience, delivering feature updates and intelligent customization through software enhancements and cloud-based services.
- *Intuitive and flexible control.* Our customers can control their experiences through the Sonos app, voice control or an expanding number of third-party apps and smart devices. As our customers navigate across different controllers, our technology synchronizes the control experience across the Sonos platform to deliver the music and entertainment experience they desire.
- *Advanced acoustics.* We have made significant investments in our engineering team and audio technology, which have enabled us to create speakers that produce high-fidelity sound. For example, we invented technology to allow two of our speakers to pair wirelessly and create multi-channel sound, thereby enabling a much broader sound field. In addition, our Trueplay technology utilizes the microphones on an iOS device to analyze room attributes, speaker placement and other acoustic factors in order to improve sound quality.

Our partner ecosystem

We have built a platform that attracts partners to enable our customers to play the content they love from the services they prefer. Our partners span across content, control and third-party applications:

- *Content.* We partner with a broad range of content providers, such as streaming music services, internet radio stations and podcast services, allowing our customers to enjoy their audio content from whichever source they desire.
- *Control.* We provide our customers with multiple options to control their home audio experiences, including voice control and direct control from within selected streaming music service apps. In fiscal 2019, many of our speaker products added

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Google Assistant functionality, marking the first time consumers are able to buy a single smart speaker and have a voice assistant choice in addition to Amazon Alexa.

- *Third-party partnerships.* We partner with third-party developers to build new applications and services on top of the Sonos platform, increasing customer engagement and creating new experiences for our customers. In fiscal 2019, we launched a partnership with Sonance for architectural in-ceiling, in-wall and outdoor speakers, as well as a bookshelf speaker and table lamp speaker in partnership with IKEA. The IKEA partnership represents an innovative way to bring the Sonos experience to new potential customers at a global scale. IKEA offers a differentiated footprint as a distribution partner, providing retail showroom environments and extensive global reach.

Our competitive strengths

We believe the following combination of capabilities and features of our business model distinguish us from our competitors and position us well to capitalize on our opportunities:

- *Leading sound system.* We have developed and refined our sound system over the last 16 years. Our effort has resulted in significant consumer awareness and market share among home audio professionals. For example, a 2019 product study by CE Pro, a leading custom electronics publication of the top 100 custom integrator professionals, ranked Sonos as the leading brand in the wireless audio, soundbar and subwoofer categories. Our 88% share in the wireless audio category among these industry professionals significantly outpaces our competitors.
- *Proprietary Sonos app and software platform.* We offer our customers a mobile app that controls the Sonos sound system and the entire listening experience. Customers can stream different audio content to speakers in different rooms or the same audio content synchronized throughout the entire home. Additionally, the Sonos app enables universal search, the ability to search for audio content across their streaming services and owned content to easily find, play or curate their favorite music.
- *Platform enables freedom of choice for consumers.* Our broad and growing network of partners provides our customers with access to voice control, streaming music, internet radio, podcasts and audiobook content, enabling them to listen to the content they love from the services they prefer. Our platform attracts a broad set of content providers, including leading streaming music services and third-party developers.
- *Differentiated consumer experience creates engaged households.* We deliver a differentiated customer experience to millions of households every day, cultivating a passionate and engaged customer base. Long-term engagement with our products and our ability to continuously improve the functionality of our existing products through software updates leads to attractive economics as customers add products to their Sonos sound systems.
- *Commitment to innovation drives continuous improvement.* We have made significant investments in research and development for over 15 years and believe that we own the foundational intellectual property of wireless multi-room audio. We have significantly expanded the size of our patent portfolio in recent years. In 2017, the strength of our patent portfolio placed us 2nd in Electronics and 19th overall in IEEE's Patent Power Report.
- *Sound system expansion drives attractive financial model.* We generate significant revenue from customers purchasing additional products to expand their Sonos sound systems, which has contributed to 14 consecutive years of sustained revenue growth. Existing households represented approximately 37% of new product registrations in fiscal 2019. We believe this aspect of our financial model will continue to contribute to our ability to achieve sustained revenue growth over the long term.

Our growth strategies

Key elements of our growth strategy include:

- *Consistently introduce innovative products.* To address our market opportunity, we have developed a long-term roadmap to deliver innovative products and software enhancements, and we intend to increase product introductions across multiple categories, including products designed for enjoyment in all the places and spaces that our customers listen to audio content, including outside of the home. Executing on our roadmap will position us to acquire new customers, increase sales to existing customers and improve the customer experience.
- *Invest in geographic expansion.* Geographic expansion represents a growth opportunity in currently unserved countries. We intend to expand into new countries by employing country-specific marketing campaigns and distribution channels.
- *Build direct relationships with existing and prospective customers.* We intend to continue to build direct relationships with current and prospective customers through [sonos.com](#) and the Sonos app to drive direct sales.
- *Expand partner ecosystem to enhance platform.* We intend to deepen our relationships with our current partners and expand our partner ecosystem to provide our customers access to streaming music services, voice assistants, internet radio, podcasts and audiobook content. For example, we introduced voice control with Amazon's Alexa technology in 2017, Apple's Siri via Airplay 2 in 2018, and Google Assistant in 2019.
- *Increase brand awareness in existing geographic markets.* We intend to increase our household penetration rates in our existing geographic markets by investing in brand awareness, expanding our product offerings and growing our partner ecosystem.

Research and development

Our research and development team develops new software and hardware products as well as improves and enhances our existing software and hardware products to address customer demands and emerging trends. Our team has worked on features and enhancements to the Sonos system including development and improvements to the Sonos app, product setup, Trueplay tuning and the universal search function. The products and software we develop require significant technological knowledge and expertise to develop at a competitive pace. We believe our research and development capabilities and our intellectual property differentiates us from our competitors. We intend to continue to significantly invest in research and development to bring new products and software to market and expand our platform and capabilities.

Sales and marketing

We sell our products primarily through over 10,000 third-party physical retail stores, including custom installers of home audio systems, and our products are distributed in over 50 countries. The majority of our sales are transacted through traditional physical retailers, including on their websites. We also sell through online retailers such as Amazon, to custom installers who bundle our products with services that they sell to their customers and directly through our website [sonos.com](#). We sell products internationally through distributors and through retailers. These retailers also sell products offered by our competitors. In fiscal 2019, Best Buy accounted for 16% of our revenue and the ALSO Group, our distributor in Germany, Sweden, Denmark and Norway, accounted for 10% of our revenue.

We invest in customer experience and customer relationship management to drive loyalty, word-of-mouth marketing and growth of our direct channels. Our marketing investments are focused on driving profitable growth through advertising, public relations and brand promotion activities, including digital, out-of-home, print, sponsorships, brand activations and channel marketing. We intend to continue to invest significant resources in our marketing and brand development efforts, including investing in capital expenditures on product displays to support our retail channel partners.

Manufacturing, logistics and fulfillment

We outsource the manufacturing of our speakers and components to contract manufacturers, using our design specifications. Our products are manufactured by contract manufacturers in China and we have recently begun to diversify our supply chain through the addition of contract manufacturing in Malaysia.

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Our contracts with our contract manufacturers do not obligate them to supply products to us in any specific quantity, except as specified in our purchase orders that are aligned with forecasts based on terms and conditions of the contract. The vast majority of our products are shipped to our third-party warehouses which we then ship to our distributors, retailers and directly to our customers. Our third-party warehouses are located in the United States in California and Pennsylvania, as well as internationally in Australia, Canada and the Netherlands.

We use a small number of logistics providers for substantially all of our product delivery to both distributors and retailers. This approach allows us to reduce order fulfillment time, reduce shipping costs and improve inventory flexibility.

Competition

We compete against established, well-known sellers of speakers and sound systems such as Bang & Olufsen, Bose, Samsung (and its subsidiaries Harman International and JBL), Sony and Sound United (and its subsidiaries Denon and Polk), and against developers of voice-enabled speakers and other voice-enabled products such as Amazon, Apple and Google. In some cases, our competitors are also our partners in our product development and resale and distribution channels. Many of our competitors have significant market share, diversified product lines, well-established supply and distribution systems, strong worldwide brand recognition, loyal customer bases and significant financial, marketing, research, development and other resources.

The principal competitive factors in our market include:

- brand awareness and reputation;
- breadth of product offering;
- price;
- sound quality;
- multi-room and wireless capabilities;
- customer support;
- product quality and design;
- ease of setup and use; and
- network of technology and content partners.

We believe we compete favorably with our competitors on the basis of the factors described above.

Intellectual property

Intellectual property is an important aspect of our business, and we seek protection for our intellectual property as appropriate. To establish and protect our proprietary rights, we rely upon a combination of patent, copyright, trade secret and trademark laws and contractual restrictions such as confidentiality agreements, licenses and intellectual property assignment agreements. We maintain a policy requiring our employees, contractors, consultants and other third parties to enter into confidentiality and proprietary rights agreements to control access to our proprietary information. These laws, procedures and restrictions provide only limited protection, and any of our intellectual property rights may be challenged, invalidated, circumvented, infringed or misappropriated. Furthermore, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States, and we therefore may be unable to protect our proprietary technology in certain jurisdictions.

We currently hold over one thousand issued patents, including design and utility patents, and are pursuing hundreds of patent applications throughout the world. Our patents expire at various times. Our patents and patent applications focus on technology for the ability to stream content wirelessly to multiple rooms in the home, as well as other experiences that are important to the Sonos platform. We continually review our development efforts to assess the existence and patentability of new intellectual property. We pursue the registration of our domain names, trademarks and service marks in the United States and

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in certain locations outside the United States. To protect our brand, we file trademark registrations in some jurisdictions. In 2017, the strength of our patent portfolio placed us 2nd in Electronics and 19th overall in IEEE's Patent Power Report. We also enter into licensing agreements with our third-party content partners to provide access to a broad range of content for our customers.

While we believe that our active patents and patent applications are an important aspect of our business, we also rely heavily on the innovative skills, technical competence and marketing abilities of our personnel.

Employees

As of September 28, 2019, we had 1,446 full-time employees. Of our full-time employees, 1,023 were in the United States and 423 were in our international locations. Other than our employees in France and the Netherlands, none of our employees are represented by a labor union or covered by a collective bargaining agreement. We have not experienced any work stoppages. We consider our relationship with our employees to be good.

Corporate information

We incorporated in Delaware in August 2002 as Rincon Audio, Inc. and we changed our name to Sonos, Inc. in May 2004. We completed the initial public offering ("IPO") of our common stock in August 2018 and our common stock is listed on The Nasdaq Global Select Market under the symbol of "SONO." Our principal executive offices are located at 614 Chapala Street, Santa Barbara, California 93101, and our telephone number is (805) 965-3001.

Our website address is www.sonos.com. The information on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K. Investors should not rely on any such information in deciding whether to purchase our common stock.

Sonos, the Sonos logo, Sonos One, Sonos One SL, Sonos Beam, Play:1, Play:5, Playbase, Playbar, Sonos Amp, Sub, Sonos Move, Sonos Port and our other registered or common law trademarks, tradenames or service marks appearing in this Annual Report on Form 10-K are our property. Solely for convenience, our trademarks, tradenames and service marks referred to in this Annual Report on Form 10-K appear without the ®, ™ and SM symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks, tradenames and service marks. This Annual Report on Form 10-K contains additional trademarks, tradenames and service marks of other companies that are the property of their respective owners.

Available information

We make available, free of charge through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Sections 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after they have been electronically filed with, or furnished to, the SEC.

The SEC maintains an internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk factors

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our common stock. You should carefully consider the following risks, together with all of the other information in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

Risks related to our business

We have a recent history of losses and expect to incur increased operating costs in the future, and we may not achieve or sustain profitability or consistent revenue growth.

We have experienced net losses in our recent annual periods. In the fiscal years ended September 28, 2019, September 29, 2018 and September 30, 2017, we had net losses of \$4.8 million, \$15.6 million and \$14.2 million, respectively. We had an accumulated deficit of \$208.4 million as of September 28, 2019. We expect our operating expenses to increase in the future as we expand our operations and execute on our product roadmap. We plan to make significant future expenditures related to the expansion of our business and our product offerings, including investments in:

- research and development to continue to introduce innovative new products, enhance existing products and improve our customers' listening experience;
- sales and marketing to expand our global brand awareness, promote new products, increase our customer base and expand sales within our existing customer base; and
- legal, accounting, information technology and other administrative expenses to sustain our operations as a public company.

We need to increase our revenue to achieve and maintain profitability in the future. We cannot assure you that our revenue will continue to grow or that it will not decline. Our ability to achieve continued growth will depend on our ability to execute on our product roadmap and to determine the market opportunity for new products. New product introductions may adversely impact our gross margin in the near to intermediate term due to the frequency of these product introductions and their anticipated increased share of our overall product volume. The expansion of our business and product offerings also places a continuous and significant strain on our management, operational and financial resources. In future periods, we could experience a decline in revenue, or revenue could grow more slowly than we expect, which could have a material negative effect on our operating results and our stock price could be harmed.

Our operating results depend on a number of factors and are likely to fluctuate from quarter to quarter and year over year, which could cause the trading price of our common stock to decline.

Our operating results and other key metrics have fluctuated in the past and may continue to fluctuate from quarter to quarter and year-over-year. We expect that this trend will continue as a result of a number of factors as set forth in this Section 1A, many of which are outside of our control and may be difficult to predict, including:

- seasonality in the demand for our products;
- the timing and success of new product introductions;
- competition;
- the imposition of tariffs and other trade barriers, and the effects of retaliatory trade measures;
- fluctuations in component and manufacturing costs; and
- adverse litigation judgments, settlements or other litigation-related costs, especially from litigation involving alleged patent infringement or defense of our patents.

Any one of the factors above or the cumulative effect of some of the factors above may result in significant fluctuations in our operating results. As a result, period to period comparisons of our operating results may not be meaningful, and you should not rely on them as an indication of our future performance. The variability and unpredictability of our operating results or other operating metrics could result in our failure to meet our expectations or those of investors or any analysts that cover us with respect to revenue or other operating results for a particular period. If we fail to meet or exceed such expectations for these or any other reasons, the stock price of our common stock could fall substantially.

The success of our business depends on the continued growth of the voice-enabled speaker market, and our ability to establish and maintain market share.

We have increasingly focused our product roadmap on voice-enabled speakers. We introduced our first voice-enabled speaker, Sonos One, in October 2017, our first voice-enabled home theater speaker, Sonos Beam, in July 2018 and our first Bluetooth-enabled portable speaker with voice control, Sonos Move in September 2019. If the voice-enabled speaker markets do not continue to grow or grow in unpredictable ways, our revenue may fall short of expectations and our operating results may be harmed, particularly since we incur substantial costs to introduce new products in advance of anticipated sales. Additionally, even if the market for voice-enabled speakers does continue to grow, we may not be successful in developing and selling speakers that appeal to consumers or gain sufficient market acceptance. To succeed in this market, we will need to design, produce and sell innovative and compelling products and partner with other businesses that enable us to capitalize on new technologies, some of which have developed or may develop and sell voice-enabled speaker products of their own as further described herein.

To remain competitive and stimulate consumer demand, we must successfully manage frequent new product introductions and transitions.

Due to the highly volatile and competitive nature of the home audio and broader consumer electronics industry, we must frequently introduce new products, enhance existing products and effectively stimulate customer demand for new and upgraded products in both mature and developing markets. For example, in September 2019, we introduced Sonos One SL, a version of Sonos One without built-in microphones, Sonos Move and Sonos Port. The successful introduction of new products depends on a number of factors, such as the timely completion of development efforts to correspond with limited windows for market introduction. We face significant challenges in managing the risks associated with new product introductions and production ramp-up issues, including accurately forecasting initial consumer demand, effectively managing any third-party strategic alliances or collaborative partnerships related to new product development or commercialization, as well as the risk that new products may have quality or other defects in the early stages of introduction. New and upgraded products can also affect the sales and profitability of existing products. Accordingly, if we cannot properly manage the introduction of new products, our operating results and financial condition may be adversely impacted, particularly if the cadence of new product introductions increases as we expect.

We are highly dependent on a key contract manufacturer to manufacture our products and our efforts to diversify manufacturers may not be successful.

We have historically depended on a single manufacturer, Inventec Appliances Corporation (“Inventec”), to manufacture our products. While we recently began using additional manufacturers to manufacture certain of our products, Inventec remains our key manufacturer for the vast majority of our production. Our reliance on Inventec increases the risk that, in the event of an interruption in Inventec’s operations, we would not be able to maintain our production capacity without incurring material additional costs and substantial delays. Additionally, Inventec can terminate its agreement with us for any reason with 180 days’ advance notice. If Inventec breaches or terminates its agreement with us or otherwise fails to perform its obligations in a timely manner, we may be severely delayed or fully prevented from selling our products. In the event of a termination of our agreement with Inventec, it would take a significant amount of time to increase our production with other manufacturers or to identify and onboard a new manufacturer that has the capability and resources to build our products to our specifications in sufficient volume. Any material disruption in our relationship with our manufacturers would harm our ability to compete effectively and satisfy demand for our products and could adversely impact our revenue, gross margin and operating results.

In addition, there is no guarantee that our efforts to diversify manufacturers will be successful. If we do not successfully coordinate the timely manufacturing and distribution of our products by such manufacturers, if such manufacturers are unable to successfully and timely process our orders or if we do not receive timely and accurate information from such manufacturers, we may have an insufficient supply of products to meet customer demand, we may lose sales, we may experience a build-up in inventory, we may incur additional costs, and our financial performance and reporting may be adversely affected. We have also historically manufactured our products in China and have recently begun to diversify our supply chain through the addition of contract manufacturing in Malaysia. By adding manufacturers in other countries, we may experience increased transportation costs, fuel costs, labor unrest, natural disasters and other adverse effects on our ability, timing and cost of delivering products, which may increase our inventory, decrease our margins, adversely affect our relationships with distributors and other customers and otherwise adversely affect our operating results and financial condition.

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We depend on a limited number of third-party components suppliers and logistics providers.

We are dependent on a limited number of suppliers for various key components used in our products, and we may from time to time have sole source suppliers. The cost, quality and availability of these components are essential to the successful production and sale of our products. We are subject to the risk of industry-wide shortages, price fluctuations and long lead times in the supply of these components and other materials. If the supply of these components were to be delayed or constrained, or if one or more of our main suppliers were to go out of business, alternative sources or suppliers may not be available on acceptable terms or at all. In the event that any of our suppliers were to discontinue production of our key product components, developing alternate sources of supply for these components would be time consuming, difficult and costly. In the event we are unable to obtain components in sufficient quantities on a timely basis and on commercially reasonable terms, our ability to sell our products in order to meet market demand would be affected and could materially and adversely affect our brand, image, business prospects and operating results.

We also use a small number of logistics providers for substantially all our product delivery to both distributors and retailers. If one of these providers were to experience financial difficulties or disruptions in its business, our own operations could be adversely affected. Because substantially all of our products are distributed from a small number of locations and by a small number of companies, we are susceptible to both isolated and system-wide interruptions caused by events out of our control. Any disruption to the operations of our distributions facilities could delay product delivery, harm our reputation among our customers and adversely affect our operating results and financial condition.

We have limited control over the third-party suppliers and logistics providers on which our business depends. If any of these parties fails to perform its obligations to us, we may be unable to deliver our products to customers in a timely manner. Further, we do not have long-term contracts with all of these parties, and there can be no assurance that we will be able to renew our contracts with them on favorable terms or at all. We may be unable to replace an existing supplier or logistics provider or supplement a provider in the event we experience significantly increased demand. Accordingly, a loss or interruption in the service of any key party could adversely impact our revenue, gross margin and operating results.

The home audio and consumer electronics industries are highly competitive.

The markets in which we operate are extremely competitive and rapidly evolving, and we expect that competition will intensify in the future. Our competition includes established, well-known sellers of speakers and sound systems such as Bang & Olufsen, Bose, Samsung (and its subsidiaries Harman International and JBL), Sony and Sound United (and its subsidiaries Denon and Polk), and developers of voice-enabled speakers and systems such as Amazon, Apple and Google. We could also face competition from new market entrants, some of whom might be current partners of ours.

In order to deliver products that appeal to changing and increasingly diverse consumer preferences and to overcome the fact that a relatively high percentage of consumers may already own or use products that they perceive to be similar to those that we offer, we must develop superior technology, anticipate increasingly diverse consumer tastes and rapidly develop attractive products with competitive selling prices. In addition, many of our current and potential partners have business objectives that may drive them to sell their speaker products at a significant discount to ours. Amazon and Google, for example, both currently offer their speaker products at significantly lower prices than Sonos One, Sonos Beam and Sonos Move. Many of these partners may subsidize these prices and seek to monetize their customers through the sale of additional services rather than the speakers themselves. Even if we are able to efficiently develop and offer innovative products at competitive selling prices, our operating results and financial condition may be adversely impacted if we are unable to effectively anticipate and counter the ongoing price erosion that frequently affects consumer products or if the average selling prices of our products decrease faster than we are able to reduce our manufacturing costs.

Most of our competitors have greater financial, technical and marketing resources available to them than those available to us, and, as a result, they may develop competing products that cause the demand for our products to decline. Our competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the abilities of their products to address the needs of our prospective customers, and other companies may enter our markets by entering into strategic relationships with our competitors. A failure to effectively anticipate and respond to these established and new competitors may adversely impact our business and operating results.

Further, our current and prospective competitors may consolidate with each other or acquire companies that will allow them to develop products that better compete with our products, which would intensify the competition that we face and may also disrupt or lead to termination of our distribution, technology and content partnerships. For example, if one of our competitors were to acquire one of our content partners, the consolidated company may decide to disable the streaming functionality of its service with our products.

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If we are unable to compete with these consolidated companies or if consolidation in the market disrupts our partnerships or reduces the number of companies we partner with, our business would be adversely affected.

Conflicts with our distribution partners could harm our business and operating results.

Several of our existing products compete, and products that we may offer in the future could compete, with the product offerings of some of our significant channel and distribution partners who have greater financial and technical resources than we do. To the extent products offered by our partners compete with our products, they may choose to promote their own products over ours or could end our partnerships and cease selling or promoting our products entirely. If our distribution partners, such as Amazon and Apple, continue to compete with us more directly in the future, they would be able to market and promote their products more prominently than they market and promote our products, and could refuse to promote or offer our products for sale alongside their own, or at all, in distribution channels. Any reduction in our ability to place and promote our products, or increased competition for available shelf or website placement, especially during peak retail periods, such as the holiday shopping season, would require us to increase our marketing expenditures and to seek other distribution channels to promote our products. If we are unable to effectively sell our products due to conflicts with our distribution partners, our business would be harmed.

Competition with our technology partners could harm our business and operating results.

We are dependent on a number of technology partners for the development of our products, some of which have developed or may develop and sell products that compete with our products. These technology partners may cease doing business with us or disable the technology they provide our products for a variety of reasons, including to promote their products over our own. For example, we are currently manufacturing and developing voice-enabled speaker systems that are enhanced with the technology of our partners, including those who sell competing products. We introduced Sonos One, Sonos Beam and Sonos Move, which feature built in voice-enabled speakers powered by Amazon's Alexa or Google's Google Assistant technology. One or more of our partners could disable their integration or begin charging us for their integration with our voice-enabled products. For example, our current agreement with Amazon allows Amazon to disable the Alexa integration in our voice-enabled products with limited notice. We cannot assure you that we will be successful in establishing partnerships with other companies that have developed voice-control enablement technology or in developing such technology on our own.

If one or more of our technology partners do not maintain their integration with our products or seek to charge us for this integration, or if we have not developed alternative partnerships for similar technology or developed such technology on our own, our sales may decline, our reputation may be harmed and our business and operating results may suffer.

Competition with our content partners could cause these partners to cease to allow their content to be streamed on our products, which could lower product demand.

Demand for our products depends in large part on the availability of streaming third-party content that appeals to our existing and prospective customers. Compatibility with streaming music services, podcast platforms and other content provided by our content partners is a key feature of our products. To date, all our arrangements have been entered into on a royalty-free basis. Some of these content partners compete with us already, and others may in the future produce and sell speakers along with their streaming services. Additionally, other content partners may form stronger alliances with our competitors in the home audio market. Any of our content partners may cease to allow their content to be streamed on our products for a variety of reasons, including to promote other partnerships or their products over our products, or seek to charge us for this streaming. If this were to happen, demand for our products could decrease, our costs could increase and our operating results could be harmed.

If we are unable to accurately anticipate market demand for our products, we may have difficulty managing our production and inventory and our operating results could be harmed.

We must forecast production and inventory needs in advance with our suppliers and manufacturers, and our ability to do so accurately could be affected by many factors, including changes in customer demand, new product introductions, sales promotions, channel inventory levels and general economic conditions. If demand does not meet our forecast, excess product inventory could force us to write-down or write-off inventory, or to sell the excess inventory at discounted prices, which could cause our gross margin to suffer and impair the strength of our brand. In addition, excess inventory may result in reduced working capital, which could adversely affect our ability to invest in other important areas of our business such as marketing and product development. If our channel partners have excess inventory of our products, they may decrease their purchases of our products in subsequent periods. If demand exceeds our forecast and we do not have sufficient inventory to meet this demand, we would have to rapidly increase production which may result in reduced manufacturing quality and customer satisfaction as well as higher supply and

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manufacturing costs that would lower our gross margin. Any of these scenarios could adversely impact our operating results and financial condition.

We experience seasonal demand for our products, and if our sales in high-demand periods are below our forecasts, our overall financial condition and operating results could be adversely affected.

Given the seasonal nature of our sales, accurate forecasting is critical to our business. Our fiscal year ends on the Saturday closest to September 30, the holiday shopping season occurs in the first quarter of our fiscal year and the typically slower summer months occur in the fourth quarter of our fiscal year. Historically, our revenue has been significantly higher in our first fiscal quarter due to increased consumer spending patterns during the holiday season. We attempt to time our new product releases to coincide with relatively higher consumer spending in the first fiscal quarter, which contributes to this seasonal variation. Any shortfalls in expected first fiscal quarter revenue, due to macroeconomic conditions, product release patterns, a decline in the effectiveness of our promotional activities, supply chain disruptions or for any other reason, could cause our annual operating results to suffer significantly. In addition, if we fail to accurately forecast customer demand for the holiday season, we may experience excess inventory levels or a shortage of products available for sale, which could further harm our financial condition and operating results.

If market demand for streaming music does not grow as anticipated or the availability and quality of streaming services does not continue to increase, our business could be adversely affected.

A large proportion of our customer base uses our products to listen to content via subscription-based streaming music services. Accordingly, we believe our future revenue growth will depend in significant part on the continued expansion of the market for streaming music. The success of the streaming music market depends on the quality, reliability and adoption of streaming technology, and on the continued success of streaming music services such as Apple Music, Pandora, Spotify and TuneIn. If the streaming music market in general fails to expand or if the streaming services that we partner with are not successful, demand for our products may suffer and our operating results may be adversely affected.

If we are not successful in expanding our direct-to-consumer sales channel by driving consumer traffic and consumer purchases through our website, our business and results of operations could be harmed.

We are currently investing in our direct-to-consumer sales channel, primarily through our website and our future growth relies in part on our ability to attract consumers to this channel, which requires significant expenditures in marketing, software development and infrastructure. If we are unable to drive traffic to, and increase sales through, our website, our business and results of operations could be harmed. The success of direct-to-consumer sales through our website is subject to risks associated with e-commerce, many of which are outside of our control. Our inability to adequately respond to these risks and uncertainties or to successfully maintain and expand our direct-to-consumer business via our website may have an adverse impact on our results of operations.

Additionally, the expansion of our direct-to-consumer channel could alienate some of our channel partners and cause a reduction in product sales from these partners. Channel partners may perceive themselves to be at a disadvantage based on the direct-to-consumer sales offered through our website. Due to these and other factors, conflicts in our sales channels could arise and cause channel partners to divert resources away from the promotion and sale of our products or to offer competitive products. Further, to the extent we use our mobile app to increase traffic to our website and increase direct-to-consumer sales, we will rely on application marketplaces such as the Apple App Store and Google Play to drive downloads of our mobile app. Apple and Google, both of which sell products that compete with ours, may choose to use their marketplaces to promote their competing products over our products or may make access to our mobile app more difficult. Any of these situations could adversely impact our business and results of operations.

We sell our products through a limited number of key channel partners, and the loss of any such channel partner would adversely impact our business.

We are dependent on our channel partners for a vast majority of our product sales. Some of our key channel partners include Best Buy, which accounted for 16% of our revenue in fiscal 2019, and the ALSO Group, our distributor in Germany, Sweden, Denmark and Norway, which accounted for 10% of our revenue in fiscal 2019. We compete with other consumer products for placement and promotion of our products in the stores of our channel partners, including in some cases products of our channel partners. Our contracts with our channel partners allow them to exercise significant discretion in the placement and promotion of our products, and such contracts do not contain any long-term volume commitments. If one or several of our channel partners do not effectively market and sell our products, discontinue or reduce the inventory of our products, increase the promotions of or choose to promote competing products over ours, the volume of our products sold to customers could decrease, and our business and results of operations would therefore be significantly harmed.

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Revenue from our channel partners also depends on a number of factors outside our control and may vary from period to period. If one or more of our channel partners were to experience serious financial difficulty, consolidate with other channel partners or limit or cease operations, our business and results of operations would be significantly harmed. Loss of a key channel partner would require us to identify alternative channel partners or increase our direct-to-consumer sales efforts, which may be time-consuming and expensive or we may be unsuccessful in our efforts to do so.

A significant disruption in our websites, servers or information technology systems, or those of our third-party partners, could impair our customers' listening experience or otherwise adversely affect our customers, damage our reputation or harm our business.

As a consumer electronics company, our website and mobile app are important presentations of our business, identity and brand, and an important means of interacting with, and providing information to, consumers of our products. We depend on our servers and centralized information technology systems, and those of third parties, for product functionality, to manage operations and to store critical information and intellectual property. Accordingly, we allocate significant resources to maintaining our information technology systems and deploying network security, data encryption, training and other measures to protect against unauthorized access or misuse. Nevertheless, our website and information technology systems, and those of the third parties we rely on, are susceptible to damage, viruses, disruptions or shutdowns due to foreseeable and unforeseeable events. System failures and disruptions could impede the manufacturing and shipping of products, functionality of our products, transactions processing and financial reporting, and result in the loss of intellectual property or data, require substantial repair costs and damage our reputation, competitive position, financial condition and results of operations.

For example, we use Amazon Web Services ("AWS") to maintain the interconnectivity of our mobile app to our servers and those of the streaming services that our customers access to enjoy our products. Because AWS runs its own platform that we access, we are vulnerable to both system-wide and Sonos-specific service outages at AWS. Our access to AWS' infrastructure could be limited by a number of potential causes, including technical failures, natural disasters, fraud or security attacks that we cannot predict or prevent.

Additionally, our products may contain flaws that make them susceptible to unauthorized access or use. For example, we previously discovered a vulnerability in our products that could be exploited when a customer visited a website with malicious content, allowing the customer's local network to be accessed by third parties who could then gain unauthorized access to the customer's playlists and other data and limited control of the customer's devices. While we devote significant resources to address and eliminate flaws and other vulnerabilities in our products, there can be no assurance that our products will not be compromised in the future. Any such flaws or vulnerabilities, whether actual or merely potential, could harm our reputation, competitive position, financial condition and results of operations.

Changes in how network operators manage data that travel across their networks or in net neutrality rules could harm our business.

Our business relies in part upon the ability of consumers to access high-quality streaming content through the internet. As a result, the growth of our business depends partially on our customers' ability to obtain low-cost, high-speed internet access, which relies in part on network operators' continued willingness to upgrade and maintain their equipment as needed to sustain a robust internet infrastructure, as well as their continued willingness to preserve the open and interconnected nature of the internet. We exercise no control over network operators, which makes us vulnerable to any errors, interruptions or delays in their operations. Any material disruption in internet services could harm our business. To the extent that the number of internet users continues to increase, network congestion could adversely affect the reliability of our platform. We may also face increased costs of doing business if network operators engage in discriminatory practices with respect to streamed audio content to monetize access to their networks by content providers.

Further, in the past, internet service providers ("ISPs") have attempted to implement usage-based pricing, bandwidth caps and traffic shaping or throttling. To the extent network operators create tiers of internet access service and charge our customers in direct relation to their consumption of audio content, our ability to attract and retain customers could be impaired, which would harm our business. Net neutrality rules, which were designed to ensure that all online content is treated the same by ISPs and other companies that provide broadband services, were repealed by the Federal Communications Commission effective June 2018. The repeal of the net neutrality rules could force us to incur greater operating expenses, cause our streaming partners to seek to shift costs to us or result in a decrease in the streaming-based usage of our platform by our customers, any of which would harm our results of operations.

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Our investments in research and development may not yield the results expected.

Our business operates in intensely competitive markets characterized by changing consumer preferences and rapid technological innovation. Due to advanced technological innovation and the relative ease of technology imitation, new products tend to become standardized more rapidly, leading to more intense competition and ongoing price erosion. In order to strengthen the competitiveness of our products in this environment, we continue to invest heavily in research and development. However, these investments may not yield the innovation or the results expected on a timely basis, or our competitors may surpass us in technological innovation, hindering our ability to timely commercialize new and competitive products that meet the needs and demands of the market, which consequently may adversely impact our operating results as well as our reputation.

If we are not able to maintain and enhance the value and reputation of our brand, or if our reputation is otherwise harmed, our business and operating results could be adversely affected.

Our continued success depends on our reputation for providing high-quality products and consumer experiences, and the “Sonos” name is critical to preserving and expanding our business. Our brand and reputation are dependent on a number of factors, including our marketing efforts, product quality, and trademark protection efforts, each of which requires significant expenditures.

The value of our brand could also be severely damaged by isolated incidents, which may be outside of our control. For example, in the United States, we rely on custom installers of home audio systems for a significant portion of our sales but maintain no control over the quality of their work and thus could suffer damage to our brand or business to the extent such installations are unsatisfactory or defective. Any damage to our brand or reputation may adversely affect our business, financial condition and operating results.

Our efforts to expand beyond our core product offerings and offer products with applications outside the home may not succeed and could adversely impact our business.

We may seek to expand beyond our core sound systems and develop products that have wider applications outside the home, such as commercial or office. Developing these products would require us to devote substantial additional resources, and our ability to succeed in developing such products to address such markets is unproven. It is likely that we would need to hire additional personnel, partner with new third parties and incur considerable research and development expenses to pursue such an expansion successfully. We have less familiarity with consumer preferences for these products and less product or category knowledge, and we could encounter difficulties in attracting new customers due to lower levels of consumer familiarity with our brand. As a result, we may not be successful in future efforts to achieve profitability from new markets or new types of products, and our ability to generate revenue from our existing products may suffer. If any such expansion does not enhance our ability to maintain or grow our revenue or recover any associated development costs, our operating results could be adversely affected.

We may choose to discontinue support for older versions of our products, resulting in customer dissatisfaction that could negatively affect our business and operating results.

We have historically maintained, and we believe our customers may expect, extensive backward compatibility for our older products and the software that supports them, allowing older products to continue to benefit from new software updates. We expect that in the near term, this backward compatibility will no longer be practical or cost-effective, and we may decrease or discontinue service for our older products. If we no longer provide extensive backward capability for our products, we may damage our relationship with our existing customers, as well as our reputation, brand loyalty and ability to attract new customers.

For these reasons, any decision to decrease or discontinue backward capability may decrease sales and adversely affect our business, operating results and financial condition.

Product quality issues and a higher-than-expected number of warranty claims or returns could harm our business and operating results.

The products that we sell could contain defects in design or manufacture. Defects could also occur in the products or components that are supplied to us. There can be no assurance we will be able to detect and remedy all defects in the hardware and software we sell, which could result in product recalls, product redesign efforts, loss of revenue, reputational damage and significant warranty and other remediation expenses. Similar to other consumer electronics, our products have a risk of overheating and fire in the course of usage or upon malfunction. Any such defect could result in harm to property or in personal injury. If we determine that a product does not meet product quality standards or may contain a defect, the launch of such product could be delayed until we remedy the quality issue or defect. The costs associated with any protracted delay necessary to remedy a quality issue or defect in a new product could be substantial.

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We generally provide a one-year warranty on all our products, except in the European Union (the “EU”) and select other countries where we provide a two-year warranty on all our products. The occurrence of any material defects in our products could expose us to liability for warranty claims in excess of our current reserves, and we could incur significant costs to correct any defects, warranty claims or other problems. In addition, our failure to comply with past, present and future laws regulating extended warranties and accidental damage coverage could result in reduced sales of our products, reputational damage, penalties and other sanctions, which could harm our business and financial condition.

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

We depend on the continued services and performance of our key personnel. The loss of key personnel, including key members of management as well as our product development, marketing, sales and technology personnel, could disrupt our operations and have an adverse effect on our ability to grow our business. In addition, the loss of key personnel in our finance and accounting departments could harm our internal controls, financial reporting capability and capacity to forecast and plan for future growth. Further, the market for highly skilled workers and leaders in our industry is extremely competitive. If we do not succeed in attracting, hiring and integrating high-quality personnel, or in retaining and motivating existing personnel, we may be unable to grow effectively, and our financial condition may be harmed.

Natural disasters, geopolitical unrest, war, terrorism, public health issues or other catastrophic events could disrupt the supply, delivery or demand of products, which could negatively affect our operations and performance.

We are subject to the risk of disruption by earthquakes, floods and other natural disasters, fire, power shortages, geopolitical unrest, war, terrorist attacks and other hostile acts, public health issues, epidemics or pandemics and other events beyond our control and the control of the third parties on which we depend. Any of these catastrophic events, whether in the United States or abroad, may have a strong negative impact on the global economy, us, our contract manufacturers, our suppliers or customers, and could decrease demand for our products, create delays and inefficiencies in our supply chain and make it difficult or impossible for us to deliver products to our customers. Further, our headquarters are located in Santa Barbara, California, in a seismically active region that is also prone to forest fires. Any catastrophic event that occurred near our headquarters, or near our manufacturing facilities in China, could impose significant damage to our ability to conduct our business and could require substantial recovery time, which could have an adverse effect on our business, operating results and financial condition.

We may be subject to intellectual property rights claims and other litigation which are expensive to support, and if resolved adversely, could have a significant impact on us and our stockholders.

Companies in the consumer electronics industries own large numbers of patents, copyrights, trademarks, domain names and trade secrets, and frequently enter into litigation based on allegations of infringement, misappropriation or other violations of intellectual property or other rights. As we gain an increasingly high profile and face more intense competition in our markets, the possibility of intellectual property rights claims against us grows, including the threat of lawsuits from non-practicing entities. Our technologies may not be able to withstand any third-party claims or rights against their use, and we may be subject to litigation and disputes. The costs of supporting such litigation and disputes is considerable, and there can be no assurance that a favorable outcome would be obtained. We may be required to settle such litigations and disputes, or we may be subject to an unfavorable judgment in a trial, and the terms of a settlement or judgment against us may be unfavorable and require us to cease some or all our operations, limit our ability to use certain technologies, pay substantial amounts to the other party or issue additional shares of our capital stock to the other party, which would dilute our existing stockholders. Further, if we are found to have engaged in practices that are in violation of a third party’s rights, we may have to negotiate a license to continue such practices, which may not be available on reasonable or favorable terms, develop alternative, non-infringing technology or discontinue the practices altogether. Each of these efforts could require significant effort and expense and ultimately may not be successful.

If we are unable to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected.

We rely and expect to continue to rely on a combination of confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships, as well as patent, trademark, copyright and trade secret protection laws, to protect our proprietary rights. In the United States and certain other countries, we have filed various applications for certain aspects of our intellectual property, most notably patents. However, third parties may knowingly or unknowingly infringe our proprietary rights or challenge our proprietary rights, pending and future patent and trademark applications may not be approved, and we may not be able to prevent infringement without incurring substantial expense. Such infringement could have a material adverse effect on our brand, business, financial condition and results of operations. We have initiated legal proceedings to protect

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our intellectual property rights, and we may file additional actions in the future. The cost of defending our intellectual property has been and may in the future be substantial, and there is no assurance we will be successful. Our business could be adversely affected as a result of any such actions, or a finding that any patents-in-suit are invalid or unenforceable. These actions have led and may in the future lead to additional counterclaims against us, which are expensive to defend against and for which there can be no assurance of a favorable outcome. Further, parties we bring legal action against could retaliate through non-litigious means, which could harm our ability to compete against such parties or to enter new markets.

In addition, the regulations of certain foreign countries do not protect our intellectual property rights to the same extent as the laws of the United States. As our brand grows, we will likely discover unauthorized products in the marketplace that are counterfeit reproductions of our products. If we are unsuccessful in pursuing producers or sellers of counterfeit products, continued sales of these products could adversely impact our brand, business, financial condition and results of operations.

Our use of open source software could negatively affect our ability to sell our products and subject us to possible litigation.

We incorporate open source software into our products, and we may continue to incorporate open source software into our products in the future. Open source software is generally licensed by its authors or other third parties under open source licenses. Some of these licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software, and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of our licensed software. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against those allegations and could be subject to significant damages, enjoined from offering or selling our products that contained the open source software and required to comply with the above conditions. Any of the foregoing could disrupt and harm our business and financial condition.

Any cybersecurity breaches or our actual or perceived failure to comply with such legal obligations by us, or by our third-party service providers or partners, could harm our business.

We collect, store, process and use our customers' personally identifiable information and other data, and we rely on third parties that are not directly under our control to do so as well. While we take measures intended to protect the security, integrity and confidentiality of the personal information and other sensitive information we collect, store or transmit, we cannot guarantee that inadvertent or unauthorized use or disclosure will not occur, or that third parties will not gain unauthorized access to this information. There have been a number of recent reported incidents where third parties have used software to access the personal data of their partners' customers for marketing and other purposes.

If we or our third-party service providers were to experience a breach, disruption or failure of systems compromising our customers' data, or if one of our third-party service providers or partners were to access our customers' personal data without our authorization, our brand and reputation could be adversely affected, use of our products could decrease and we could be exposed to a risk of loss, litigation and regulatory proceedings. In addition, a breach could require expending significant additional resources related to the security of information systems and disrupt our operations.

The use of data by our business and our business associates is highly regulated in all our operating countries. Privacy and information-security laws and regulations change, and compliance with them may result in cost increases due to, among other things, systems changes and the development of new processes. If we or those with whom we share information fail to comply with laws and regulations, such as the General Data Protection Regulation (GDPR) and California Consumer Privacy Act (CCPA), our reputation could be damaged, possibly resulting in lost business, and we could be subjected to additional legal risk or financial losses as a result of non-compliance. Complying with such laws may also require us to modify our data processing practices and policies and incur substantial expenditures.

Our international operations are subject to increased business and economic risks that could impact our financial results.

We have operations outside the United States, and we expect to continue to expand our international presence, especially in Asia. In fiscal 2019, 50% of our revenue was generated outside the United States. This subjects us to a variety of risks inherent in doing business internationally, including:

- fluctuations in currency exchange rates and costs of imposing currency exchange controls;
- political, social and/or economic instability such as the United Kingdom's decision to withdraw from the European Union, commonly known as "Brexit";

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- higher levels of credit risk and payment fraud and longer payment cycles associated with, and increased difficulty of payment collections from certain international customers;
- burdens and risks of complying with a number and variety of foreign laws and regulations, including the Foreign Corrupt Practices Act, which laws and regulations may change from time to time unexpectedly and may be unpredictably enforced;
- potential negative consequences from changes in or interpretations of U.S. and foreign tax laws;
- the cost of developing connected products for countries where Wi-Fi technology has been passed over in favor of more advanced cellular data networks;
- tariffs, trade barriers and duties;
- protectionist laws and business practices that favor local businesses in some countries;
- reduced protection for intellectual property rights in some countries;
- difficulties and associated costs in managing multiple international locations; and
- delays from customs brokers or government agencies.

If we are unable to manage the complexity of our global operations successfully, or if the risks above become substantial for us, our financial performance and operating results could suffer. Further, any measures that we may implement to reduce risks of our international operations may not be effective, may increase our expenses and may require significant management time and effort. Entry into new international markets requires considerable management time and financial resources related to market, personnel and facilities development before any significant revenue is generated. As a result, initial operations in a new market may operate at low margins or may be unprofitable.

We have significant operations in China, where many of the risks listed above are particularly acute. China experiences high turnover of direct labor due to the intensely competitive and fluid market for labor, and if our labor turnover rates are higher than we expect, or we otherwise fail to adequately manage our labor needs, then our business and results of operations could be adversely affected. In addition, if significant tariffs or other restrictions are placed on Chinese imports or any related counter-measures are taken by China, our revenue and results of operations may be materially harmed. For example, the U.S. government has imposed significant new tariffs on China related to the importation of certain product categories, which currently affect our products. In May 2019, tariffs on accessories were increased to 25% and tariffs on most remaining imports were imposed at 15% effective September 2019. In the event that future tariffs are imposed on imports of our products, the amounts of existing tariffs are increased, or China or other countries take retaliatory trade measures in response to existing or future tariffs, our business may be impacted and we may be required to raise prices or make changes to our operations, any of which could materially harm our revenue or operating results. We may seek to shift production outside of China, resulting in significant costs and disruption to our operations as we would need to pursue the time-consuming processes of recreating a new supply chain, identifying substitute components and establishing new manufacturing locations.

We must comply with extensive regulatory requirements, and the cost of such compliance, and any failure to comply, may adversely affect our business, financial condition and results of operations.

In our current business and as we expand into new markets and product categories, we must comply with a wide variety of laws, regulations, standards and other requirements governing, among other things, electrical safety, wireless emissions, health and safety, e-commerce, consumer protection, export and import requirements, hazardous materials usage, product-related energy consumption, packaging, recycling and environmental matters. Compliance with these laws, regulations, standards and other requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction or change from time to time, further increasing the cost of compliance and doing business. Our products may require regulatory approvals or satisfaction of other regulatory concerns in the various jurisdictions in which they are manufactured, sold or both. These requirements create procurement and design challenges that require us to incur additional costs identifying suppliers and manufacturers who can obtain and produce compliant materials, parts and products. Failure to comply with such requirements can subject us to liability, additional costs and reputational harm and, in extreme cases, force us to recall products or prevent us from selling our products in certain jurisdictions.

We may incur costs in complying with changing tax laws in the United States and abroad, which could adversely impact our cash flow, financial condition and results of operations.

We are a U.S.-based company subject to taxes in multiple U.S. and foreign tax jurisdictions. Our profits, cash flow and effective tax rate could be adversely affected by changes in the tax rules and regulations in the jurisdictions in which we do business, unanticipated changes in statutory tax rates and changes to our global mix of earnings. As we expand our operations, any changes in the U.S. or foreign taxation of such operations may increase our worldwide effective tax rate.

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We are also subject to examination by the IRS and other tax authorities, including state revenue agencies and foreign governments. If any tax authority disagrees with any position we have taken, our tax liabilities and operating results may be adversely affected. While we regularly assess the likelihood of favorable or unfavorable outcomes resulting from examinations by the IRS and other tax authorities to determine the adequacy of our provision for income taxes, there can be no assurance that the actual outcome resulting from these examinations will not materially adversely affect our financial condition and results of operations. In addition, the distribution of our products subjects us to numerous complex and often-changing customs regulations. Failure to comply with these systems and regulations could result in the assessment of additional taxes, duties, interest and penalties. There is no assurance that tax and customs authorities agree with our reporting positions and upon audit may assess us additional taxes, duties, interest and penalties. If this occurs and we cannot successfully defend our position, our profitability will be reduced.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of September 28, 2019, we had gross U.S. federal net operating loss carryforwards of \$60.6 million, which expire beginning in 2035, and gross state net operating loss carryforwards of \$36.2 million, which expire beginning in 2025, as well as \$16.1 million in foreign net operating loss carryforwards, of which \$1.4 million have an indefinite life. As of September 28, 2019, we also had U.S. federal research and development tax credit carryforwards of \$33.8 million and state research and development tax credit carryforwards of \$25.9 million, which will expire in 2025 and 2024, respectively. It is possible that we will not generate taxable income in time to use our net operating loss carryforwards before their expiration or at all.

We may need additional capital, and we cannot be certain that additional financing will be available.

Our operations have been financed primarily through cash flow from operating activities, borrowings under our Term Loan and Credit Facility and net proceeds from the sale of our equity securities. We may require additional equity or debt financing to fund our operations and capital expenditures. Our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance and the condition of the capital markets at the time we seek financing. We cannot assure you that additional financing will be available to us on favorable terms if and when required, or at all.

We may acquire other businesses or receive offers to be acquired, which could require significant management attention, disrupt our business, dilute stockholder value and adversely affect our operating results.

As part of our business strategy, we may make investments in complementary businesses, products, services or technologies. These acquisitions and other transactions and arrangements involve significant challenges and risks, including not advancing our business strategy, receiving an unsatisfactory return on our investment, difficulty integrating and retaining new employees, business systems, and technology, or distracting management from our other business initiatives. If an arrangement fails to adequately anticipate changing circumstances and interests of a party, it may result in early termination or renegotiation of the arrangement. The success of these transactions and arrangements will depend in part on our ability to leverage them to enhance our existing products or develop compelling new ones. It may take longer than expected to realize the full benefits from these transactions and arrangements such as increased revenue or enhanced efficiencies, or the benefits may ultimately be smaller than we expected. These events could adversely affect our consolidated financial statements.

We will need to improve our financial and operational systems to manage our growth effectively and support our increasingly complex business arrangements, and an inability to do so could harm our business and results of operations.

To manage our growth and our increasingly complex business operations, especially as we move into new markets internationally, we will need to upgrade our operational and financial systems and procedures, which requires management time and may result in significant additional expense. In particular, we anticipate that our legacy enterprise resource management system will need to be replaced in the near to intermediate term in order to accommodate our expanding operations. We cannot be certain that we will institute, in a timely manner or at all, the improvements to our managerial, operational and financial systems and procedures necessary to support our anticipated increased levels of operations. Delays or problems associated with any improvement or expansion of our operational and financial systems could adversely affect our relationships with our suppliers, manufacturers, resellers and customers, inhibit our ability to expand or take advantage of market opportunities, cause harm to our reputation and result in errors in our financial and other reporting, any of which could harm our business and operating results.

If we fail to maintain an effective system of internal controls in the future, we may experience a loss of investor confidence and an adverse impact to our stock price.

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to document and test our internal control procedures and to provide a report by management on internal control over financial reporting, including management's assessment of the effectiveness of such control. We previously reported material weaknesses in internal control over financial reporting related to

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an insufficient complement of experienced personnel with the requisite technical knowledge of financial statement disclosures and failing to maintain controls over accounting for non-routine, unusual or complex events and transactions. During fiscal 2019, we completed the remediation measures related to the material weaknesses and concluded that our internal control over financial reporting was effective as of September 28, 2019. Completion of remediation does not provide assurance that our remediation or other controls will continue to operate properly. If we are unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately, and to prepare consolidated financial statements within required time periods could be adversely affected, which could subject us to litigation or investigations requiring management resources and payment of legal and other expenses, negatively affect investor confidence in our consolidated financial statements and adversely impact our stock price.

Risks related to ownership of our common stock

The stock price of our common stock has been and may continue to be volatile or may decline regardless of our operating performance.

The stock price of our common stock has been and may continue to be volatile. Since shares of our common stock were sold in our IPO in August 2018 at a price of \$15.00 per share, the closing price of our common stock has ranged from \$9.58 to \$21.69 through September 28, 2019. The stock price of our common stock may fluctuate significantly in response to numerous factors in addition to the ones described in the preceding Risk Factors, many of which are beyond our control, including:

- overall performance of the equity markets and the economy as a whole;
- changes in the financial projections we or third parties may provide to the public or our failure to meet these projections;
- actual or anticipated changes in our growth rate relative to that of our competitors;
- announcements of new products, or of acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments, by us or by our competitors;
- additions or departures of key personnel;
- failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- rumors and market speculation involving us or other companies in our industry;
- sales of shares of our common stock by us or our stockholders particularly sales by our directors, executive officers and significant stockholders, or the perception that these sales could occur; and
- additional stock issuances that result in significant dilution to shareholders.

In addition, the stock market with respect to newly public companies, particularly companies in the technology industry, has experienced significant price and volume fluctuations that have affected and continue to affect the stock prices of these companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business.

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

We have never declared or paid any cash dividends on our common stock, and we do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of the Board. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments. In addition, the terms of our credit facilities contain restrictions on our ability to declare and pay cash dividends on our capital stock.

Certain provisions in our corporate charter documents and under Delaware law may prevent or hinder attempts by our stockholders to change our management or to acquire a controlling interest in us.

There are provisions in our restated certificate of incorporation and restated bylaws that may make it difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change in control were considered favorable by our stockholders. These anti-takeover provisions include:

- a classified Board so that not all members of the Board are elected at one time;
- the ability of the Board to determine the number of directors and fill any vacancies and newly created directorships;
- a requirement that our directors may only be removed for cause;

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- a prohibition on cumulative voting for directors;
- the requirement of a super-majority to amend some provisions in our restated certificate of incorporation and restated bylaws;
- authorization of the issuance of “blank check” preferred stock that the Board could use to implement a stockholder rights plan;
- an inability of our stockholders to call special meetings of stockholders; and
- a prohibition on stockholder actions by written consent, thereby requiring that all stockholder actions be taken at a meeting of our stockholders.

In addition, our restated certificate of incorporation provides that the Delaware Court of Chancery is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law (the “DGCL”), our restated certificate of incorporation or our restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. Our restated certificate of incorporation also provides that the federal district courts of the United States will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (the “Federal Forum Provision”). In December 2018, the Delaware Court of Chancery found that provisions such as the Federal Forum Provision are not valid under Delaware law. Consequently, we do not intend to enforce the Federal Forum Provision in our restated certificate of incorporation unless and until such time there is a final determination by the Delaware Supreme Court regarding the validity of provisions such as the Federal Forum Provision. To the extent the Delaware Supreme Court makes a final determination that provisions such as the Federal Forum Provision are not valid as a matter of Delaware law, the Board intends to amend our restated certificate of incorporation to remove the Federal Forum Provision.

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

Item 1B. Unresolved staff comments

None.

Item 2. Properties

We are a global company with our corporate headquarters located in Santa Barbara, California. Our headquarters facilities in Santa Barbara comprise approximately 131,835 square feet of office space pursuant to several leases that expire at various dates through 2025. We also lease an additional 169,465 square feet of office space in Boston, as well as offices in various locations around the world. We believe our existing facilities are adequate to meet our current requirements. We intend to add new facilities or expand existing facilities in certain locations as we add staff or expand our geographic markets, and we believe suitable additional space will be available as needed to accommodate any such expansion for our expansion of our organization.

Item 3. Legal proceedings

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

Further information with respect to this item may be found in Note 11 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Item 4. Mine safety disclosures

None.

PART II

Item 5. Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities

Holders of record

As of November 8, 2019, there were 1,249 holders of record of our common stock. This figure does not include a substantially greater number of beneficial holders of our common stock whose shares are held of record by banks, brokers and other financial institutions.

Dividend policy

We have never declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends for the foreseeable future. We expect to retain future earnings, if any, to fund the development and growth of our business. Any future determination to pay dividends on our common stock will be made at the discretion of the Board and will depend upon, among other factors, our financial condition, operating results, current and anticipated cash needs, plans for expansion and other factors that the Board may deem relevant. In addition, the terms of our credit facilities contain restrictions on our ability to declare and pay cash dividends on our capital stock.

Sale of unregistered securities and use of proceeds

Recent sales of unregistered securities

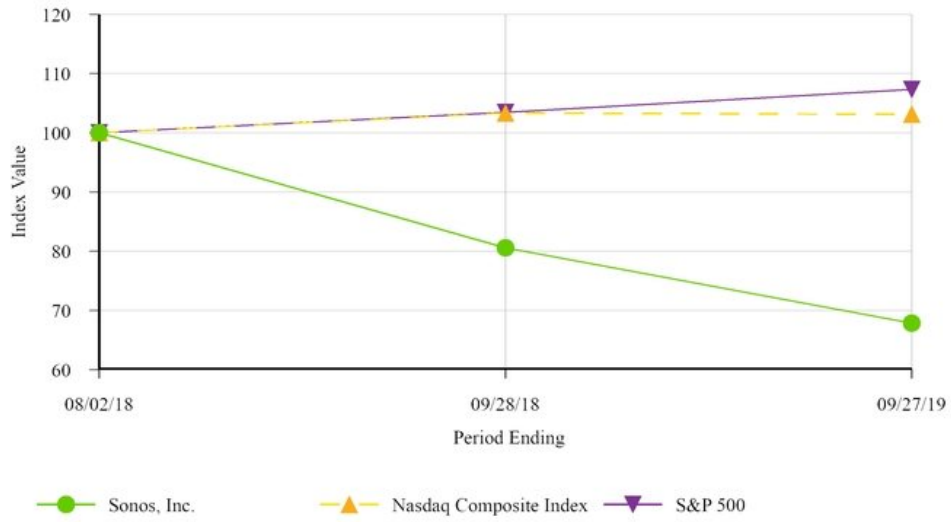
None.

Use of proceeds from registered securities

On August 1, 2018, our registration statement on Form S-1 (No. 333-226076) was declared effective by the SEC for the IPO of our common stock. There has been no material change in the planned use of proceeds from our IPO from that described in the final prospectus filed pursuant to Rule 424(b) under the Securities Act and other periodic reports previously filed with the SEC.

Stock performance graph

**Comparison of Cumulative Total Return Since August 2, 2018
Assumes Initial Investment of \$100**



	August 2, 2018	September 28, 2018	September 27, 2019
Sonos, Inc.	\$ 100.00	\$ 80.56	\$ 67.86
Nasdaq composite index	\$ 100.00	\$ 103.34	\$ 103.11
S&P 500	\$ 100.00	\$ 103.43	\$ 107.29

Item 6. Selected consolidated financial and other data

The selected consolidated financial data below should be read in conjunction with the Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and related notes included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

The consolidated statements of operations data for the years ended September 28, 2019, September 29, 2018 and September 30, 2017, and the consolidated balance sheet data as of September 28, 2019 and September 29, 2018 are derived from our audited consolidated financial statements appearing in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended October 1, 2016 and October 3, 2015 and the consolidated balance sheet data as of September 30, 2017, and October 1, 2016 are derived from audited consolidated financial statements not included in this Annual Report on Form 10-K. The consolidated balance sheet data as of October 3, 2015 is derived from unaudited consolidated financial statements not included in this Annual Report on Form 10-K. Our unaudited consolidated annual financial statements were prepared in accordance with U.S. GAAP on the same basis as our audited consolidated financial statements and include, in the opinion of management, all adjustments, consisting of normal recurring adjustments, that are necessary for the fair statement of the financial information set forth in those financial statements. Our historical results are not necessarily indicative of the results that may be expected in any future period.

	Fiscal Year Ended				
	September 28, 2019	September 29, 2018	September 30, 2017 ⁽⁴⁾	October 1, 2016 ⁽⁴⁾	October 3, 2015 ⁽⁴⁾
(In thousands, except share and per share amounts and percentages)					
Revenue	\$ 1,260,823	\$ 1,137,008	\$ 992,526	\$ 901,284	\$ 843,524
Cost of revenue ⁽¹⁾	733,480	647,700	536,461	497,885	461,387
Gross profit	527,343	489,308	456,065	403,399	382,137
Operating expenses					
Research and development ⁽¹⁾	171,174	142,109	124,394	107,729	100,653
Sales and marketing ⁽¹⁾	247,599	270,869	270,162	258,012	272,427
General and administrative ⁽¹⁾	102,871	85,205	77,118	68,531	64,805
Total operating expenses	521,644	498,183	471,674	434,272	437,885
Operating income (loss)	5,699	(8,875)	(15,609)	(30,873)	(55,748)
Other expense, net					
Interest income	4,349	731	120	14	19
Interest expense	(2,499)	(5,242)	(4,380)	(2,503)	(175)
Other income (expense), net	(8,625)	(1,162)	3,361	(2,208)	(9,631)
Total other expense, net	(6,775)	(5,673)	(899)	(4,697)	(9,787)
Loss before provision for (benefit from) income taxes	(1,076)	(14,548)	(16,508)	(35,570)	(65,535)
Provision for (benefit from) income taxes	3,690	1,056	(2,291)	2,644	3,242
Net loss	\$ (4,766)	\$ (15,604)	\$ (14,217)	\$ (38,214)	\$ (68,777)
Net loss per share attributable to common stockholders, basic and diluted: ⁽²⁾	\$ (0.05)	\$ (0.24)	\$ (0.25)	\$ (0.71)	\$ (1.34)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted: ⁽²⁾	103,783,006	65,706,215	56,314,546	53,873,051	51,253,161
Other Data:					
Products sold	6,132	5,078	3,935	3,514	3,401
Adjusted EBITDA ⁽³⁾	\$ 88,689	\$ 69,128	\$ 55,955	\$ 29,413	\$ (4,613)
Adjusted EBITDA margin ⁽³⁾	7.0%	6.1%	5.6%	3.3%	(0.5)%

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(1) Stock-based compensation was allocated as follows:

	Fiscal Year Ended				
	September 28, 2019	September 29, 2018	September 30, 2017	October 1, 2016	October 3, 2015
(In thousands)					
Cost of revenue	\$ 985	\$ 198	\$ 240	\$ 211	\$ 236
Research and development	17,643	13,960	13,605	8,260	8,186
Sales and marketing	12,965	15,885	15,086	11,742	9,791
General and administrative	14,982	8,602	7,619	5,750	5,064
Total stock-based compensation expense	<u>\$ 46,575</u>	<u>\$ 38,645</u>	<u>\$ 36,550</u>	<u>\$ 25,963</u>	<u>\$ 23,277</u>

(2) See Note 10 of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for an explanation of the calculations of our net loss per share attributable to common stockholders, basic and diluted.

(3) Adjusted EBITDA and adjusted EBITDA margin are financial measures that are not calculated in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). See the section titled "—Non-GAAP Financial Measures" below for information regarding our use of these non-GAAP financial measures and a reconciliation of net loss to adjusted EBITDA.

(4) Reflects the impact of the adoption of new accounting standard in fiscal year 2018 related to revenue recognition

	As of				
	September 28, 2019	September 29, 2018	September 30, 2017	October 1, 2016	October 3, 2015
(In thousands)					
Consolidated balance sheet data:					
Cash and cash equivalents	\$ 338,641	\$ 220,930	\$ 130,595	\$ 74,913	\$ 76,352
Working capital	276,635	201,243	78,203	31,866	27,057
Total assets	761,605	587,498	400,020	278,879	278,970
Total long-term debt	24,840	33,097	39,600	24,501	20,000
Total liabilities	480,677	379,140	309,652	217,326	210,192
Redeemable convertible preferred stock	—	—	90,341	90,341	88,637
Accumulated deficit	(208,377)	(203,611)	(188,007)	(173,790)	(135,576)
Total stockholders' equity (deficit)	280,928	208,358	27	(28,788)	(19,859)

Non-GAAP financial measures

To supplement our consolidated financial statements presented in accordance with U.S. GAAP, we monitor and consider adjusted EBITDA and adjusted EBITDA margin, which are non-GAAP financial measures. These non-GAAP financial measures are not based on any standardized methodology prescribed by U.S. GAAP and are not necessarily comparable to similarly titled measures presented by other companies.

We define adjusted EBITDA as net income (loss) adjusted to exclude the impact of depreciation, stock-based compensation expense, interest income, interest expense, other income (expense), income taxes and items considered to be non-recurring. We define adjusted EBITDA margin as adjusted EBITDA divided by revenue.

We use these non-GAAP financial measures to evaluate our operating performance and trends and make planning decisions. We believe that these non-GAAP financial measures help identify underlying trends in our business that could otherwise be masked by the effect of the expenses and other items that we exclude in these non-GAAP financial measures. Accordingly, we

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believe that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating our operating results, enhancing the overall understanding of our past performance and future prospects, and allowing for greater transparency with respect to a key financial metric used by our management in its financial and operational decision-making.

Adjusted EBITDA and adjusted EBITDA margin are non-GAAP financial measures, and should not be considered in isolation of, or as an alternative to, measures prepared in accordance with U.S. GAAP. There are a number of limitations related to the use of adjusted EBITDA rather than net income (loss), which is the nearest U.S. GAAP equivalent of adjusted EBITDA, and the use of adjusted EBITDA margin rather than operating margin, which is the nearest U.S. GAAP equivalent of adjusted EBITDA margin. Some of these limitations are:

- these non-GAAP financial measures exclude depreciation and, although these are non-cash expenses, the assets being depreciated may be replaced in the future;
- these non-GAAP financial measures exclude stock-based compensation expense, which has been, and will continue to be, a significant recurring expense for our business and an important part of our compensation strategy;
- these non-GAAP financial measures do not reflect interest income, primarily resulting from interest income earned on cash and cash equivalent balances;
- these non-GAAP financial measures do not reflect interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us;
- these non-GAAP financial measures do not reflect the effect of foreign currency exchange gains or losses, which is included in other income (expense), net;
- these non-GAAP financial measures do not reflect the provision for or benefit from income tax that may result in payments that reduce cash available to us; and
- the expenses and other items that we exclude in our calculation of these non-GAAP financial measures may differ from the expenses and other items, if any, that other companies may exclude from these non-GAAP financial measures when they report their operating results.

Because of these limitations, these non-GAAP financial measures should be considered along with other operating and financial performance measures presented in accordance with U.S. GAAP.

The following table presents a reconciliation of net loss to adjusted EBITDA:

	Fiscal Year Ended				
	September 28, 2019	September 29, 2018	September 30, 2017	October 1, 2016	October 3, 2015
(In thousands, except percentages)					
Net loss	\$ (4,766)	\$ (15,604)	\$ (14,217)	\$ (38,214)	\$ (68,777)
Depreciation	36,415	39,358	35,014	34,323	27,858
Stock-based compensation expense	46,575	38,645	36,550	25,963	23,277
Interest income	(4,349)	(731)	(120)	(14)	(19)
Interest expense	2,499	5,242	4,380	2,503	175
Other (income) expense, net	8,625	1,162	(3,361)	2,208	9,631
Provision for (benefit from) income taxes	3,690	1,056	(2,291)	2,644	3,242
Adjusted EBITDA	\$ 88,689	\$ 69,128	\$ 55,955	\$ 29,413	\$ (4,613)
Revenue	\$ 1,260,823	\$ 1,137,008	\$ 992,526	\$ 901,284	\$ 843,524
Adjusted EBITDA margin	7.0%	6.1%	5.6%	3.3%	(0.5)%

Item 7. Management's discussion and analysis of financial condition and results of operations

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in the section titled "Risk Factors." We operate on a 52- or 53-week fiscal year ending on the Saturday nearest September 30 each year. Our fiscal year is divided into four quarters, each beginning on a Sunday and containing two 4-week periods followed by a 5-week period. References to fiscal 2019 are to our 52-week fiscal year ended September 28, 2019, references to fiscal 2018 are to our 52-week fiscal year ended September 29, 2018 and references to fiscal 2017 are to our 52-week fiscal year ended September 30, 2017.

Overview

Sonos is one of the world's leading sound experience brands. As the inventor of multi-room wireless home audio, Sonos' innovation helps the world listen better by giving people access to the content they love and allowing them to control it however they choose. Known for delivering unparalleled sound experience, thoughtful design aesthetic, simplicity of use and an open platform, Sonos makes the breadth of audio content available to anyone.

Our sound system provides an immersive listening experience created by our thoughtfully designed speakers and components, our proprietary software platform and the ability to wirelessly stream the content our customers love from the services they prefer. We manage the complexity of delivering a seamless customer experience in a multi-user and open-platform environment. The Sonos sound system is easy to set up, use and expand to bring audio to any room in the home. Through our software platform, we frequently enhance features and services on our products, improving functionality and customer experience.

Our innovative products, seamless customer experience and expanding global footprint have driven 14 consecutive years of sustained revenue growth since our first product launch. We generate revenue from the sale of our wireless speakers, home theater speakers and component products, as new customers buy our products and existing customers continue to add products to their Sonos sound systems.

We have developed a robust product and software roadmap that we believe will help us capture the expanding addressable market for our products. We believe executing on our roadmap will position us to acquire new customers, offer a continuously improving experience to our existing customers and grow follow-on purchases.

Our most recent steps in this direction occurred in October 2017, with the introduction of our first voice-enabled wireless speaker, Sonos One, in July 2018, with the introduction of our first voice-enabled home theater speaker, Sonos Beam. In fiscal 2019, we accelerated new product introductions including the introduction of Sonos Amp, Sonos Move, our first battery-powered, Bluetooth-enabled speaker for use both indoors and outdoors, Sonos One SL, and Sonos Port.

[Table of contents](#)**Key metrics**

In addition to the measures presented in our consolidated financial statements, we use the following additional key metrics to evaluate our business, measure our performance, identify trends affecting our business and assist us in making strategic decisions. Our key metrics are revenue, products sold, adjusted EBITDA and adjusted EBITDA margin. The most directly comparable financial measure calculated under U.S. GAAP for adjusted EBITDA is net income (loss). In the fiscal years ended September 28, 2019, September 29, 2018 and September 30, 2017, we had a net loss of \$4.8 million, \$15.6 million and \$14.2 million, respectively.

	Fiscal Year Ended		
	September 28, 2019	September 29, 2018	September 30, 2017
(In thousands, except percentages)			
Revenue	\$ 1,260,823	\$ 1,137,008	\$ 992,526
Products sold	6,132	5,078	3,935
Adjusted EBITDA	\$ 88,689	\$ 69,128	\$ 55,955
Adjusted EBITDA margin	7.0%	6.1%	5.6%

Revenue

We generate substantially all of our revenue from the sale of wireless speakers, home theater speakers and components. We also generate revenue from other sources, such as module revenue, the sale of Sonos and third-party accessories like speaker stands and wall mounts, as well as licensing revenue. Module revenue is comprised of sales of hardware and embedded software that is integrated into final products that are manufactured and sold by our partners.

For a description of our revenue recognition policies, see the section titled "—Critical accounting policies and estimates."

Products sold

Products sold represents the number of products that are sold during a period, net of returns. Products sold includes the sale of wireless speakers, home theater speakers, components and module units. Products sold excludes the sale of Sonos and third-party accessories. Historically, the sale of other items has not materially contributed to our revenue. Growth rates between products sold and revenue are not perfectly correlated because our revenue is affected by other variables, such as the mix of products sold during the period, promotional discount activity and the introduction of new products that may have higher or lower than average selling prices.

Adjusted EBITDA and adjusted EBITDA margin

We define adjusted EBITDA as net loss adjusted to exclude the impact of stock-based compensation expense, depreciation, interest income, interest expense, other income (expense), income taxes and items considered to be non-recurring. We define adjusted EBITDA margin as adjusted EBITDA divided by revenue.

See the section titled "Selected Consolidated Financial and Other Data—Non-GAAP Financial Measures" for information regarding our use of adjusted EBITDA and adjusted EBITDA margin, and a reconciliation of net loss to adjusted EBITDA.

Factors affecting our performance

New product introductions. Since 2005, we have released a number of products in multiple home audio categories. We intend to introduce new products that appeal to a broad set of consumers, as well as bring our differentiated listening platform and experience to all the places and spaces where our customers listen to the breadth of audio content available on demand today, including outside of the home. Accordingly, our future financial performance may be affected by our ability to drive cost of revenue savings as we scale production over time.

Seasonality. Historically, we have experienced the highest levels of revenue in the first fiscal quarter of the year, coinciding with the holiday shopping season. For example, revenue in the first quarter of fiscal 2019 accounted for 39.4% of our revenue for fiscal 2019. Our promotional discounting activity is higher in the first fiscal quarter as well, which negatively impacts gross margin during this period. For example, gross margin in the first quarter of fiscal 2019 was 39.3%, compared to gross margin

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of 41.8% for all of fiscal 2019. However, our higher sales volume in the holiday shopping season has historically resulted in a higher operating margin in the first fiscal quarter due to positive operating leverage.

Ability to sell additional products to existing customers. As our customers add Sonos to their homes and listen to more audio content, they typically increase the number of our products in their homes. In fiscal 2019, follow-on purchases represented approximately 37% of new product registrations. As we execute on our product roadmap to address evolving consumer preferences, we believe we can expand the number of products in our customers' homes. Our ability to sell additional products to existing customers is a key part of our business model, as follow-on purchases indicate high customer engagement and satisfaction, decrease the likelihood of competitive substitution and result in higher customer lifetime value. We will continue to innovate and invest in product development in order to enhance customer experience and drive sales of additional products to existing customers.

Expansion of partner ecosystem. Expanding and maintaining strong relationships with our partners will remain important to our success. We believe our partner ecosystem improves our customer experience, attracting more customers to Sonos, which in turn attracts more partners to the platform further enhancing our customer experience. We believe partners choose to be part of the Sonos platform because it provides access to a large, engaged customer base on a global scale. We look to partner with a wide variety of streaming music services, voice assistants, connected home integrators, content creators and podcast providers. To date, our agreements with these partners have all been on a royalty-free basis. As competition increases, we believe our ability to give users the freedom to choose across the broadest set of streaming services and voice control partners will be a key differentiating factor. Our product roadmap is largely focused on delivering products with voice control. Our ability to develop, manufacture and sell voice-enabled speakers that deliver differentiated consumer experiences will be a critical driver of our future performance, particularly as we compete in a larger market with an expanding number of competitors. We currently compete with, and will continue to compete with, companies that have greater resources than we do, many of which have already brought voice-enabled speakers to market. We are also partnering with certain of these companies in the development of our own voice-enabled products. Our competitiveness in the voice-enabled speaker market will depend on successful investment in research and development, market acceptance of our products and our ability to maintain and benefit from these technology partnerships.

Channel strategy. We are focused on reaching and converting prospective customers through third-party retail stores, e-commerce retailers, custom installers of home audio systems and our website sonos.com. We are investing in our e-commerce capabilities and in-app experience to drive direct sales. Sales through sonos.com represented 12.2% of our revenue in fiscal 2019 and 11.5% of our revenue in fiscal 2018 and we believe the growth of our own e-commerce channel will be important to supporting our overall growth and profitability as consumers continue the shift from physical to online sales channels. Our physical retail distribution relies on third-party retailers, as our company-owned stores do not materially contribute to our revenue. While we seek to increase sales through our direct-to-consumer sales channel, we expect that our future sales will continue to be substantially dependent on our third-party retailers. We will continue to seek retail partners that can deliver differentiated in-store experiences to support customer demand for product demonstrations.

International expansion. Our products are sold in over 50 countries and in fiscal 2019, 50.0% of our revenue was generated outside the United States. Our international growth will depend on our ability to generate sales from the global population of consumers, develop international distribution channels and diversify our partner ecosystem to appeal to a more global audience. We are committed to strengthening our brand in global markets and our future success will depend in part on our growth in international markets.

Investing in product and software development. Our investments in product and software development consist primarily of expenses in personnel who support our research and development efforts and capital expenditures for new tooling and production line equipment to manufacture and test our products. We believe that our financial performance will significantly depend on the effectiveness of our investments to design and introduce innovative new products and services and enhance existing products and software. If we fail to innovate and expand our product and software offerings or fail to maintain high standards of quality in our products, our brand, market position and revenue will be adversely affected. Further, if our development efforts are not successful, we will not recover the investments made.

Investing in sales and marketing. We intend to invest resources in our marketing and brand development efforts. Our marketing investments are focused on increasing brand awareness through advertising, public relations and brand promotion activities. While we maintain a base level of investment throughout the year, significant increases in spending are highly correlated with the holiday shopping season, new product launches and software introductions. We also invest in capital expenditures on

product displays to support our retail channel partners. Sales and marketing investments are typically incurred in advance of any revenue benefits from these activities.

Components of results of operations

Revenue

We generate substantially all of our revenue from the sale of wireless speakers, home theater speakers and components. We also generate revenue from other sources, such as module revenue, the sale of Sonos and third-party accessories like speaker stands and wall mounts, as well as licensing revenue. Module revenue is comprised of sales of hardware and embedded software that is integrated into final products that are manufactured and sold by our partners. Our revenue is recognized net of allowances for returns, discounts, sales incentives and any taxes collected from customers. We also defer a portion of our revenue that is allocated to unspecified software upgrades and cloud-based services. Our revenue is subject to fluctuation based on the foreign currency in which our products are sold, principally for sales denominated in the euro and the British pound.

For a description of our revenue recognition policies, see the section titled "—Critical accounting policies and estimates."

Cost of revenue

Cost of revenue consists of product costs, including costs of our contract manufacturers for production, component costs, shipping and handling costs, tariffs, duty costs, warranty replacement costs, packaging, fulfillment costs, manufacturing and tooling equipment depreciation, warehousing costs, hosting costs and excess and obsolete inventory write-downs. In addition, we allocate certain costs related to management and facilities, personnel-related expenses and other expenses associated with supply chain logistics. Personnel-related expenses primarily consist of salaries, bonuses, benefits and stock-based compensation expense.

Gross profit and gross margin

Our gross margin may in the future fluctuate from period to period based on a number of factors, including the mix of products we sell, the channel through which we sell our products, the foreign currency in which our products are sold and tariffs and duty costs implemented by governmental authorities. We have historically seen that the gross margin for our newly released products are lowest at launch and have tended to increase over time as we realize cost efficiencies. In addition, our ability to reduce the cost of our products is critical to increasing our gross margin over the long term.

Operating expenses

Operating expenses consist of research and development, sales and marketing and general and administrative expenses.

Research and development. Research and development expenses consist primarily of personnel-related expenses, consulting and contractor expenses, tooling, test equipment and prototype materials and overhead costs. To date, software development costs have been expensed as incurred, because the period between achieving technological feasibility and the release of the software has been short and development costs qualifying for capitalization have been insignificant. We expect our research and development expenses to increase in absolute dollars as we continue to make significant investments in developing new products and enhancing existing products.

Sales and marketing. Sales and marketing expenses consist primarily of advertising and marketing promotions of our products and personnel-related expenses, as well as trade show and event costs, sponsorship costs, consulting and contractor expenses, travel, product display expenses and related depreciation, customer care costs and overhead costs.

General and administrative. General and administrative expenses consist of personnel-related expenses for our finance, legal, human resources and administrative personnel, as well as the costs of professional services, any overhead, information technology, litigation expenses, patent costs and other administrative expenses. We expect our general and administrative expenses to increase in absolute dollars due to the growth of our business and related infrastructure as well as legal, accounting, insurance, investor relations and other costs associated with operating as a public company.

Other income (expense), net

Interest income. Interest income consists primarily of interest income earned on our cash and cash equivalents balances.

Interest expense. Interest expense consists primarily of interest expense associated with our debt financing arrangements and amortization of debt issuance costs.

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Other expense, net. Other expense, net consists primarily of our foreign currency exchange gains and losses relating to transactions and remeasurement of asset and liability balances denominated in currencies other than the U.S. dollar. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in foreign currency exchange rates.

Provision for income taxes

We are subject to income taxes in the United States and foreign jurisdictions in which we operate. Our provision for income taxes includes income tax in our foreign operations. Foreign jurisdictions have statutory tax rates different from those in the United States. Accordingly, our effective tax rates will vary depending on the relative proportion of foreign to U.S. income, the utilization of foreign tax credits and changes in tax laws.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided when it is more likely than not that the deferred tax assets will not be realized. We have established a full valuation allowance to offset our U.S. and certain foreign net deferred tax assets due to the uncertainty of realizing future tax benefits from our net operating loss carryforwards and other deferred tax assets. It is possible that within the next 12 months there may be sufficient positive evidence to release a significant portion of the valuation allowance. Release of the U.S. valuation allowance would result in the establishment of certain deferred tax assets and a benefit to income tax expense for the period the release is recorded, which could have a material impact on net earnings. The exact timing and amount of the valuation allowance release are subject to change based on the level of profitability achieved.

Results of operations

The following table sets forth our consolidated results of operations and data as a percentage of revenue for the periods indicated (percentages in the table may not foot due to rounding). The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

(Dollars in thousands)	Fiscal Year Ended			
	September 28, 2019		September 29, 2018	
	\$	%	\$	%
Revenue	\$ 1,260,823	100.0 %	\$ 1,137,008	100.0 %
Cost of revenue ⁽¹⁾	733,480	58.2	647,700	57.0
Gross profit	527,343	41.8	489,308	43.0
Operating expenses				
Research and development ⁽¹⁾	171,174	13.6	142,109	12.5
Sales and marketing ⁽¹⁾	247,599	19.6	270,869	23.8
General and administrative ⁽¹⁾	102,871	8.2	85,205	7.5
Total operating expenses	521,644	41.4	498,183	43.8
Operating income (loss)	5,699	0.5	(8,875)	(0.8)
Other income (expense),net				
Interest income	4,349	0.3	731	0.1
Interest expense	(2,499)	(0.2)	(5,242)	(0.5)
Other expense, net	(8,625)	(0.7)	(1,162)	(0.1)
Total other expense, net	(6,775)	(0.5)	(5,673)	(0.5)
Loss before provision for income taxes	(1,076)	(0.1)	(14,548)	(1.3)
Provision for income taxes	3,690	0.3	1,056	0.1
Net loss	\$ (4,766)	(0.4)%	\$ (15,604)	(1.4)%

(1) Amounts include stock-based compensation expense as follows:

(Dollars in thousands)	Fiscal Year Ended			
	September 28, 2019		September 29, 2018	
	\$	%	\$	%
Cost of revenue	\$ 985	0.1%	\$ 198	—%
Research and development	17,643	1.4	13,960	1.2
Sales and marketing	12,965	1.0	15,885	1.4
General and administrative	14,982	1.2	8,602	0.8
Total stock-based compensation expense	\$ 46,575	3.7%	\$ 38,645	3.4%

Comparison of fiscal years 2019 and 2018

Revenue

(Dollars and products sold in thousands)	Fiscal Year Ended		Change from Prior Fiscal Year	
	September 28, 2019	September 29, 2018	\$	%
	Revenue by geographical region:			
Americas	\$ 678,224	\$ 603,450	\$ 74,774	12.4%
Europe, Middle East and Africa ("EMEA")	484,785	478,518	6,267	1.3
Asia Pacific ("APAC")	97,814	55,040	42,774	77.7
Total revenue	\$ 1,260,823	\$ 1,137,008	\$ 123,815	10.9%
Other data:				
Total products sold	6,132	5,078	1,054	20.8%

Revenue increased by \$123.8 million, or 10.9%, from \$1,137.0 million for fiscal 2018 to \$1,260.8 million for fiscal 2019, primarily due to the continued success of Sonos Beam and launches of Sonos Amp and our IKEA partnership.

Products sold increased by 1.1 million, or 20.8%, from 5.1 million for fiscal 2018 to 6.1 million for fiscal 2019. The volume growth was primarily driven by sales of our newest home theater speaker product, Sonos Beam, which launched in July 2018, as well as by sales of our newest component product, Sonos Amp, which launched in November 2018. Wireless speakers continue to be the largest category and revenue in the category declined largely due to a volume shift from Play:1 to Sonos One speakers and the discontinuation of Play:3. Revenue growth from the sale of our home theater speakers was primarily driven by continued success of our Sonos Beam. Volume growth from the sale of our components was driven by sales of our new Sonos Amp, which was partially offset by a decrease in sales of our Connect:Amp, which was discontinued in fiscal 2019.

Revenue from the Americas increased \$74.8 million, or 12.4%, from \$603.5 million for fiscal 2018 to \$678.2 million for fiscal 2019. The increase in the Americas revenue was driven primarily by growth in sales of home theater speakers and components and partially offset by a decline in wireless speaker sales. Revenue from EMEA increased \$6.3 million, or 1.3%, from \$478.5 million for fiscal 2018 to \$484.8 million for fiscal 2019. EMEA revenue increased due to growth in sales of home theater speakers and components and offset by a decline in wireless speaker sales. Revenue from APAC increased \$42.8 million, or 77.7%, from \$55.0 million for fiscal 2018 to \$97.8 million for fiscal 2019. APAC growth was driven primarily by module sales associated with the launch of the IKEA relationship.

In constant U.S. dollars, total revenue increased by 13.4% for fiscal 2019 compared to fiscal 2018, which excludes the impact of foreign currency fluctuations against the U.S. dollar. We calculate constant currency growth percentages by translating our prior-period financial results using the current period average currency exchange rates and comparing these amounts to our current period reported results.

Cost of revenue and gross profit

	Fiscal Year Ended		Change from Prior Fiscal Year	
	September 28, 2019	September 29, 2018	\$	%
(Dollars in thousands)				
Cost of revenue	\$ 733,480	\$ 647,700	\$ 85,780	13.2%
Gross profit	\$ 527,343	\$ 489,308	\$ 38,035	7.8%
Gross margin	41.8%	43.0%		

Cost of revenue increased \$85.8 million, or 13.2%, from \$647.7 million for fiscal 2018 to \$733.5 million for fiscal 2019. The increase was primarily due to the increase in revenue, which increased 10.9%.

Gross margin decreased to 41.8% for fiscal 2019 from 43.0% for fiscal 2018. The decrease was primarily due to product mix, unfavorable foreign currency impact and the launching of a new distribution channel, partially offset by product and material cost reductions.

Research and development

	Fiscal Year Ended		Change from Prior Fiscal Year	
	September 28, 2019	September 29, 2018	\$	%
(Dollars in thousands)				
Research and development	\$ 171,174	\$ 142,109	\$ 29,065	20.5%
Percentage of revenue	13.6%	12.5%		

Research and development expenses increased \$29.1 million, or 20.5%, from \$142.1 million for fiscal 2018 to \$171.2 million for fiscal 2019. The increase was primarily due to higher personnel-related expenses of \$22.7 million as our headcount, particularly in software personnel, increased during the period as we focused on increasing the pace of new product introductions.

Sales and marketing

	Fiscal Year Ended		Change from Prior Fiscal Year	
	September 28, 2019	September 29, 2018	\$	%
(Dollars in thousands)				
Sales and marketing	\$ 247,599	\$ 270,869	\$ (23,270)	(8.6)%
Percentage of revenue	19.6%	23.8%		

Sales and marketing expenses decreased by \$23.3 million, or 8.6%, from \$270.9 million for fiscal 2018 to \$247.6 million in fiscal 2019 as we demonstrated improved operating leverage. The decrease was primarily due to decreases in personnel-related costs of \$17.9 million driven by a decrease in headcount, and decreases in marketing and advertising costs of \$7.7 million as we transitioned away from traditional paid media and we adopted more efficient direct-to-consumer and digital marketing tools. These decreases were partially offset by an increase in professional services fees associated with production costs of \$4.1 million related to a new product launch campaign.

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	Fiscal Year Ended		Change from Prior Fiscal Year	
	September 28, 2019	September 29, 2018	\$	%
(Dollars in thousands)				
General and administrative	\$ 102,871	\$ 85,205	\$ 17,666	20.7%
Percentage of revenue	8.2%	7.5%		

General and administrative expenses increased \$17.7 million, or 20.7% from \$85.2 million for fiscal 2018 to \$102.9 million for fiscal 2019. The increase was primarily due to increases in personnel-related costs of \$10.6 million, and professional fees of \$4.8 million, as we continue to invest in personnel and programs to create the infrastructure necessary to support our operations as a public company.

Other income (expense), net

	Fiscal Year Ended		Change from Prior Fiscal Year	
	September 28, 2019	September 29, 2018	\$	%
(Dollars in thousands)				
Interest income	\$ 4,349	\$ 731	\$ 3,618	*
Interest expense	\$ 2,499	\$ 5,242	\$ (2,743)	(52.3)%
Other expense, net	\$ (8,625)	\$ (1,162)	\$ (7,463)	*

* not meaningful

Interest income increased by \$3.6 million, from \$0.7 million for fiscal 2018 to \$4.3 million for fiscal 2019, primarily related to interest income generated from both higher balances and increased investment yields. Interest expense decreased by \$2.7 million, from \$5.2 million in fiscal 2018 to \$2.5 million in fiscal 2019, primarily due to the effect of reduced effective interest rate as a result of refinancing our J.P. Morgan Chase Bank, N.A. Secured Term Loan (the "Term Loan").

Other expense, net increased \$7.5 million, from \$1.2 million in in fiscal 2018 to \$8.6 million in in fiscal 2019, due to foreign currency exchange losses.

Provision for income taxes

	Fiscal Year Ended		Change from Prior Fiscal Year	
	September 28, 2019	September 29, 2018	\$	%
(Dollars in thousands)				
Provision for income taxes	\$ 3,690	\$ 1,056	\$ 2,634	249.4%

Provision for income taxes increased \$2.6 million, from a \$1.1 million provision for fiscal 2018 to a provision of \$3.7 million for fiscal 2019. For the year ended September 28, 2019, we recorded a provision for income taxes of \$1.2 million for certain profitable foreign entities and \$2.5 million for U.S. federal and state income tax for a total provision of \$3.7 million. We recorded a provision for income taxes of \$1.1 million for certain profitable foreign entities for the year ended September 29, 2018.

Comparison of fiscal years 2018 and 2017

For the comparison of fiscal years 2018 and 2017, refer to Part II, Item 7 "Management's discussion and analysis of financial condition and results of operations" on Form 10-K for our fiscal year ended September 29, 2018, filed with the SEC on November 28, 2018 under the subheading "Comparison of fiscal years 2018, 2017 and 2016."

Liquidity and capital resources

Our operations are financed primarily through cash flow from operating activities, net proceeds from the sale of our equity securities, including net proceeds of \$90.6 million from the closing of our IPO on August 6, 2018, borrowings under our Secured Credit Facility with J.P. Morgan Chase Bank, N.A. (the "Credit Facility") and the Term Loan.

As of September 28, 2019, our principal sources of liquidity consisted of cash flow from operating activities, cash and cash equivalents of \$338.6 million, including \$26.5 million held by our foreign subsidiaries, and borrowing capacity under our credit facility. In accordance with our policy, the undistributed earnings of our non-U.S. subsidiaries remain indefinitely reinvested outside of the United States as of September 28, 2019, as they are required to fund needs outside the United States. In the event funds from foreign operations are needed to fund operations in the United States and if U.S. tax has not already been previously provided, we may be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

We believe our existing cash and cash equivalent balances, cash flow from operations and committed credit lines 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, the timing and extent of spending on research and development efforts and other business initiatives, the expansion of sales and marketing activities, the timing of new product introductions, market acceptance of our products 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.

Debt obligations

Our debt obligations consist of the Credit Facility and the Term Loan. Our short- and long-term debt obligations are as follows:

	As of			
	September 28, 2019		September 29, 2018	
	Rate	Balance	Rate	Balance
(In thousands)				
Term Loan ⁽¹⁾	4.6%	\$ 33,333	4.8%	\$ 40,000
Unamortized debt issuance costs ⁽²⁾		(160)		(236)
Total indebtedness		33,173		39,764
Less short term portion		(8,333)		(6,667)
Long term debt		\$ 24,840		\$ 33,097

(1) Bears interest at a variable rate equal to an adjusted LIBOR plus 2.25% and is payable quarterly. Due in October 2021, with quarterly principal payments beginning in July 2019.

(2) Debt issuance costs are recorded as a debt discount and charged to interest expense over the term of the agreement.

The Credit Facility allows us to borrow up to \$80.0 million restricted to the value of the borrowing base which is based on the value of our inventory and accounts receivable and is subject to quarterly redetermination. The Credit Facility matures in October 2021 and may be drawn as Commercial Bank Floating Rate Loans (at the higher of the prime rate or adjusted LIBOR plus 2.50%) or Eurocurrency Loans (at LIBOR plus an applicable margin). As of September 28, 2019 and September 29, 2018, we did not have any outstanding borrowings and \$4.5 million and \$4.5 million, respectively, in undrawn letters of credit that reduce the availability under the Credit Facility.

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Debt obligations under the Credit Facility and the Term Loan require that we maintain a consolidated fixed charge ratio of at least 1.0, restrict distribution of dividends unless certain conditions are met, such as having a fixed charge ratio of at least 1.15, and require financial statement reporting and delivery of borrowing base certificates. As of September 28, 2019 and September 29, 2018, we were in compliance with all financial covenants. The Credit Facility and the Term Loan are collateralized by our eligible inventory and accounts receivable as well as our intellectual property including patents and trademarks.

Cash flows*Fiscal 2019 changes in cash flows*

The following table summarizes our cash flows for the periods indicated:

	Fiscal Year Ended	
	September 28, 2019	September 29, 2018
(In thousands)		
Net cash provided by (used in):		
Operating activities	\$ 120,636	\$ 30,570
Investing activities	(23,222)	(35,747)
Financing activities	21,896	94,374
Effect of exchange rate changes	(1,610)	1,135
Net change in cash, cash equivalents and restricted cash	\$ 117,700	\$ 90,332

Cash flows from operating activities

Net cash provided by operating activities of \$120.6 million for fiscal 2019 was primarily due to non-cash adjustments of \$89.5 million, and by a net increase in net operating assets and liabilities of \$35.9 million, slightly offset by a net loss of \$4.8 million. Non-cash adjustments primarily consisted of stock-based compensation expense of \$46.6 million and depreciation of \$36.4 million. The net increase in net operating assets and liabilities was primarily due to an \$85.9 million increase in accounts payable and accrued expenses, primarily related to inventory purchases, an \$8.2 million increase in accrued compensation primarily due to an increase in bonuses, a \$7.1 million increase in other liabilities, and a \$6.2 million increase in deferred revenue. The increase in net operating assets and liabilities was offset by a \$32.1 million increase in accounts receivable primarily related to timing of receipts, as well as due to new customers, a \$31.8 million increase in inventory related to our new products such as Sonos Move and Sonos One SL, and \$7.6 million increase in other assets primarily related to an increase in prepaid expenses.

Cash flows from investing activities

Cash used in investing activities for fiscal 2019 of \$23.2 million was due to payments for property and equipment, which primarily comprised of manufacturing-related tooling and test equipment to support the launch of new products, leasehold improvements and marketing-related product displays.

Cash flows from financing activities

Cash provided by financing activities for fiscal 2019 of \$21.9 million primarily consisted of \$31.6 million in proceeds from the exercise of stock options. This increase was partially offset by payment of outstanding borrowings under the Term Loan of \$6.7 million, \$2.4 million to repurchase treasury stock related to our election to withhold shares to cover taxes in conjunction with restricted stock vesting beginning in our second quarter of fiscal 2019, and \$0.6 million in payments for offering costs.

Fiscal 2018 changes in cash flows

For the comparison of fiscal 2018 to fiscal 2017, refer to Part II, Item 7 "Management's discussion and analysis of financial condition and results of operations" of our Form 10-K for our fiscal year ended September 29, 2018, filed with the SEC on November 28, 2018 under the subheading "Liquidity and capital resources."

[Table of contents](#)**Commitments and contingencies**

The following table summarizes our contractual commitments as of September 28, 2019:

	Total	Payments due by fiscal year					Beyond
		2020	2021	2022	2023	2024	
(In thousands)							
Debt principal and interest ⁽¹⁾	\$ 36,246	\$ 8,229	\$ 7,922	\$ 20,095	\$ —	\$ —	\$ —
Operating leases ⁽²⁾	83,483	15,627	14,759	14,136	14,395	13,615	10,951
Inventory ⁽³⁾	58,918	58,918	—	—	—	—	—
Other noncancelable agreements	16,321	7,985	4,207	1,525	1,510	1,094	—
Total contractual commitments	\$ 194,968	\$ 90,759	\$ 26,888	\$ 35,756	\$ 15,905	\$ 14,709	\$ 10,951

(1) Interest payments were calculated using the applicable interest rate as of September 28, 2019.

(2) Operating lease amounts in the table above represent fixed rental payments and fixed maintenance costs. We lease our facilities under long-term operating leases, which expire at various dates through 2027. The lease agreements frequently include provisions that require us to pay taxes, insurance or maintenance costs.

(3) We enter into various inventory-related purchase agreements with suppliers. Under these agreements, 100% of orders are cancelable by giving sufficient notice prior to the expected shipment date.

Off-balance sheet arrangements

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

Critical accounting policies and estimates

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

Our critical accounting policies requiring estimates, assumptions and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

Revenue recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We generally enter into contracts that include a combination of products and services. Revenue is allocated to distinct performance obligations and is recognized net of allowances for returns, discounts, sales incentives and any taxes collected from customers, which are subsequently remitted to governmental authorities. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenue. We do not have material assets related to incremental costs to obtain or fulfill customer contracts.

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Nature of products and services

Our product revenue includes sales of wireless speakers, home theater speakers and components, which include software that enables our products to operate over a customer's wireless network, as well as connect to various third-party services, including music and voice. We also generate a small portion of revenue from other revenue sources such as sales of module units and Sonos and third-party accessories, which include speaker stands and wall mounts. Module revenue is comprised of hardware and embedded software that is integrated into final products that are manufactured and sold by our partners. Our software primarily consists of firmware embedded in the products and the Sonos app, which is software that can be downloaded to consumer devices at no charge, with or without the purchase of one of our products. Products and related software are accounted for as a single performance obligation and all intended functionality is available to the customer upon purchase. The revenue allocated to the products and related software is the substantial portion of the total sale price. Revenue is recognized at the point in time when control is transferred, which is either upon shipment or upon delivery to the customer, depending on delivery terms.

Our service revenue includes revenue allocated to (i) unspecified software upgrades and (ii) cloud services that enable products to access third-party music and voice assistant platforms, which are each distinct performance obligations and are provided to customers at no additional charge. Unspecified software upgrades are provided on a when-and-if-available basis and have historically included updates and enhancements such as bug fixes, feature enhancements and updates to the ability to connect to third-party music or voice assistant platforms. Service revenue is recognized ratably over the estimated service period.

Significant judgments

Our contracts with customers generally contain promises to transfer products and services as described above. Determining whether products and services are considered distinct performance obligations that should be accounted for separately may require significant judgment.

Judgment is required to determine the standalone selling price ("SSP") for each distinct performance obligation. We estimate SSP for items that are not sold separately, which include the products and related software, unspecified software upgrades and cloud services, using information that may include competitive pricing information, where available, as well as analyses of the cost of providing the products or services plus a reasonable margin. In developing SSP estimates, we also consider the nature of the products and services and the expected level of future services.

Determining the revenue recognition period for unspecified software upgrades and cloud services also requires judgment. We recognize revenue attributable to these performance obligations ratably over the best estimate of the period that the customer is expected to receive the services. In developing the estimated period of providing future services, we consider our past history, our plans to continue to provide services, including plans to continue to support updates and enhancements to prior versions of our products, expected technological developments, obsolescence, competition and other factors. The estimated service period may change in the future in response to competition, technology developments and our business strategy.

We offer sales incentives through various programs, consisting primarily of discounts, cooperative advertising and market development fund programs. We record cooperative advertising and market development fund programs with customers as a reduction to revenue unless it receives a distinct benefit in exchange for credits claimed by the customer and can reasonably estimate the fair value of the benefit received, in which case we record it as an expense. We recognize a liability, or a reduction to accounts receivable, and reduce revenue for sales incentives based on the estimated amount of sales incentives that will be claimed by customers. Estimates for sales incentives are developed using the most likely amount and are included in the transaction price to the extent that a significant reversal of revenue would not result once the uncertainty is resolved. In developing its estimate, we also consider the susceptibility of the incentive to outside influences, the length of time until the uncertainty is resolved, our experience with similar contracts and the range of possible outcomes. Reductions in revenue related to discounts are allocated to products and services on a relative basis based on their respective SSP. Judgment is required to determine the timing and amount of recognition of marketing funds, which we estimate based on past practice of providing similar funds.

We accept returns from direct customers and from certain resellers. To establish an estimate for returns, we use the expected value method by considering a portfolio of contracts with similar characteristics to calculate the historical returns rate. When determining the expected value of returns, we consider future business initiatives and relevant anticipated future events.

Inventories

Inventories consist of finished goods and component parts, which are purchased from contract manufacturers and component suppliers. Inventories are stated at the lower of cost or market and net realizable value on a first-in, first-out basis. We assess

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the valuation of inventory balances including an assessment to determine potential excess and/or obsolete inventory. We may be required to write down the value of inventory if estimates of future demand and market conditions indicate estimated excess and/or obsolete inventory.

Product warranties

Our products are covered by warranty to be free from defects in material and workmanship for a period of one year, except for products sold in the EU and select other countries where we provide a two-year warranty. At the time of sale, an estimate of future warranty costs is recorded as a component of the cost of revenue. Our estimate of costs to fulfill our warranty obligations is based on historical experience and expectations of future costs to repair or replace.

Income taxes

Our income tax expense, deferred tax assets and liabilities and liabilities for unrecognized tax benefits reflect our best estimate of current and future taxes to be paid. Significant judgments and estimates are required in the determination of the consolidated income tax expense.

We prepare and file income tax returns based on our interpretation of each jurisdiction's tax laws and regulations. In preparing our consolidated financial statements, we estimate our income tax liability in each of the jurisdictions in which we operate by estimating our actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. Significant management judgment is required in assessing the realizability of our deferred tax assets. In performing this assessment, we consider whether it is more likely than not that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making this determination, we consider the scheduled reversal of deferred tax liabilities, projected future taxable income and the effects of tax planning strategies. We recorded a valuation allowance against all our U.S. deferred tax assets and certain of our foreign deferred tax assets as of September 28, 2019. We intend to continue maintaining a full valuation allowance on our U.S. and certain foreign deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances.

We account for uncertain tax positions using a "more-likely-than-not" threshold for recognizing and resolving uncertain tax positions. We evaluate uncertain tax positions on a quarterly basis and consider various factors, that include, but are not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, information obtained during in process audit activities and changes in facts or circumstances related to a tax position. We accrue for potential interest and penalties related to unrecognized tax benefits in income tax expense.

Our policy with respect to the undistributed earnings of our non-U.S. subsidiaries is to maintain an indefinite reinvestment assertion as they are required to fund needs outside of the United States and cannot be repatriated in a manner that is substantially tax-free. This assertion is made on a jurisdiction by jurisdiction basis and takes into account the liquidity requirements in both the United States and of our foreign subsidiaries.

Stock-based compensation

We measure stock-based compensation cost at fair value on the date of grant. Compensation cost for share-based awards is recognized, on a straight-line basis, as expense over the period of vesting as the employee performs the related services, net of estimated forfeitures, over the remaining requisite service period. The fair value of restricted stock units ("RSUs") is based on the Company's closing stock price on the trading day immediately preceding the date of grant. We estimate the fair value of stock option awards using the Black-Scholes option-pricing model to determine the fair value of stock options. Determining the fair value of stock-based awards at the grant date requires judgment. Our use of the Black-Scholes model requires the input of assumptions regarding a number of variables.

The assumptions used in calculating the fair value of stock-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change or we use different assumptions, stock-based compensation expense could be materially different in the future.

In addition, we estimate at the time of grant the expected forfeiture rate and only recognize expense for those stock-based awards expected to vest. We estimate the forfeiture rate of our stock-based awards based on an analysis of our actual and historical forfeitures and other factors such as employee turnover. The impact from a forfeiture rate adjustment would be recognized in

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the period in which the forfeiture rate changes and, if the actual number of future forfeitures differs from our prior estimates, we may be required to record adjustments to stock-based compensation.

Item 7A. Quantitative and qualitative disclosures about market risk

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

Interest rate risk

As of September 28, 2019, we had cash and cash equivalents of \$338.6 million, which consisted primarily of cash on hand, money market funds and bank deposits. Such interest-earning instruments carry a degree of interest rate risk due to floating interest rates. However, historical fluctuations of interest income have not been significant.

As of September 28, 2019, we had indebtedness of \$33.2 million. The borrowings bore interest at a rate of 4.6% as of September 28, 2019.

To date, we have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

Foreign currency risk

Our inventory purchases are primarily denominated in U.S. dollars. Our international sales are primarily denominated in foreign currencies and any movement in the exchange rate between the U.S. dollar and the currencies in which we conduct sales in foreign countries could have an impact on our revenue, principally for sales denominated in the euro and the British pound. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to foreign currency exchange rate fluctuations. In certain countries where we may invoice customers in the local currency our revenues benefit from a weaker dollar and are adversely affected by a stronger dollar. The opposite impact occurs in countries where we record expenses in local currencies. In those cases, our costs and expenses benefit from a stronger dollar and are adversely affected by a weaker dollar.

We do not currently use foreign exchange contracts or derivatives to hedge any foreign currency exposures. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Our continued international expansion increases our exposure to exchange rate fluctuations and, as a result, such fluctuations could have a significant impact on our future results of operations.

We recognized a net loss from foreign currency of \$8.6 million in fiscal 2019, a net loss from foreign currency of \$1.2 million in fiscal 2018 and a net gain from foreign currency of \$3.2 million in fiscal 2017. Based on transactions denominated in currencies other than respective functional currencies as of September 28, 2019, a hypothetical adverse change of 10% would have resulted in an adverse impact on loss before income taxes of approximately \$10.3 million for the fiscal year ended 2019.

Recent accounting pronouncements

See Note 2 of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for a discussion of recent accounting pronouncements.

Item 8. Financial statements and supplementary data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Sonos, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Sonos, Inc. and its subsidiaries (the “Company”) as of September 28, 2019 and September 29, 2018, and the related consolidated statements of operations and comprehensive loss, of redeemable convertible preferred stock and stockholders’ equity and of cash flows for each of the three years in the period ended September 28, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of September 28, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 28, 2019 and September 29, 2018, and the results of its operations and its cash flows for each of the three years in the period ended September 28, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 28, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s annual report on internal control over financial reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The

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communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition - Estimates of Standalone Selling Price and Service Period for Unspecified Software Upgrades and Cloud-Based Services

As described in Notes 2 and 5 to the consolidated financial statements, the Company's contracts with customers generally contain promises to transfer products and services which are not sold separately. Service revenue includes revenue allocated to (i) unspecified software upgrades and (ii) cloud-based services, which are each distinct performance obligations, based on relative standalone selling price. Management's estimation of standalone selling price requires significant judgment. Management has disclosed that there are many factors considered including competitive pricing information, where available, analyses of the cost of providing the products or services plus a reasonable gross margin, the nature of the products and services and the expected level of future services. Determining the revenue recognition period for unspecified software upgrades and cloud-based services also requires judgment. Management recognizes revenue attributable to these performance obligations ratably over the estimated service period. In developing the estimated service period over which to recognize service revenue, management considers past history, plans to continue to provide services, including plans to continue to support updates and enhancements to prior versions of the Company's products, expected technological developments, obsolescence, competition and other factors. Deferred revenue primarily relates to revenue allocated to unspecified software upgrades and cloud-based services and was \$56.4 million as of September 28, 2019.

The principal considerations for our determination that performing procedures relating to revenue recognition - specifically estimation of standalone selling prices and service period attributable to unspecified software upgrades and cloud-based services - is a critical audit matter as there was significant judgment by management in estimating the standalone selling price and the service period. This in turn led to significant auditor judgment, subjectivity, and audit effort in performing procedures and evaluating audit evidence relating to (i) estimates of standalone selling price made by management, including estimates of the cost of providing the services plus a reasonable gross margin, and (ii) management's assumptions in estimating the service period, including management's plans to continue to support updates and enhancements to prior versions of the Company's products.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including over the estimation of the standalone selling prices and service period for unspecified software upgrades and cloud-based services. The procedures also included, among others, testing management's process for estimating the standalone selling price and service period. Procedures performed for the estimates of standalone selling price included (i) evaluating the appropriateness of management's cost plus gross margin method of estimating standalone selling price (ii) comparing the estimate of standalone selling price to competitive pricing information for comparable services using publicly disclosed information; (iii) evaluating the reasonableness of estimates of the cost of providing the services; and (iv) evaluating the gross margin assumption. Evaluating the estimates of cost of providing the services involved (i) testing the allocation of engineering costs, which is driven by time spent on software upgrades and cloud-based services; and (ii) testing the completeness, accuracy, relevance, and classification of the engineering costs. Evaluating the reasonableness of the gross margin assumption involved comparing management's gross margin to the gross margin earned for similar services by third party peer companies within the same industry. Procedures were also performed to test management's process for estimating the service period for these services, including the data on which the estimate is based. This included evaluating the reasonableness of management's plans to continue to support updates and enhancements to prior versions of the Company's products through a look-back analysis performed using data obtained independently as well as considering currently active products receiving software updates.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
November 25, 2019

We have served as the Company's auditor since 2011, which includes periods before the Company became subject to SEC reporting requirements.

SONOS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and par values)

	As of	
	September 28, 2019	September 29, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 338,641	\$ 220,930
Restricted cash	179	190
Accounts receivable, net of allowances of \$21,306 and \$12,626 as of September 28, 2019 and September 29, 2018	102,743	73,214
Inventories	219,784	193,193
Prepaid and other current assets	17,762	10,073
Total current assets	679,109	497,600
Property and equipment, net	78,139	85,371
Deferred tax assets	1,154	941
Other noncurrent assets	3,203	3,586
Total assets	\$ 761,605	\$ 587,498
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 251,941	\$ 195,159
Accrued expenses	69,856	38,687
Accrued compensation	41,142	33,371
Short-term debt	8,333	6,667
Deferred revenue	13,654	11,615
Other current liabilities	17,548	10,858
Total current liabilities	402,474	296,357
Long-term debt	24,840	33,097
Deferred revenue	42,795	39,352
Other noncurrent liabilities	10,568	10,334
Total liabilities	480,677	379,140
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.001 par value; 500,000,000 and 151,458,824 shares authorized, 109,623,417 and 100,868,250 shares issued 108,602,642 and 100,061,210 shares outstanding as of September 28, 2019 and September 29, 2018, respectively	110	101
Treasury stock, 1,020,775 and 807,040 shares at cost as of September 28, 2019 and September 29, 2018, respectively	(13,498)	(11,072)
Additional paid-in capital	502,757	424,617
Accumulated deficit	(208,377)	(203,611)
Accumulated other comprehensive loss	(64)	(1,677)
Total stockholders' equity	280,928	208,358
Total liabilities and stockholders' equity	\$ 761,605	\$ 587,498

The accompanying notes are an integral part of these consolidated financial statements.

SONOS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share data)

	Year Ended		
	September 28, 2019	September 29, 2018	September 30, 2017
Revenue	\$ 1,260,823	\$ 1,137,008	\$ 992,526
Cost of revenue	733,480	647,700	536,461
Gross profit	527,343	489,308	456,065
Operating expenses			
Research and development	171,174	142,109	124,394
Sales and marketing	247,599	270,869	270,162
General and administrative	102,871	85,205	77,118
Total operating expenses	521,644	498,183	471,674
Operating income (loss)	5,699	(8,875)	(15,609)
Other income (expense), net			
Interest income	4,349	731	120
Interest expense	(2,499)	(5,242)	(4,380)
Other income (expense), net	(8,625)	(1,162)	3,361
Total other expense, net	(6,775)	(5,673)	(899)
Loss before provision for (benefit from) income taxes	(1,076)	(14,548)	(16,508)
Provision for (benefit from) income taxes	3,690	1,056	(2,291)
Net loss	\$ (4,766)	\$ (15,604)	\$ (14,217)
Net loss attributable to common stockholders, basic and diluted:	\$ (4,766)	\$ (15,604)	\$ (14,217)
Net loss per share attributable to common stockholders, basic and diluted:	\$ (0.05)	\$ (0.24)	\$ (0.25)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted:	103,783,006	65,706,215	56,314,546
Total comprehensive loss			
Net loss	\$ (4,766)	\$ (15,604)	\$ (14,217)
Change in foreign currency translation adjustment	1,613	488	(2,486)
Comprehensive loss	\$ (3,153)	\$ (15,116)	\$ (16,703)

The accompanying notes are an integral part of these consolidated financial statements.

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SONOS, INC.
CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount		Shares	Amount			
Balance at October 1, 2016	32,482,590	\$ 90,341	54,841,214	\$ 55	\$ 144,771	(7,780)	\$ (145)	\$ (173,790)	\$ 321	\$ (28,788)
Net exercise of Series C preferred stock warrants			742,034	1	10,077			—	—	10,078
Issuance of common stock pursuant to equity incentive plans	—	—	3,756,088	3	8,903				—	8,906
Retirement of treasury stock	—	—					(10,016)		—	(10,016)
Purchase of treasury stock	—	—				(738,682)			—	—
Stock-based compensation expense	—	—	—	—	36,550				—	36,550
Net loss	—	—	—	—	—	—	—	(14,217)	—	(14,217)
Change in foreign currency translation adjustment	—	—	—	—	—	—	—	—	(2,486)	(2,486)
Balance at September 30, 2017	32,482,590	90,341	59,339,336	59	200,301	(746,462)	(10,161)	(188,007)	(2,165)	27
Common stock issued, net of issuance costs	—	—	6,388,888	6	86,021	—	—	—	—	86,027
Conversion of redeemable convertible preferred stock upon initial public offering	(32,482,590)	(90,341)	32,482,590	33	90,308	—	—	—	—	90,341
Issuance of common stock pursuant to equity incentive plans	—	—	2,657,436	3	9,342	—	—	—	—	9,345
Purchase of treasury stock	—	—	—	—	—	(60,578)	(911)	—	—	(911)
Stock-based compensation expense	—	—	—	—	38,645	—	—	—	—	38,645
Net loss	—	—	—	—	—	—	—	(15,604)	—	(15,604)
Change in foreign currency translation adjustment	—	—	—	—	—	—	—	—	488	488
Balance at September 29, 2018	—	—	100,868,250	101	424,617	(807,040)	(11,072)	(203,611)	(1,677)	208,358
Issuance of common stock pursuant to equity incentive plans	—	—	8,755,167	9	31,565	—	—	—	—	31,574
Purchase of treasury stock	—	—	—	—	—	(213,735)	(2,426)	—	—	(2,426)
Stock-based compensation expense	—	—	—	—	46,575	—	—	—	—	46,575
Net loss	—	—	—	—	—	—	—	(4,766)	—	(4,766)
Change in foreign currency translation adjustment	—	—	—	—	—	—	—	—	1,613	1,613
Balance at September 28, 2019	—	\$ —	109,623,417	\$ 110	\$ 502,757	(1,020,775)	\$ (13,498)	\$ (208,377)	\$ (64)	\$ 280,928

The accompanying notes are an integral part of these consolidated financial statements.

SONOS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended		
	September 28, 2019	September 29, 2018	September 30, 2017
Cash flows from operating activities			
Net loss	\$ (4,766)	\$ (15,604)	\$ (14,217)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	36,415	39,358	35,014
Stock-based compensation expense	46,575	38,645	36,550
Other	2,713	1,676	713
Deferred income taxes	(268)	152	1,443
Foreign currency transaction (gain) loss	4,035	941	(3,568)
Changes in operating assets and liabilities:			
Accounts receivable, net	(32,078)	(26,505)	(2,727)
Inventories, net	(31,796)	(80,107)	(60,270)
Other assets	(7,605)	(2,140)	36
Accounts payable and accrued expenses	85,878	66,473	54,895
Accrued compensation	8,231	1,625	5,123
Deferred revenue	6,165	5,566	9,411
Other liabilities	7,137	490	1,557
Net cash provided by operating activities	<u>120,636</u>	<u>30,570</u>	<u>63,960</u>
Cash flows from investing activities			
Purchases of property and equipment	(23,222)	(35,747)	(33,553)
Net cash used in investing activities	<u>(23,222)</u>	<u>(35,747)</u>	<u>(33,553)</u>
Cash flows from financing activities			
Proceeds from initial public offering, net of underwriting discounts and commissions	—	90,562	—
Payments of offering costs	(585)	(3,950)	—
Proceeds from issuance of common stock, net of issuance costs	—	—	10,078
Proceeds from exercise of stock options	31,574	9,345	8,906
Payments for purchase of treasury stock	(2,426)	(911)	(10,016)
Proceeds from borrowings, net of borrowing costs	—	69,748	14,987
Repayments of borrowings	(6,667)	(70,000)	—
Payments for debt extinguishment costs	—	(420)	—
Net cash provided by financing activities	<u>21,896</u>	<u>94,374</u>	<u>23,955</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,610)	1,135	1,329
Net increase in cash, cash equivalents, and restricted cash	<u>117,700</u>	<u>90,332</u>	<u>55,691</u>
Cash, cash equivalents, and restricted cash			
Beginning of period	221,120	130,788	75,097
End of period	<u>\$ 338,820</u>	<u>\$ 221,120</u>	<u>\$ 130,788</u>
Supplemental disclosure			
Cash paid for interest	\$ 2,517	\$ 3,750	\$ 4,114
Cash paid for taxes, net of refunds	\$ 3,570	\$ 1,430	\$ 461
Supplemental disclosure of non-cash investing and financing activities			
Conversion of redeemable convertible preferred stock to common stock	\$ —	\$ 90,341	\$ —
Purchases of property and equipment, accrued but not paid	\$ 11,687	\$ 4,075	\$ 9,665
Deferred offering costs in accounts payable and accrued expenses	\$ —	\$ 585	\$ —

The accompanying notes are an integral part of these consolidated financial statements.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business overview

Description of business

Sonos, Inc. and its wholly owned subsidiaries (collectively, "Sonos" or the "Company") designs, develops, manufactures and sells multi-room audio products. The Sonos sound system provides customers with an immersive listening experience created by the design of its speakers and components, a proprietary software platform and the ability to stream content from a variety of sources over the customer's wireless network or over Bluetooth.

The Company's products are sold through third-party retail stores, including custom installers of home audio systems. The Company also sells through select e-commerce retailers and its website sonos.com. The Company's products are distributed in over 50 countries through its wholly owned subsidiaries: Sonos Europe B.V., Beijing Sonos Technology Co., Ltd., Sonos Japan GK and Sonos Australia Pty Ltd., located in the Netherlands, China, Japan and Australia, respectively.

Initial public offering

On August 6, 2018, the Company completed its initial public offering ("IPO") of 15,972,221 shares of its common stock. The shares were sold at the IPO price of \$15.00 per share for net proceeds of \$90.6 million, after deducting underwriting discounts and commissions of \$5.3 million and offering costs of approximately \$4.6 million. Upon completion of the IPO, all outstanding shares of the Company's redeemable convertible preferred stock automatically converted into 32,482,590 shares of common stock on a one-for-one basis.

2. Summary of significant accounting policies

Basis of presentation and preparation

The consolidated financial statements, which include the accounts of Sonos, Inc. and its wholly owned subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"). All intercompany accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

The Company operates on a 52- or 53- week fiscal year ending on the Saturday nearest September 30 each year. The Company's fiscal year is divided into four quarters of 13 weeks, each beginning on a Sunday and containing two 4-week periods followed by a 5-week period. An additional week is included in the fourth fiscal quarter approximately every five years to realign fiscal quarters with calendar quarters. This occurred last in the fourth quarter of the Company's fiscal year ended October 3, 2015 and will next reoccur in the fiscal year ended October 3, 2020. References to fiscal 2019 are to the Company's fiscal year ended September 28, 2019, references to fiscal 2018 are to the Company's fiscal year ended September 29, 2018 and references to fiscal 2017 are to the Company's fiscal year ended September 30, 2017.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock split

On July 19, 2018, the Company effected a two-for-one stock split of all outstanding shares of the Company's capital stock, including its common stock and its redeemable convertible preferred stock. All share and per share information presented in the consolidated financial statements have been retroactively adjusted for all periods presented for the effects of the stock split.

Use of estimates and judgments

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. For revenue recognition, examples of estimates and judgments include: determining the nature and timing of satisfaction of performance obligations, determining the standalone selling price ("SSP") of performance obligations, estimating variable consideration such as sales incentives, and product returns. Additionally, estimates and judgments are made by management for allowances for doubtful accounts, the market value of and demand for inventory, useful lives associated with property and equipment, valuation allowances with respect to deferred tax assets and uncertain tax positions, impairment of long-lived assets, goodwill impairment, warranty, contingencies and valuation and assumptions underlying stock-based compensation and other equity instruments. On an ongoing basis, the Company evaluates its estimates and judgments compared to historical experience and trends that form the basis for making estimates and judgments about the carrying value of assets and liabilities.

Comprehensive loss

Comprehensive loss consists of two components: net loss and other comprehensive income (loss). Other comprehensive income (loss) refers to net gains and losses that are recorded as an element of stockholders' equity (deficit), but are excluded from net loss. The Company's other comprehensive income (loss) consists of net unrealized gains and losses on foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency.

Cash and cash equivalents

Cash equivalents consist of short-term, highly liquid financial instruments with insignificant interest rate risk that are readily convertible to cash and have maturities of three months or less from the date of purchase. As of September 28, 2019 and September 29, 2018, cash equivalents consisted of money market funds, which are recorded at fair value.

Restricted cash

The Company held \$0.2 million in restricted cash as of September 28, 2019 and September 29, 2018, representing security deposits on real estate leases.

Accounts receivable

Accounts receivable are recorded at the invoiced amount less allowances for doubtful accounts and sales incentives, do not require collateral and do not bear interest.

The allowance for doubtful accounts is established through a provision for net bad debt expense which is recorded in general and administrative expense in the consolidated statements of operations and comprehensive loss. The Company determines the adequacy of the allowance for doubtful accounts by evaluating customer accounts receivable balances as well as the customer's financial condition, credit history and current economic conditions. This estimate is periodically adjusted as a result of the aforementioned process, or when the Company becomes aware of a specific customer's inability to meet its financial obligations.

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents in several high-quality financial institutions. Cash and cash equivalents held at these banks, including those held in foreign branches of global banks, may exceed the amount of insurance provided on such deposits. These deposits may be redeemed upon demand and management believes that the financial institutions that hold the Company's cash and cash equivalents are financially sound and, accordingly, minimal credit risk exists with respect to cash. The Company has not experienced any losses in such accounts.

SONOS, INC.
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As of September 28, 2019 and September 29, 2018, the Company's customers that accounted for 10% or more of total accounts receivable, net, were as follows:

	Accounts receivable, net	
	2019	2018
Customer A	20%	31%
Customer B	14%	13%
Customer C	*	11%
Customer E	10%	*

* Accounts receivable was less than 10%.

The Company's customers that accounted for 10% or more of total revenue were as follows:

	Revenue		
	Year Ended		
	2019	2018	2017
Customer A	16%	17%	16%
Customer C	10%	10%	12%

Inventories

Inventories primarily consist of finished goods and to a lesser extent component parts, which are purchased from contract manufacturers and component suppliers. Inventories are stated at lower of cost and net realizable value on a first-in, first-out basis. The Company assesses the valuation of inventory balances including an assessment to determine potential excess and/or obsolete inventory. The Company may be required to write down the value of inventory if estimates of future demand and market conditions indicate estimated excess or obsolete inventory. For the periods presented, the Company has not experienced significant write-downs.

Property and equipment, net

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Computer hardware and software	2-3 years
Furniture and fixtures	3-5 years
Tooling and production line test equipment	2-4 years
Leasehold improvements	2-10 years
Product displays	1-3 years

Costs incurred to improve leased office space are capitalized. Leasehold improvements are amortized on a straight-line basis over the shorter of the term of the lease or the estimated useful life of the improvement. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Maintenance, repair costs and gains or losses associated with disposals are charged to expense as incurred.

Product displays are deployed at retail locations. Because the product displays facilitate marketing of the Company's products within the retail stores, depreciation for product displays is recorded in sales and marketing expenses in the consolidated statements of operations and comprehensive loss.

Impairment of long-lived assets

The Company evaluates the recoverability of its long-lived assets, primarily comprised of property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company performs impairment testing at the level that represents the lowest level for which identifiable cash flows are largely

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

independent of the cash flows of other assets and liabilities. Recoverability is measured by comparing the carrying amounts to the expected future undiscounted cash flows attributable to the assets. If it is determined that an asset may not be recoverable, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated discounted future cash flows. There were no impairment charges identified on the Company's long-lived assets for each period presented.

Product warranties

The Company's products are covered by warranty to be free from defects in material and workmanship for a period of one year, except in the European Union and select other countries where the Company provides a two-year warranty on all its products. At the time of sale, an estimate of future warranty costs is recorded as a component of cost of revenue and a warranty liability is recorded for estimated costs to satisfy the warranty obligation. The Company's estimate of costs to fulfill its warranty obligations is based on historical experience and expectations of future costs to repair or replace.

Legal contingencies

If a potential loss from any claim or legal proceeding is considered probable, and the amount can be reasonably estimated, the Company accrues a liability for an estimated loss. Legal fees are expensed as incurred and included in general and administrative expenses in the consolidated statements of operations and comprehensive loss. See Note 11 for additional information regarding legal contingencies.

Treasury stock

The Company accounts for treasury stock acquisitions using the cost method. The Company accounts for the retirement of treasury stock by deducting its par value from common stock and reflecting any excess of cost over par value as a deduction from additional paid-in capital on the consolidated balance sheets.

Fair value accounting

Assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level Input	Input Definition
Level 1	Quoted prices for identical assets or liabilities in active markets at the measurement date.
Level 2	Inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities, in active markets or other inputs that are observable or can be corroborated with market data at the measurement date.
Level 3	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Foreign currency

Certain of the Company's wholly owned subsidiaries have non-U.S. dollar functional currencies. The Company translates assets and liabilities of non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period and stockholders' equity at historical rates. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from translation are recognized in foreign currency translation included in accumulated other comprehensive loss.

The Company remeasures monetary assets or liabilities denominated in currencies other than the functional currency using exchange rates prevailing on the balance sheet date, and non-monetary assets and liabilities at historical rates. Foreign currency remeasurement and transaction gains and losses are included in other income (expense), net.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Foreign currency remeasurement and transaction gains (losses) are recorded in other income (expense), net and were \$(8.6) million, \$(1.2) million and \$3.2 million for fiscal 2019, 2018 and 2017, respectively.

Revenue recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company generally enters into contracts that include a combination of products and services. Revenue is allocated to distinct performance obligations and is recognized net of allowances for returns, discounts, sales incentives and any taxes collected from customers, which are subsequently remitted to governmental authorities. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenue. As of September 28, 2019 and September 29, 2018, the Company did not have any material assets related to incremental costs to obtain or fulfill customer contracts.

In the prior year, the Company adopted ASC 606 using the full retrospective transition method which resulted in an acceleration of revenue and related costs of revenue and most significantly, a reduction in deferred costs and revenue and deferred revenue at each balance sheet date.

Nature of products and services

Product revenue includes sales of wireless speakers, home theater speakers and components, which include software that enables the Company's products to operate over a customer's wireless network, as well as connect to various third-party services, including music and voice. The Company also generates a small portion of revenue from other revenue sources such as sales of module units and Sonos and third-party accessories, which include speaker stands and wall mounts. Module revenue is comprised of hardware and embedded software that is integrated into final products that are manufactured and sold by the Company's partners. Software primarily consists of firmware embedded in the products and the Sonos app, which is software that can be downloaded to consumer devices at no charge, with or without the purchase of one of the Company's products. Products and related software are accounted for as a single performance obligation and all intended functionality is available to the customer upon purchase. The revenue allocated to the products and related software is the substantial portion of the total sale price. Product revenue is recognized at the point in time when control is transferred, which is either upon shipment or upon delivery to the customer, depending on delivery terms.

Service revenue includes revenue allocated to (i) unspecified software upgrades and (ii) cloud-based services that enable products to access third-party music and voice assistant platforms, which are each distinct performance obligations and are provided to customers at no additional charge. Unspecified software upgrades are provided on a when-and-if-available basis and have historically included updates and enhancements such as bug fixes, feature enhancements and updates to the ability to connect to third-party music or voice assistant platforms. Service revenue is recognized ratably over the estimated service period.

Significant judgments

The Company's contracts with customers generally contain promises to transfer products and services as described above. Determining whether products and services are considered distinct performance obligations that should be accounted for separately requires significant judgment.

Judgment is required to determine the SSP for each distinct performance obligation. The Company estimates SSP for items that are not sold separately, which include the products and related software, unspecified software upgrades and cloud-based services, using information that may include competitive pricing information, where available, as well as analyses of the cost of providing the products or services plus a reasonable margin. In developing SSP estimates, the Company also considers the nature of the products and services and the expected level of future services.

Determining the revenue recognition period for unspecified software upgrades and cloud-based services also requires judgment. The Company recognizes revenue attributable to these performance obligations ratably over the best estimate of the period that the customer is expected to receive the services. In developing the estimated period of providing future services, the Company considers past history, plans to continue to provide services, including plans to continue to support updates and enhancements to prior versions of the Company's products, expected technological developments, obsolescence, competition and other factors. The estimated service period may change in the future in response to competition, technology developments and the Company's business strategy.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company offers sales incentives through various programs consisting primarily of discounts, cooperative advertising and market development fund programs. The Company records cooperative advertising and market development fund programs with customers as a reduction to revenue unless it receives a distinct benefit in exchange for credits claimed by the customer and can reasonably estimate the fair value of the benefit received, in which case the Company records it as an expense. The Company recognizes a liability or a reduction to accounts receivable, and reduces revenue based on the estimated amount of sales incentives that will be claimed by customers. Estimates for sales incentives are developed using the most likely amount and are included in the transaction price to the extent that a significant reversal of revenue would not result once the uncertainty is resolved. In developing its estimate, the Company also considers the susceptibility of the incentive to outside influences, the length of time until the uncertainty is resolved and the Company's experience with similar contracts. Reductions in revenue related to discounts are allocated to products and services on a relative basis based on their respective SSP. Judgment is required to determine the timing and amount of recognition of marketing funds which the Company estimates based on past practice of providing similar funds.

The Company accepts returns from direct customers and from certain resellers. To establish an estimate for returns, the Company uses the expected value method by considering a portfolio of contracts with similar characteristics to calculate the historical returns rate. When determining the expected value of returns, the Company considers future business initiatives and relevant anticipated future events.

Supplier concentration

The Company relies on third parties for the supply and manufacture of its products, as well as third-party logistics providers. In instances where these parties fail to perform their obligations, the Company may be unable to find alternative suppliers or satisfactorily deliver its products to customers on time, if at all. During fiscal 2019, 2018 and 2017, approximately 83%, 98% and 99%, respectively, of the Company's finished goods purchased during each year were from one vendor.

Deferred revenue and payment terms

The Company invoices each order upon hardware shipment or delivery and recognizes revenue for each distinct performance obligation when transfer of control has occurred, which in the case of services, may extend over several reporting periods. Amounts invoiced in advance of revenue recognition are recorded as deferred revenue on the consolidated balance sheets. Deferred revenue primarily relates to revenue allocated to unspecified software upgrades and platform services. The Company classifies deferred revenue as noncurrent if amounts are expected to be recognized as revenue after more than one year from the balance sheet date.

Payment terms

Payment terms and conditions vary among the Company's distribution channels although terms generally include a requirement of payment within 30 days of product shipment. Sales directly to customers from the Company's website are paid at the time of product shipment. Prior to providing payment terms to customers, an evaluation of the customer's credit risk is performed. Contractual allowances are an offset to accounts receivable.

Research and development

Research and development expenses consist primarily of personnel-related expenses, consulting and outside professional service costs, tooling and prototype materials and overhead costs. Substantially all of the Company's research and development expenses are related to developing new products and services and improving existing products and services. To date, software development costs have been expensed as incurred because the period between achieving technological feasibility and the release of the software has been short and development costs qualifying for capitalization have been insignificant.

Advertising costs

Advertising costs are expensed as incurred and included in sales and marketing expenses. Advertising expenses were \$48.8 million, \$50.2 million and \$72.2 million for fiscal 2019, 2018 and 2017, respectively.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock-based compensation

The Company measures stock-based compensation cost at fair value on the date of grant. Compensation cost for stock options is recognized, on a straight-line basis, as an expense over the period of vesting as the employee performs the related services, net of estimated forfeitures. The Company estimates the fair value of stock option awards using the Black-Scholes option-pricing model. The fair value of restricted stock units ("RSUs") is based on the Company's closing stock price on the trading day immediately preceding the date of grant and for stock options with graded vesting are recognized, on a straight-line basis, as an expense over the period of vesting as the employee performs the related services, net of estimated forfeitures. The Company estimates forfeitures based on expected future terminations and will revise rates, as necessary, in subsequent periods if actual forfeitures differ from initial estimates.

Retirement Plans

The Company has a defined contribution 401(k) plan (the "401(k) Plan") for the Company's U.S.-based employees, as well as various benefit plans, principally defined contribution plans, for its international employees. Eligible U.S. employees may contribute up to 100% of their annual compensation under the 401(k) plan, but are limited to the maximum annual dollar amount allowable under the Internal Revenue Code of 1986, as amended (the "Code"). In the second quarter of fiscal 2019, the Company began making matching contributions towards the 401(k) Plan, as well as towards the international defined contribution plans.

Income taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records a valuation allowance to the extent that its deferred tax assets are not more likely than not to be realized. In making such a determination, all available positive and negative evidence is considered, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with a two-step process whereby (i) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (ii) for those tax positions that meet the more likely than not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes in the consolidated statements of operations and comprehensive loss. The Company has not incurred any interest or penalties related to unrecognized tax benefits in any of the periods presented.

The Company's provision for (benefit from) income taxes, deferred tax assets and liabilities and liabilities for unrecognized tax benefits involves the use of estimates, assumptions and judgments. Although the Company believes its estimates, assumptions and judgments to be reasonable, any changes in tax law or its interpretation of tax laws and the resolutions of potential tax audits could significantly impact the amounts provided for income taxes in the Company's consolidated financial statements. Actual future operating results and the underlying amount and type of income could differ materially from the Company's estimates, assumptions and judgments thereby impacting the Company's financial position and results of operations.

Segment information

The Company operates as one operating segment as it only reports aggregate financial information on a consolidated basis, accompanied by disaggregated information about revenue by geographic region and product category to its Chief Executive Officer, who is the Company's chief operating decision maker.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Leases

The substantial majority of the Company's leases are for its office spaces and facilities, which are accounted for as operating leases. For leases that contain rent escalation or rent concession provisions, the Company recognizes rent on a straight-line basis over the term of the lease. The Company does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably assured at inception. Tenant improvement allowances received from landlords are recorded as a credit to deferred rent, reported as a liability on the consolidated balance sheets and amortized on a straight-line basis over the lease term as a reduction to rent expense in the consolidated statements of operations and comprehensive loss.

Recently adopted accounting pronouncements

Stock-based compensation

In June 2018, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, which aligns the accounting for share-based payment awards issued to nonemployees with the guidance applicable to grants to employees. Under this new standard, equity-classified share-based payment awards issued to nonemployees will be measured on the grant date, instead of the current requirement to remeasure the awards through the performance completion date. Further, compensation cost for awards with performance conditions will be recognized when it is probable the conditions will be achieved, rather than upon actual achievement of the conditions. In the second quarter of fiscal 2019, the Company early adopted the standard using the prospective approach. There was no cumulative effect entry needed to adjust the opening retained earnings balance upon adoption. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Statement of cash flows

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which enhances and clarifies the classification and presentation of restricted cash in the statement of cash flows. In the first quarter of fiscal 2019, the Company adopted this standard retrospectively to all periods presented. The Company now includes restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling beginning and ending amounts shown on the statement of cash flows. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. In the first quarter of fiscal 2019, the Company retrospectively adopted this standard to all periods presented. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Income taxes

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory*. This guidance removes the prohibition in Accounting Standards Codification ("ASC") Topic 740, Income Taxes, against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. ASU 2016-16 is intended to reduce the complexity of U.S. GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. In the first quarter of fiscal 2019, the Company adopted this standard on a modified retrospective basis. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Recent accounting pronouncements pending adoption

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, and other subsequent amendments, collectively referred to as Topic 842, which modifies lease accounting in order to increase transparency and comparability among entities.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The standard requires lessees to recognize on the balance sheet, right-of-use assets and lease liabilities for the rights and obligations created by leases.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted improvements*, which provides an alternative transition method that entities can elect when adopting this standard. The Company plans to adopt the new standard effective September 29, 2019, using the optional transition method, recognizing a cumulative-effect adjustment to its balance of accumulated deficit at September 29, 2019 without restating comparative periods presented.

The Company's leases primarily include real estate leases and automobile leases. In adopting the new guidance, the Company will elect, amongst other practical expediciencies, not to reassess (1) whether any expired or existing contracts contain leases under the new definition of a lease; (2) the lease classification for any expired or existing leases; and (3) whether previously capitalized initial direct costs would qualify for capitalization under Topic 842. Also, for leases with lease terms less than twelve months, an entity is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The Company intends to make this election for all classes of assets. Upon adoption of this standard on September 29, 2019, the Company expects an increase in both total assets and total liabilities of approximately \$60.0 million to \$65.0 million. The Company does not believe that the adoption of the standard will have a material impact on the Company's consolidated statements of operations and comprehensive loss or to the consolidated statements of cash flows.

The Company continues to finalize the implementation of new processes and the assessment of the impact of this adoption on its consolidated financial statements; therefore, the preliminary estimated impacts disclosed can change and the final impact will be known once the adoption is completed during the first quarter of 2020.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and other subsequent amendments including ASU 2019-04 *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, collectively referred to as Topic 326, which provides a new impairment model that require measurement and recognition of expected credit losses for most financial assets and certain other instruments, including but not limited to accounts receivable and available for sale debt securities. The standard will be effective for the Company in the first quarter of fiscal 2021. The Company is currently evaluating the impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill*, which simplifies the subsequent measurement of goodwill by eliminating the second step of the goodwill impairment test. The second step measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under the new guidance, a company will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The standard will be effective for the Company in the first quarter of fiscal 2021, with early adoption permitted. The Company is currently evaluating the timing of adoption of the new standard. The Company expects the impact of ASU 2017-04 to be immaterial as goodwill was \$1.0 million as of September 28, 2019.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The new standard eliminates disclosures such as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and adds new disclosure requirements for Level 3 measurements. The standard will be effective for the Company in the first quarter of fiscal 2021, with early adoption permitted. The Company is currently evaluating the timing of adoption and impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Suptopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The new guidance aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract, with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard will be effective for the Company in the first quarter of fiscal 2021, with early adoption permitted. The Company is currently evaluating the timing of adoption and impact on the Company's consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*. This standard resolves the diversity in practice concerning whether certain transactions between collaborative arrangement participants should be accounted for as revenue under Accounting Standards Codification 606,

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Revenue from Contracts with Customers("Topic 606"). This standard specifies when a participant is a customer in a collaboration, adds unit of account guidance to align with Topic 606 and provides presentation guidance for collaborative arrangements. This standard will be effective for the Company in the first quarter of fiscal 2021, with early adoption permitted. The Company is currently evaluating the timing of adoption and impact on the Company's consolidated financial statements.

3. Fair value measurements

The carrying values of the Company's financial instruments, including accounts receivable and accounts payable, approximate their fair values due to the short period of time to maturity or repayment. The carrying values of the Company's long-term debt approximate their fair values as of September 28, 2019 and September 29, 2018 as the debt carries a variable rate or market rates that approximate those currently available to the Company.

The following table summarizes fair value measurements by level for the assets measured at fair value on a recurring basis as of September 28, 2019 and September 29, 2018:

(In thousands)	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (cash equivalents)	\$ 267,806	\$ —	\$ —	\$ 267,806

(In thousands)	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (cash equivalents)	\$ 140,588	\$ —	\$ —	\$ 140,588

4. Revenue and geographic information

Disaggregation of revenue

Revenue by geographical region, based on ship-to address, is as follows:

(In thousands)	2019	2018	2017
	Americas	\$ 678,224	\$ 603,450
Europe, Middle East and Africa ("EMEA")	484,785	478,518	442,081
Asia Pacific ("APAC")	97,814	55,040	53,777
Total revenue	<u>\$ 1,260,823</u>	<u>\$ 1,137,008</u>	<u>\$ 992,526</u>

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Revenue from external customers is attributed to individual countries based on ship-to address. Revenue by significant countries is as follows:

(In thousands)	2019	2018	2017
United States	\$ 630,012	\$ 554,896	\$ 449,261
Germany	124,385	121,546	111,065
United Kingdom	112,708	114,790	110,695
Other countries	393,718	345,776	321,505
Total revenue	\$ 1,260,823	\$ 1,137,008	\$ 992,526

Revenue by major product category is as follows:

(In thousands)	2019	2018	2017
Wireless speakers	\$ 518,821	\$ 546,649	\$ 480,977
Home theater speakers	489,602	418,416	348,899
Components	188,861	150,436	151,965
Other	63,539	21,507	10,685
Total revenue	\$ 1,260,823	\$ 1,137,008	\$ 992,526

Revenue by product categories includes the applicable service revenue attributable to each product category.

Property and equipment, net by country as of September 28, 2019 and September 29, 2018 were as follows:

(In thousands)	2019	2018
United States	\$ 48,370	\$ 48,441
China	16,539	18,729
Other countries	13,230	18,201
Property and equipment, net	\$ 78,139	\$ 85,371

5. Balance sheet components

The following tables show the Company's balance sheet component details as of September 28, 2019 and September 29, 2018.

Accounts receivable allowances

The following table summarizes changes in the allowance for doubtful accounts for fiscal 2019, 2018 and 2017:

(In thousands)	2019	2018	2017
Beginning balance	\$ 872	\$ 804	\$ 726
Increases	1,034	635	449
Write-offs	(651)	(567)	(371)
Ending balance	\$ 1,255	\$ 872	\$ 804

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table summarizes the changes in the allowance for sales incentives for fiscal 2019, 2018 and 2017:

(In thousands)	2019	2018	2017
Beginning balance	\$ 11,754	\$ 11,195	\$ 8,913
Charged to revenue	87,703	90,246	65,879
Utilization of sales incentive allowance	(79,406)	(89,687)	(63,597)
Ending balance	\$ 20,051	\$ 11,754	\$ 11,195

Inventories

Inventories, net, consist of the following:

(In thousands)	2019	2018
Finished goods	\$ 207,723	\$ 176,181
Components	12,061	17,012
Inventories	\$ 219,784	\$ 193,193

Property and equipment, net

Property and equipment, net consist of the following:

(In thousands)	2019	2018
Computer hardware and software	\$ 47,775	\$ 46,385
Furniture and fixtures	9,594	9,696
Tooling and production line test equipment	54,536	47,297
Leasehold improvements	58,944	53,962
Product displays	45,672	40,265
Total property and equipment	216,521	197,605
Accumulated depreciation and amortization	(138,382)	(112,234)
Property and equipment, net	\$ 78,139	\$ 85,371

Depreciation expense was \$36.4 million, \$39.4 million and \$35.0 million for fiscal 2019, 2018 and 2017, respectively. During fiscal 2019, 2018 and 2017, the Company disposed of gross fixed assets of \$10.2 million, \$35.8 million and \$11.5 million, with accumulated depreciation of \$9.3 million, \$35.6 million and \$11.2 million, respectively. Disposals of fixed assets were recorded in operating expenses in the consolidated statements of operations and comprehensive loss and resulted in losses of \$0.8 million, \$0.2 million and \$0.2 million for fiscal 2019, 2018 and 2017, respectively.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Accrued expenses

Accrued expenses consisted of the following:

(In thousands)	2019	2018
Accrued advertising and marketing	\$ 25,662	\$ 11,613
Accrued taxes	4,388	4,175
Accrued inventory	6,494	4,179
Accrued manufacturing, logistics and product development	14,783	8,290
Accrued general and administrative	12,455	3,322
Other accrued payables	6,074	7,108
Total accrued expenses	\$ 69,856	\$ 38,687

The following table summarizes the changes in the deferred revenue balances:

(In thousands)	2019	2018	2017
Deferred revenue, beginning of period	\$ 50,967	\$ 45,567	\$ 36,160
Recognition of revenue included in beginning of period deferred revenue	(11,934)	(10,627)	(6,878)
Revenue deferred, net of revenue recognized on contracts in the respective period	17,416	16,027	16,285
Deferred revenue, end of period	\$ 56,449	\$ 50,967	\$ 45,567

The Company expected the following recognition of deferred revenue as of September 28, 2019:

(In thousands)	For the fiscal years ending					Total
	2020	2021	2022	2023	2024 and Beyond	
Revenue expected to be recognized	\$ 13,654	\$ 12,143	\$ 10,297	\$ 8,369	\$ 11,986	\$ 56,449

Other current liabilities

Other current liabilities consist of the following:

(In thousands)	September 28, 2019	September 29, 2018
Reserve for returns	\$ 12,110	\$ 5,005
Product warranty liability	3,254	2,450
Other	2,184	3,403
Total other current liabilities	\$ 17,548	\$ 10,858

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table presents the changes in the Company's warranty liability for the fiscal years ended September 28, 2019 and September 29, 2018:

(In thousands)	September 28, 2019	September 29, 2018
Warranty liability, beginning of period	\$ 2,450	\$ 2,437
Provision for warranties issued during the period	12,795	10,678
Settlements of warranty claims during the period	(11,991)	(10,665)
Warranty liability, end of period	<u>\$ 3,254</u>	<u>\$ 2,450</u>

6. Debt

The Company's debt obligations consist of the Secured Credit Facility with J.P. Morgan Chase Bank, N.A. (the "Credit Facility") and the J.P. Morgan Chase Bank, N.A. Secured Term Loan (the "Term Loan"). The Company's short and long term debt as of September 28, 2019 and September 29, 2018 is as follows:

(In thousands)	2019		2018	
	Rate	Balance	Rate	Balance
Term Loan ⁽¹⁾	4.6%	\$ 33,333	4.8%	\$ 40,000
Unamortized debt issuance costs ⁽²⁾		(160)		(236)
Total indebtedness		<u>33,173</u>		<u>39,764</u>
Less short term portion		(8,333)		(6,667)
Long term debt		<u>\$ 24,840</u>		<u>\$ 33,097</u>

(1) Bears interest at a variable rate equal to an adjusted LIBOR plus 2.25% and is payable quarterly. Due in October 2021, with quarterly principal payments beginning in July 2019.

(2) Debt issuance costs are recorded as a debt discount and charged to interest expense over the term of the agreement.

The Credit Facility allows the Company to borrow up to \$80.0 million restricted to the value of the borrowing base which is based on the value of inventory and accounts receivable and is subject to quarterly redetermination. The Credit Facility matures in October 2021 and may be drawn as Commercial Bank Floating Rate Loans (at the higher of the prime rate or adjusted LIBOR plus 2.50%) or Eurocurrency Loans (at LIBOR plus an applicable margin). As of September 28, 2019 and September 29, 2018, the Company did not have any outstanding borrowings and \$4.5 million and \$4.5 million, respectively, in undrawn letters of credit that reduce the availability under the Credit Facility.

Debt obligations under the Credit Facility and the Term Loan require the Company to maintain a consolidated fixed charge ratio of at least 1.0, restrict distribution of dividends unless certain conditions are met, such as having a fixed charge ratio of at least 1.15, and require financial statement reporting and delivery of borrowing base certificates. As of September 28, 2019 and September 29, 2018, the Company was in compliance with all financial covenants. The Credit Facility and the Term Loan are collateralized by eligible inventory and accounts receivable of the Company, as well as the Company's intellectual property including patents and trademarks.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Stockholders' equity

Redeemable convertible preferred stock

Upon the closing of the IPO, all outstanding shares of the Company's redeemable convertible preferred stock automatically converted into 32,482,590 shares of common stock on a one-for-one basis. Additionally, upon completion of the IPO, the Company's authorized capital stock consisted of 500,000,000 shares of common stock, \$0.001 par value per share and 10,000,000 shares of "blank check" preferred stock, \$0.001 par value per share.

Share repurchase program

On September 3, 2019, the Company announced that its Board of Directors has authorized a common stock repurchase program of up to \$50.0 million. No shares of the Company's stock were repurchased under this program during fiscal 2019.

The Company withholds shares of common stock from certain employees in connection with the vesting of restricted stock unit awards issued to such employees to satisfy applicable tax withholding requirements. Such withheld shares are treated as common stock repurchases in our consolidated financial statements as they reduce the number of shares that would have been issued upon vesting. Repurchases associated with tax withholdings were not material during fiscal 2019.

8. Stock-based compensation

2018 Equity Incentive Plan

In July 2018, the Board adopted the 2018 Equity Incentive Plan (the "2018 Plan"), which became effective in connection with the IPO, and ceased granting awards under the 2003 Stock Plan (the "2003 Plan"). The Company initially reserved 21,839,258 shares of its common stock for issuance under the 2018 Plan, which included any remaining shares available for issuance under the 2003 Plan on the effective date of the 2018 Plan. The number of shares reserved for issuance under the 2018 Plan will also be increased by expired or forfeited shares under the 2003 Plan, or shares issued under the 2003 Plan which are repurchased at their original issue price. Shares subject to awards under the 2003 Plan that are used to pay the exercise price of an option or withheld to satisfy the tax withholding obligations related to any award will not become available for future grant or sale under the 2018 Plan. The number of shares reserved for issuance under the 2018 Plan will increase automatically on January 1 of each year beginning in 2019 and continuing through 2028 by a number of shares of common stock equal to the lesser of (x) 5% of the total outstanding shares of the Company's common stock and common stock equivalents as of the immediately preceding December 31 (rounded to the nearest whole share) and (y) a number of shares determined by the Board. As of September 28, 2019, there were 25,280,393 shares reserved for future issuance under the 2018 Plan.

Stock options

Pursuant to the 2018 Plan, the Company issues stock options to employees. The fair value of the stock options is based on the Company's closing stock price on the trading day immediately prior to the date of grant. The option price, number of shares and grant date are determined at the discretion of the Board. For so long as the optionholder performs services for the Company, the options generally vest over 48 months, with cliff vesting after one year and generally vest on a monthly or quarterly basis thereafter, and are exercisable for a period not to exceed ten years from the date of grant.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The summary of the Company's stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at September 29, 2018	48,504,182	\$ 10.33	6.6	\$ 276,959
Granted	1,714,328	13.34		
Exercised	(7,925,897)	3.98		
Forfeited	(5,137,045)	13.48		
Outstanding at September 28, 2019	<u>37,155,568</u>	\$ 11.39	6.3	\$ 94,288
At September 28, 2019				
Options exercisable	26,436,074	\$ 10.23	5.5	\$ 92,281
Options vested and expected to vest	35,606,324	\$ 11.25	6.2	\$ 93,836

During fiscal 2019, 2018 and 2017, the Company granted options with a fair value of \$8.4 million, \$50.2 million and \$39.4 million, respectively, with a weighted-average grant date fair value of \$4.91, \$5.39 and \$4.84 per share, respectively. Options vested in 2019, 2018 and 2017, respectively, have a fair value of \$34.3 million, \$38.3 million, and \$34.8 million.

The total intrinsic value of stock options exercised was \$61.1 million, \$31.3 million and \$42.0 million for fiscal 2019, 2018 and 2017, respectively.

As of September 28, 2019 and September 29, 2018, the Company had \$43.9 million and \$71.5 million, respectively, of unrecognized stock-based compensation cost, which is expected to be recognized over a weighted-average period of 2.0 years and 2.6 years, respectively.

The Company's policy for issuing stock upon stock option exercise is to issue new common stock.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options. This model requires the input of highly subjective assumptions including the expected term of the option, expected stock price volatility and expected dividends. If any of the assumptions used in the Black-Scholes model changes significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. The fair value of options at the date of grant was estimated with the following weighted-average assumptions:

	2019	2018	2017
Expected term (years)	6.51	6.25	6.25
Risk-free interest rate	2.67%	2.73%	1.95%
Expected volatility	30.7%	30.2%	32.4%
Expected dividend yield	—%	—%	—%

Expected term

The expected term represents the period over which the Company anticipates stock-based awards to be outstanding. The Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. As a result, the Company elected the simplified method, which is the average of the options' vesting and contractual terms.

Risk-free interest rate

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

Expected share price volatility

The Company's computation of expected volatility is based on the historical volatility of selected comparable publicly traded companies over a period equal to the expected term of the option.

Expected dividend yield

The Company used a zero-dividend yield, as the Company has never paid dividends and does not plan to pay dividends in the near future.

Fair value of common stock

Prior to the IPO, in accordance with the American Institute of Certified Public Accountants Accounting and Valuation Guide, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, the Board exercised reasonable judgment and considered numerous objective and subjective factors to determine the best estimate of fair value of the Company's common stock, including but not limited to the prices at which the Company sold shares of its common stock to outside investors in arm's-length transactions; independent third-party valuations of the Company's common stock; the rights, preferences and privileges of redeemable convertible preferred stock relative to those of common stock; the Company's operating results, financial position and capital resources; and additional relevant economic information.

Subsequent to the Company's IPO, the Company began using the market closing price for its common stock as reported on The Nasdaq Global Select Market.

Restricted stock units

Pursuant to the 2018 Plan, the Company issues RSUs to employees. The fair value of RSUs is based on the Company's closing stock price on the trading day immediately preceding the date of grant. RSUs typically have an initial annual cliff vest and then vest quarterly over the service period, which is generally four years. The summary of the Company's unvested RSU activity is as follows:

	Number of Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Outstanding at September 29, 2018	—	\$ —	\$ —
Granted	7,915,980		
Exercised	(829,270)		
Forfeited	(369,924)		
Expired	—		
Outstanding at September 28, 2019	<u>6,716,786</u>	\$ 11.4	\$ 90,744
At September 28, 2019			
Units expected to vest	5,207,691	\$ 11.4	\$ 70,356

As of September 28, 2019, the Company had \$55.6 million of unrecognized stock-based compensation expense related to their RSUs, which is expected to be recognized over a weighted-average period of 3.4 years.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(In thousands)	2019	2018	2017
Cost of revenue	\$ 985	\$ 198	\$ 240
Research and development	17,643	13,960	13,605
Sales and marketing	12,965	15,885	15,086
General and administrative	14,982	8,602	7,619
Total stock-based compensation expense	<u>\$ 46,575</u>	<u>\$ 38,645</u>	<u>\$ 36,550</u>

9. Income taxes

The Company's loss before provision for (benefit from) income taxes for fiscal 2019, 2018 and 2017 were as follows:

(In thousands)	2019	2018	2017
Domestic	\$ (858)	\$ 2,803	\$ (25,005)
Foreign	(218)	(17,351)	8,497
Loss before provision for (benefit from) income taxes	<u>\$ (1,076)</u>	<u>\$ (14,548)</u>	<u>\$ (16,508)</u>

Components of the provision for (benefit from) income taxes consisted of the following:

(In thousands)	2019	2018	2017
Current:			
U.S. Federal	\$ 1,366	\$ —	\$ —
U.S. State	1,132	177	62
Foreign	1,463	816	(3,791)
Total current	<u>3,961</u>	<u>993</u>	<u>(3,729)</u>
Deferred:			
U.S. Federal	—	(168)	—
U.S. State	—	—	—
Foreign	(271)	231	1,438
Total deferred	<u>(271)</u>	<u>63</u>	<u>1,438</u>
Provision for (benefit from) income taxes	<u>\$ 3,690</u>	<u>\$ 1,056</u>	<u>\$ (2,291)</u>

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Components of the Company's net deferred income tax assets (liabilities) are as follows:

(In thousands)	2019	2018
Deferred tax assets		
Accrued expenses and reserves	\$ 12,582	\$ 5,639
Deferred revenue	11,185	10,317
U.S. net operating loss carryforwards	15,112	18,385
Foreign net operating loss carryforwards	3,414	5,625
Tax credit carryforwards	43,411	22,969
Stock-based compensation	10,368	7,237
Amortization	4,131	3,237
Depreciation	672	—
Other	453	427
Total deferred tax assets	101,328	73,836
Valuation allowance	(95,088)	(72,380)
Deferred tax assets, net of valuation allowance	6,240	1,456
Deferred tax liabilities		
Tax accounting method change	(5,086)	—
Depreciation	—	(515)
Total deferred tax liabilities	(5,086)	(515)
Net deferred tax assets	\$ 1,154	\$ 941

After considering all available positive and negative evidence, the Company has determined it is more likely than not that deferred tax assets in the United States and the Netherlands will not be realized and that a full valuation allowance is required. The Company has maintained a full valuation allowance on its U.S. deferred tax assets due to its history of U.S. operating losses. It is possible that within the next 12 months there may be sufficient positive evidence to release a significant portion of the valuation allowance. Release of the U.S. valuation allowance would result in the establishment of certain deferred tax assets and a benefit to income tax expense for the period the release is recorded, which could have a material impact on net earnings. The exact timing and amount of the valuation allowance release are subject to change based on the level of profitability achieved. The Company has deferred tax assets in other foreign jurisdictions which it determined are more likely than not to be fully realized.

As of September 28, 2019, the Company had gross federal and post-apportionment state net operating loss carryforwards of \$60.6 million and \$36.2 million, respectively, available to reduce future taxable income. The earliest federal and state net operating loss carryforwards expire in varying amounts beginning in 2035 and 2027, respectively. As of September 28, 2019, the Company had gross foreign net operating loss carryforwards of \$16.1 million, of which \$1.4 million have an indefinite life and \$14.7 million will expire in 2027. The Company also has gross federal and state research and development tax credits carryforwards of \$33.8 million and \$25.9 million, respectively. The federal research credits will begin to expire in the year 2025, and the state research credits will begin to expire in the year 2024.

Because of the change of ownership provisions of Sections 382 and 383 of the Code, use of a portion of the Company's domestic net operating losses and tax credit carryforwards may be limited in future periods depending upon future changes in ownership. Further, a portion of the carryforwards may expire before being applied to reduce future income tax liabilities if sufficient taxable income is not generated in future periods.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table summarizes changes in the valuation allowance for fiscal 2019, 2018 and 2017:

(In thousands)	2019	2018	2017
Beginning balance	\$ 72,380	\$ 94,956	\$ 95,882
Increase (decrease) during the period	22,708	(22,576)	(926)
Ending balance	<u>\$ 95,088</u>	<u>\$ 72,380</u>	<u>\$ 94,956</u>

Reconciliation of U.S. statutory federal income taxes to the Company's provision for (benefit from) income taxes is as follows:

(In thousands)	2019	2018	2017
U.S. federal income taxes at statutory rate	\$ (226)	\$ (3,570)	\$ (5,778)
U.S. state and local income taxes	(9,315)	(1,441)	(2,454)
Foreign income tax rate differential	129	(53)	(1,101)
Dutch tax settlement	—	—	7,361
Stock-based compensation	(2,399)	4,025	1,503
Federal research tax credits	(8,418)	(4,333)	(2,978)
Unrecognized federal tax benefits	(2,806)	1,990	1,191
Change in tax rate	1,161	25,725	—
Net Impact of GILTI	239	—	—
BEAT	781	—	—
Other	822	259	1,197
Change in valuation allowance	23,722	(21,546)	(1,232)
Provision for (benefit from) income taxes	<u>\$ 3,690</u>	<u>\$ 1,056</u>	<u>\$ (2,291)</u>

In January 2017, the Company entered into a unilateral Advance Pricing Agreement (the "APA") with the Dutch Tax Administration. The APA establishes an intercompany licensing arrangement whereby the operating profit or loss, as determined under U.S. GAAP, of Sonos Europe B.V. and Sonos, Inc. will be allocated between the two companies based on relative contribution to the development of marketing and technology intangibles. The APA has a five-year term that commenced on October 2, 2016 and ends on September 30, 2021.

Change in unrecognized tax benefits as a result of uncertain tax positions are as follows:

(In thousands)	2019	2018
Beginning balance	\$ 17,794	\$ 13,780
Increase (decrease) - tax positions in prior periods	(8,226)	636
Increase (decrease) - tax positions in current periods	2,959	3,378
Ending balance	<u>\$ 12,527</u>	<u>\$ 17,794</u>

The Company does not anticipate changes to unrecognized benefits within the next 12 months that would result in a material change to the Company's financial position.

The Company conducts business in a number of tax jurisdictions and, as such, is required to file income tax returns in multiple jurisdictions globally. U.S. federal income tax returns for the 2015 tax year and earlier are no longer subject to examination by the U.S. Internal Revenue Service (the "IRS"). All net operating losses and tax credits generated to date are subject to adjustment for U.S. federal and state purposes.

The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expense. There was no accrued interest or penalties as of September 28, 2019 and September 29, 2018.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of September 28, 2019, no tax provision has been made for \$5.9 million of undistributed earnings of certain of the Company's subsidiaries as these earnings are considered indefinitely reinvested. If, in the future, the Company decides to repatriate the undistributed earnings from these subsidiaries in the form of dividends or otherwise, the Company could be subject to withholding taxes payable at that time. The amount of withholding tax liability is dependent on circumstances existing if and when a remittance occurs but could be reasonably estimated to be \$0.5 million.

10. Net loss per share attributable to common stockholders

Basic and diluted net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. The Company considers its redeemable convertible preferred stock to be participating securities as the holders of redeemable convertible preferred stock were entitled to receive noncumulative dividends in the event that a dividend was paid on common stock. Upon the closing of the IPO, all outstanding shares of the Company's redeemable convertible preferred stock automatically converted into 32,482,590 shares of common stock on a one-for-one basis.

Basic net loss attributable to common stockholders per share is calculated by dividing net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding less shares subject to repurchase. Diluted net loss per share attributable to common stockholders adjusts the basic net loss per share attributable to common stockholders and the weighted-average number of shares of common stock outstanding for the potentially dilutive impact of stock options and RSUs, using the treasury stock method, and convertible preferred stock using the as-if-converted method.

The following table sets forth the computation of the Company's basic and diluted net loss per share attributable to common stockholders:

	2019	2018	2017
(In thousands, except share and per share data)			
Numerator:			
Net loss attributable to common stockholders - basic and diluted	\$ (4,766)	\$ (15,604)	\$ (14,217)
Denominator:			
Weighted-average shares of common stock - basic and diluted	103,783,006	65,706,215	56,314,546
Net loss per share attributable to common stockholders:			
Net loss per share attributable to common stockholders - basic and diluted	\$ (0.05)	\$ (0.24)	\$ (0.25)

The following potentially dilutive shares as of the end of each period presented were excluded from the computation of diluted net loss per share for the periods presented because including them would have been antidilutive:

	2019	2018	2017
Stock options to purchase common stock	42,300,183	48,504,182	45,817,252
RSUs	4,147,463	—	—
Convertible preferred stock	—	—	32,482,590
Shares subject to repurchase	—	—	53,892
Total	46,447,646	48,504,182	78,353,734

11. Commitments and contingencies

Operating leases

The Company entered into various non-cancelable operating lease agreements, which are generally for offices and facilities as well for auto leases. The Company's main offices are leased in California, Massachusetts and the Netherlands with additional sales and operations offices around the world. These facilities operate under leases with initial terms ranging from one to ten years and expire at various dates through 2025.

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Rent expense during the years ended September 28, 2019, September 29, 2018 and September 30, 2017 was \$13.7 million, and \$14.5 million and \$13.5 million, respectively.

Inventory

The Company enters into various inventory-related purchase agreements with suppliers. Under these agreements, 100% of orders are cancelable by giving sufficient notice prior to the expected shipment date.

The following table presents noncancelable payments due by the Company as of September 28, 2019, and excludes amounts already recorded on the consolidated balance sheet:

(In thousands)	Total	Fiscal years ended					Beyond
		2020	2021	2022	2023	2024	
Operating leases	\$ 83,483	\$ 15,627	\$ 14,759	\$ 14,136	\$ 14,395	\$ 13,615	\$ 10,951
Inventory	58,918	58,918	—	—	—	—	—
Other noncancelable agreements	16,321	7,985	4,207	1,525	1,510	1,094	—
Total contractual obligations	\$ 158,722	\$ 82,530	\$ 18,966	\$ 15,661	\$ 15,905	\$ 14,709	\$ 10,951

Legal proceedings

From time to time, the Company is involved in legal proceedings in the ordinary course of business, including claims relating to employee relations, business practices and patent infringement. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict, and the Company's view of these matters may change in the future as the litigation and events related thereto unfold. The Company expenses legal fees as incurred. The Company records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Company's operations or its financial position, liquidity or results of operations.

On March 10, 2017, Implicit, LLC ("Implicit") filed a patent infringement action in the United States District Court, District of Delaware against the Company. Implicit is asserting that the Company infringed on two patents in this case. The Company denies the allegations. There is no assurance of a favorable outcome and the Company's business could be adversely affected as a result of a finding that the Company patents-in-suit are invalid and/or unenforceable. A range of loss, if any, associated with this matter is not probable or reasonably estimable as of September 28, 2019 and September 29, 2018.

The Company is involved in certain other litigation matters not listed above but does not consider the matters to be material either individually or in the aggregate at this time. The Company's view of the matters not listed may change in the future as the litigation and events related thereto unfold.

Guarantees and indemnifications

In the normal course of business, the Company enters into agreements that contain a variety of representations and warranties and provide for general indemnification. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. To date, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. The Company has also entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers to the fullest extent permitted by the Delaware General Corporation Law. The Company also currently has directors' and officers' insurance. No amount has been accrued in the financial statements with respect to these indemnification guarantees.

12. Quarterly financial data (unaudited)

The following table shows a summary of the Company's unaudited quarterly financial information for each of the four quarters of 2019 and 2018 (the sum of quarterly periods may not equal full-year amounts due to rounding):

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Three Months Ended			
	September 28, 2019	June 29, 2019	March 30, 2019	December 29, 2018
(In thousands, except per share amounts)				
Revenue	\$ 294,160	\$ 260,119	\$ 210,173	\$ 496,371
Gross profit	124,271	117,370	90,413	195,289
Net income (loss)	(29,600)	(14,009)	(22,824)	61,667
Net income (loss) per share - basic	\$ (0.28)	\$ (0.13)	\$ (0.22)	\$ 0.62
Net income (loss) per share - diluted	\$ (0.28)	\$ (0.13)	\$ (0.22)	\$ 0.55

	Three Months Ended			
	September 29, 2018	June 30, 2018	March 31, 2018	December 30, 2017
(In thousands, except per share amounts)				
Revenue	\$ 272,940	\$ 208,398	\$ 186,720	\$ 468,950
Gross profit	116,277	95,489	81,341	196,201
Net income (loss)	(1,720)	(26,988)	(32,592)	45,697
Net income (loss) per share - basic	\$ (0.02)	\$ (0.45)	\$ (0.55)	\$ 0.42
Net income (loss) per share - diluted	\$ (0.02)	\$ (0.45)	\$ (0.55)	\$ 0.36

SONOS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Subsequent event

On November 14, 2019, the Company completed the acquisition of Snips SAS, a France-based provider of an artificial intelligence voice platform for connected devices that provides private-by-design, voice technology. Snips SAS will operate as a wholly-owned subsidiary of Sonos, Inc. The acquisition will be accounted for as a business combination, and we will begin consolidating Snips SAS's financial results in our condensed consolidated financial statements in the first quarter of fiscal 2020. We acquired 100% of the equity interests of Snips SAS for approximately \$37.5 million in cash, subject to purchase price adjustments and holdbacks. Given the recent date of the acquisition, we have not finalized our determination of the fair value of the assets acquired and liabilities assumed.

Item 9. Changes in and disagreements with accountants on accounting and financial disclosure

None.

Item 9A. Controls and procedures

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required under Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (“Exchange Act”) as of September 28, 2019. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective as of September 28, 2019.

Management’s annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f).

Our Chief Executive Officer and Chief Financial Officer, with assistance from other members of management, assessed the effectiveness of our internal control over financial reporting as of September 28, 2019, based on the framework and criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of September 28, 2019.

The effectiveness of our internal control over financial reporting as of September 28, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Annual Report on Form 10-K.

Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting during the quarter ended September 28, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other information

None.

PART III

Item 10. Directors, executive officers and corporate governance

The information required by this item is included under the captions "Board of Directors and Corporate Governance," "Proposal One: Election of Directors," "Executive Officers" and "Delinquent Section 16(a) Reports" included in our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our year ended September 28, 2019 and is incorporated herein by reference.

Item 11. Executive compensation

The information required by this item is included under the captions “Board of Directors and Corporate Governance” and "Executive Compensation" in our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our year ended September 28, 2019 and is incorporated herein by reference.

Item 12. Security ownership of certain beneficial owners and management and related stockholder matters

The information required by this item is included under the captions "Equity Compensation Plan Information" and “Security Ownership of Certain Beneficial Owners and Management” in our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our year ended September 28, 2019 and is incorporated herein by reference.

Item 13. Certain relationships and related transactions, and director independence

The information required by this item is included under the captions "Board of Directors and Corporate Governance" and "Certain Relationships and Related Party Transactions" in our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our year ended September 28, 2019 and is incorporated herein by reference.

Item 14. Principal accounting fees and services

The information required by this item is included under the caption "Proposal Two: Ratification of Appointment of Independent Registered Public Accounting Firm" in our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our year ended September 28, 2019 and is incorporated herein by reference.

PART IV

Item 15. Exhibits, financial statement schedules

(a)(1) Financial statements

The information concerning Sonos' financial statements and the Report of Independent Registered Public Accounting Firm required by this Item 15(a)(1) is incorporated by reference herein to the section of this Annual Report on Form 10-K in Part II, Item 8, titled "Financial Statements and Supplementary Data."

(a)(2) Financial statement schedules

All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable or because the information required is already included in the financial statements or the notes to those financial statements.

(a)(3) Exhibits

We have filed, or incorporated into this Annual Report on Form 10-K by reference, the exhibits listed on the accompanying Exhibit Index immediately preceding the signature page of this Annual Report on Form 10-K.

EXHIBIT INDEX

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	001-38603	3.1	9/11/2018	
3.2	Restated Bylaws	10-Q	001-38603	3.2	9/11/2018	
4.1	Form of Common Stock Certificate	S-1	333-226076	4.01	7/6/2018	
4.2	Amended and Restated Investor Rights Agreement, dated as of July 18, 2012, by and among the Registrant and certain investors of the Registrant	S-1	333-226076	4.02	7/6/2018	
4.3	Description of Securities					X
10.1+	Form of Indemnification Agreement entered into between Sonos, Inc. and each of its directors and executive officers	S-1	333-226076	10.01	7/6/2018	
10.2+	2003 Stock Plan, as amended, and forms of agreement thereunder	S-1	333-226076	10.02	7/6/2018	
10.3+	2018 Equity Incentive Plan and forms of agreement thereunder					X

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10.4+	2018 Employee Stock Purchase Plan and form of subscription agreement	S-1	333-226076	10.04	7/6/2018	
10.5+	Offer Letter between Patrick Spence and the Registrant, dated May 25, 2012	S-1	333-226076	10.05	7/6/2018	
10.6+	Offer Letter between Michael Giannetto and the Registrant, dated December 27, 2011	S-1	333-226076	10.06	7/6/2018	
10.7+	Offer letter between Brittany Bagley and the Registrant, dated March 29, 2019	10-Q	001-38603	10.1	5/10/2019	
10.8†	Manufacturing Agreement between Inventec Appliances Corporation and the Registrant, dated September 4, 2014, as amended	S-1	333-226076	10.08	7/6/2018	
10.9+	Offer Letter between Nicholas Millington and the Registrant, dated February 27, 2003	10-K	001-38603	10.09	11/28/2018	
10.10+	Offer Letter between Matthew Siegel and the Registrant, dated August 15, 2017	10-K	001-38603	10.10	11/28/2018	
10.11+	Executive Incentive Plan	10-Q	001-38603	10.1	2/7/2019	
10.12+	2019 Performance Goals	10-Q	001-38603	10.2	2/7/2019	
10.13+	Consulting Agreement between Michael Giannetto and the Registrant, dated May 15, 2019	10-Q	001-38603	10.1	8/5/2019	
21.1	List of subsidiaries of the Registrant	S-1	333-226076	21.1	7/6/2018	
23.1	Consent of Independent Registered Public Accounting Firm					X
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)					X
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and Rule 15d-14(a) of the Exchange Act					X
32.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

* Furnished and not filed.

+ Indicates a management contract or compensatory plan or arrangement.

† Confidential treatment has been granted with respect to portions of this exhibit.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned thereunto duly authorized.

Sonos, Inc.

Date: November 25, 2019 By: _____ /s/ Patrick Spence

Patrick Spence
Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 25, 2019 By: _____ /s/ Brittany Bagley

Brittany Bagley
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Patrick Spence and Brittany Bagley, and each of them, such individual's true and lawful attorneys-in-fact and agents with full power of substitution, for such individual and in such individual's name, place and stead, in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as such individual might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Patrick Spence</u> Patrick Spence	Chief Executive Officer <i>(Principal Executive Officer)</i>	November 25, 2019
<u>/s/ Brittany Bagley</u> Brittany Bagley	Chief Financial Officer <i>(Principal Financial Officer and Principal Accounting Officer)</i>	November 25, 2019
<u>/s/ Robert Bach</u> Robert Bach	Director	November 25, 2019
<u>/s/ Karen Boone</u> Karen Boone	Director	November 25, 2019
<u>/s/ Thomas Conrad</u> Thomas Conrad	Director	November 25, 2019
<u>/s/ Julius Genachowski</u> Julius Genachowski	Director	November 25, 2019
<u>/s/ John Maeda</u> John Maeda	Director	November 25, 2019
<u>/s/ Michelangelo Volpi</u> Michelangelo Volpi	Director and Chairperson of the Board of Directors	November 25, 2019

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES
EXCHANGE ACT OF 1934**

Sonos, Inc. ("we," "our," "us," or the "Company") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock. The following summary of the terms of our common stock is based upon our restated certificate of incorporation and our restated bylaws. This summary does not purport to be complete and is subject to, and is qualified in its entirety by express reference to, the applicable provisions of our [restated certificate of incorporation](#) and our [restated bylaws](#), which are filed as exhibits to our Annual Report on Form 10-K and are incorporated by reference herein. We encourage you to read our restated certificate of incorporation, our restated bylaws and the applicable provisions of the Delaware General Corporation Law for more information.

DESCRIPTION OF COMMON STOCK

Authorized Capital Shares

Our authorized capital stock consists of 500,000,000 shares of common stock, \$0.001 par value per share and 10,000,000 shares of "blank check" preferred stock, \$0.001 par value per share.

Common Stock

Dividend Rights

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of funds legally available at the times and in the amounts that our board of directors may determine.

Voting Rights

Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Our restated certificate of incorporation does not provide for cumulative voting for the election of directors, which means that the holders of a majority of our shares of common stock can elect all of the directors then standing for election.

Our restated certificate of incorporation and our restated bylaws provide for a classified board of directors, to be divided into three classes of directors with staggered three-year terms. Only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms.

No Preemptive or Similar Rights

Our common stock is not entitled to preemptive rights and is not subject to conversion or redemption.

Right to Receive Liquidation Distributions

Upon our liquidation, dissolution or winding-up, the assets legally available for distribution to our stockholders would be distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time after payment of liquidation preferences, if any, on any outstanding shares of preferred stock and payment of other claims of creditors.

Fully Paid and Non-Assessable

All of the outstanding shares of our common stock are fully paid and non-assessable.

Registration Rights

As of October 31, 2019, the holders of approximately 30 million shares of our common stock are entitled to rights with respect to the registration of these shares under the Securities Act of 1933, as amended (the "Securities Act"), as described below.

Demand Registration Rights

At any time after 180 days following the effective date of this offering, the holders of at least a majority of the then-outstanding shares having registration rights can request that we file a registration statement covering a majority of the registrable securities then outstanding with an anticipated aggregate offering price of greater than \$20 million, net of any underwriters' discounts and expenses. We are not required to effect the filing of such a registration statement during the period beginning 60 days prior to our good faith estimate of the date of the filing of, and ending on a date 180 days following the effective date of, a registration initiated by us. If the holders requesting registration intend to distribute their shares by means of an underwriting, the underwriters of such offering will have the right to limit the number of shares to be underwritten for reasons related to the marketing of the shares. We may postpone the filing of a registration statement for up to 90 days twice in a 12-month period if our board of directors determines that the filing would be detrimental to our company or our stockholders.

Piggyback Registration Rights

If we register any of our securities for our account or the account of a stockholder or stockholders, other than a registration on Form S-3, the stockholders with registration rights will have the right to include their shares in the registration statement. However, this right does not apply to a registration relating to any of our employee benefit plans, a corporate reorganization, a registration that requires information that is not substantially the same or a registration in which the only common stock being registered is common stock issuable upon conversion of debt securities that are also being registered. The underwriters of any underwritten offering will have the right to limit, due to marketing reasons, the number of shares registered by these holders, in which case the number of shares to be registered will be apportioned pro rata among these holders, according to the total number of registrable securities owned by each holder, or in a manner mutually agreed upon by the holders. However, the number of shares to be registered by these holders cannot be reduced unless all other securities (other than securities to be sold by our company) are excluded entirely and may not be reduced below 25% of the total shares covered by the registration statement if it is the first registration initiated after the completion of this offering or, otherwise, below 50% of the total shares covered by the registration statement, except for in connection with an initial public offering, in which case the underwriters may exclude these holders entirely.

Form S-3 Registration Rights

At any time after 180 days following the effective date of this offering, the holders of the then-outstanding shares having registration rights can request that we register all or a portion of their shares on Form S-3 if we are eligible to file a registration statement on Form S-3 and the aggregate price to the public of the shares offered is equal to or greater than \$500,000. We will not be required to file more than two such registration statements on Form S-3 in a 12-month period, nor will be required to file such a registration statement during the period that is 60 days before and 120 days after the effective date of another registration initiated by us. We may postpone the filing of a registration statement on Form S-3 for up to 90 days once in a 12-month period if our board of directors determines that the filing would be seriously detrimental to us or our stockholders. We may postpone the filing of a registration statement for up to 120 days once in a 12-month period if our board of directors determines that the filing would be detrimental to our company or our stockholders. The underwriters of any

underwritten offering will have the right to limit, due to marketing reasons, the number of shares registered by these holders, in which case the number of shares to be registered will be apportioned pro rata among these holders, according to the total number of registrable securities owned by each holder, or in a manner mutually agreed upon by the holders.

Registration Expenses

We will pay all expenses incurred in connection with each of the registrations described above, except for underwriters' and brokers' discounts and commissions. However, we will not pay for any expenses of any demand registration or Form S-3 registration if the request is subsequently withdrawn by a majority of the holders requesting that we file such a registration statement, subject to limited exceptions.

Termination of Registration Rights

The registration rights described above will terminate with respect to any particular holder of these rights upon the earlier of the third anniversary of the completion of this offering and when the shares held by and issuable to such holder may be sold during any 90-day period without registration in compliance with Rule 144 of the Securities Act.

Defensive Measures

Certain provisions of the Delaware General Corporation Law, our restated certificate of incorporation and our restated bylaws may have the effect of delaying, deferring, discouraging or preventing another person from acquiring control of our company. These provisions, which are summarized below, are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and encourage persons seeking to acquire control of our company to first negotiate with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire our company because negotiation of these proposals could result in an improvement of their terms.

Section 203 of the Delaware General Corporation Law

We are governed by the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes mergers, asset sales or other transactions resulting in a financial benefit to the interested stockholder. An "interested stockholder" is a person who, together with its affiliates and associates, owns, or within the previous three years did own, 15% or more of the corporation's outstanding voting stock. These provisions may have the effect of delaying, deferring or preventing a change in control of our company. Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:

- before the stockholder became interested, the corporation's board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
 - upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers and, in some instances, employee stock plans, but not the outstanding voting stock owned by the interested stockholder; or
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- at or after the time the stockholder became interested, the business combination was approved by the corporation's board of directors and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.
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Restated Certificate of Incorporation and Restated Bylaws Provisions

Our restated certificate of incorporation and our restated bylaws include a number of provisions that may have the effect of deterring hostile takeovers, or delaying or preventing changes of our management team, board of directors, governance or policy, including the following:

- *Board of Directors Vacancies.* Our restated certificate of incorporation and our restated bylaws provide that only our board of directors is authorized to fill vacant directorships resulting from any removal for cause or expansion of our board of directors until the next annual meeting of stockholders, subject to limited exceptions, and that the number of directors constituting our board of directors may be set only by resolution adopted by a majority vote of our entire board of directors. These provisions would prevent a stockholder from increasing the size of our board of directors and gaining control of our board of directors by filling the resulting vacancies with its own nominees.
 - *Classified Board.* Our restated certificate of incorporation and restated bylaws provide that our board be classified into three classes of directors with staggered three-year terms, and that only one class of directors will be elected at each annual meeting of our stockholders. Our restated certificate of incorporation and restated bylaws also provide that directors may be removed from office only for cause. The existence of a classified board could delay a successful tender offeror from obtaining majority control of our board of directors, and the prospect of that delay might deter a potential tender offeror.
 - *Stockholder Action.* Our restated certificate of incorporation provides that our stockholders may not take action by written consent but may only take action at annual or special meetings of our stockholders. Our restated bylaws also provide that special meetings of our stockholders may be called only by a majority of our entire board of directors. These provisions might limit the business that may be conducted at an annual meeting of stockholders to those matters properly and timely brought before the meeting.
 - *No Cumulative Voting.* The Delaware General Corporation Law provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our restated certificate of incorporation does not provide for cumulative voting.
 - *Holding Requirements for Stockholder Proposals and Director Nominations.* Our restated bylaws provide for continuous, beneficial ownership of 1% of our common stock for one year for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. These provisions may delay or preclude our stockholders from bringing matters before our annual meeting of stockholders and from making nominations for directors at our annual meeting of stockholders.
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- *Advance Notice Requirements for Stockholder Proposals and Director Nominations.* Our restated bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. Our restated bylaws also provide for certain requirements regarding the form and content of a stockholder’s notice. These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders. These provisions might also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer’s own slate of directors or otherwise attempting to obtain control of our company.
- *Supermajority Requirements for Certain Amendments of Our Restated Certificate of Incorporation and Restated Bylaws.* Certain amendments to our restated certificate of incorporation require approval by the holders of at least two-thirds of our outstanding common stock, including provisions relating to the classified board, the size of the board, removal of directors, special meetings, actions by written consent and designation of our preferred stock. An amendment to our restated bylaws will require the approval of a majority of our entire board of directors or approval by the holders of at least two-thirds of our outstanding common stock.
- *Issuance of Undesignated Preferred Stock.* Our board of directors has the authority, without further action by the stockholders, to issue up to 10,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by the board of directors. The existence of authorized but unissued shares of preferred stock enables our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise.

Choice of Forum

Our restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for: any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our restated certificate of incorporation or our restated bylaws; any action to interpret, apply, enforce or determine the validity of our restated certificate of incorporation or restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine.

Our restated certificate of incorporation also provides that the federal district courts of the United States will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (the “Federal Forum Provision”). In December 2018, the Delaware Court of Chancery found that provisions such as the Federal Forum Provision are not valid under Delaware law. In light of this decision of the Delaware Court of Chancery, we do not intend to enforce the Federal Forum Provision in our restated certificate of incorporation unless and until such time there is a final determination by the Delaware Supreme Court regarding the validity of provisions such as the Federal Forum Provision. To the extent the Delaware Supreme Court makes a final determination that provisions such as the Federal Forum Provision are not valid as a matter of Delaware law, our board of directors intends to amend our restated certificate of incorporation to remove the Federal Forum Provision.

Stock Exchange Listing

We list our common stock on The Nasdaq Global Select Market under the symbol “SONO.”

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC. The transfer agent's address is Operations Center, 6201 15th Avenue, Brooklyn, NY 11219, and its telephone number is (800) 937-5449.

SONOS, INC.

2018 EQUITY INCENTIVE PLAN

1. **PURPOSE & DEFINITIONS.** The purpose of this Plan is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company, and any Parents, Subsidiaries and Affiliates that exist now or in the future, by offering them an opportunity to participate in the Company's future performance through the grant of Awards. As used in this Plan, and except as elsewhere defined herein, the following capitalized terms will have the following meanings:

1.1. "**Affiliate**" means any person or entity that directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the Company, including any general partner, managing member, officer or director of the Company, in each case as of the date on which, or at any time during the period for which, the determination of affiliation is being made. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any person or entity, means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such person or entity, whether through the ownership of voting securities or by contract or otherwise.

1.2. "**Award**" means any award under the Plan, including any Option, RSA, Stock Bonus Award, SAR, RSU or award of Performance Shares.

1.3. "**Award Agreement**" means, with respect to each Award, the written or electronic agreement between the Company and the Participant setting forth the terms and conditions of the Award, and international supplement thereto for grants to non-U.S. Participants, which shall be in substantially a form (which need not be the same for each Participant) that the Committee (or in the case of Award agreements that are not used for Insiders, the Committee's delegate(s)) has from time to time approved, and will comply with and be subject to the terms and conditions of this Plan.

1.4. "**Award Transfer Program**" means any program instituted by the Committee which would permit Participants the opportunity to transfer any outstanding Awards to a financial institution or other person or entity approved by the Committee.

1.5. "**Board**" means the Board of Directors of the Company.

1.6. "**Cause**" means Participant's (a) willful failure substantially to perform his or her duties and responsibilities to the Company or deliberate violation of a Company policy; (b) commission of any act of fraud, embezzlement, dishonesty or any other willful misconduct that has caused or is reasonably expected to result in material injury to the Company; (c) unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom the Participant owes an obligation of nondisclosure as a result of his or her relationship with the Company; (d) misappropriation of a business opportunity of the Company; (e) provision of material aid to a competitor of the Company; or (f) willful breach of any of his or her obligations under any written agreement or covenant with the Company. The determination as to whether a Participant's Service is being terminated for Cause shall be made

in good faith by the Company and shall be final and binding on the Participant. The foregoing definition does not in any way limit the Company's ability to terminate a Participant's employment or consulting relationship at any time as provided in Section 20, and the term "Company" will be interpreted to include any Subsidiary or Parent, as appropriate. Notwithstanding the foregoing, the definition of "Cause" may, in part or in whole, be modified or replaced in each individual employment agreement or Award Agreement with any Participant, *provided* that such document supersedes the definition provided in this Section 1.6.

1.7. "**Code**" means the United States Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

1.8. "**Committee**" means the Compensation Committee of the Board or those persons to whom administration of the Plan, or part of the Plan, has been delegated as permitted by law.

1.9. "**Common Stock**" means the common stock of the Company.

1.10. "**Company**" means Sonos, Inc., or any successor corporation.

1.11. "**Consultant**" means any natural person, including an advisor or independent contractor, engaged by the Company or a Parent, Subsidiary or Affiliate to render services to such entity.

1.12. "**Corporate Transaction**" means the occurrence of any of the following events:

(a) any "Person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company's then-outstanding voting securities; *provided, however*, that for purposes of this subclause (a) the acquisition of additional securities by any one Person who is considered to own more than fifty percent (50%) of the total voting power of the securities of the Company will not be considered a Corporate Transaction;

(b) the consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(c) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation;

(d) any other transaction which qualifies as a "corporate transaction" under Section 424(a) of the Code wherein the stockholders of the Company give up all of their equity interest in the Company (except for the acquisition, sale or transfer of all or substantially all of the outstanding shares of the capital stock of the Company) or



(e) a change in the effective control of the Company that occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by members of the Board whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purpose of this subclause (e), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Corporate Transaction.

For purposes of this definition, Persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. Notwithstanding the foregoing, to the extent that any amount constituting deferred compensation (as defined in Section 409A of the Code) would become payable under this Plan by reason of a Corporate Transaction, such amount shall become payable only if the event constituting a Corporate Transaction would also qualify as a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company, each as defined within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury regulations and IRS guidance that has been promulgated or may be promulgated thereunder from time to time.

1.13. “Director” means a member of the Board.

1.14. “Disability” means in the case of incentive stock options, total and permanent disability as defined in Section 22(e)(3) of the Code and in the case of other Awards, that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

1.15. “Dividend Equivalent Right” means the right of a Participant, granted at the discretion of the Committee or as otherwise provided by the Plan, to receive a credit for the account of such Participant in an amount equal to the cash, stock or other property dividends in amounts equal equivalent to cash, stock or other property dividends for each Share represented by an Award held by such Participant.

1.16. “Effective Date” means the day immediately preceding the pricing of the Company’s initial public offering, *provided* that the Board has adopted the Plan prior to, or on such date, subject to approval of the Plan by the Company’s stockholders.

1.17. “Employee” means any person, including Officers and Directors, employed by the Company or any Parent, Subsidiary or Affiliate. For the avoidance of doubt, neither service as a Director nor payment of a director’s fee by the Company will be sufficient to constitute “employment” by the Company and the definition of “Employee” herein shall not include Non-Employee Directors.

1.18. “Exchange Act” means the United States Securities Exchange Act of 1934, as amended.



1.19. “Exchange Program” means a program pursuant to which (a) outstanding Awards are surrendered, cancelled or exchanged for cash, the same type of Award or a different Award (or combination thereof) or (b) the exercise price of an outstanding Award is increased or reduced.

1.20. “Exercise Price” means, with respect to an Option, the price at which a holder may purchase the Shares issuable upon exercise of an Option and with respect to a SAR, the price at which the SAR is granted to the holder thereof.

1.21. “FMV” means, as of any date, the value of a share of the Company’s Common Stock determined as follows:

(a) if such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading as reported in such source as the Committee may determine;

(b) if such Common Stock is publicly traded but is neither listed nor admitted to trading on a national securities exchange, the average of the closing bid and asked prices on the date of determination as reported in such source as the Committee deems reliable; or

(c) if none of the foregoing is applicable, by the Board or the Committee in good faith.

Notwithstanding the foregoing, with respect to any Award granted after the effectiveness of the Company’s registration statement relating to its initial public offering and prior to the first date upon which the Shares of the Company are listed (or approved for listing) on any securities exchange or designated (or approved for designation) as a national market security on an interdealer quotation system, the FMV shall mean the initial public offering price of a Share as set forth in the Company’s final prospectus relating to its initial public offering.

1.22. “Insider” means an officer or director of the Company or any other person whose transactions in the Company’s Common Stock are subject to Section 16 of the Exchange Act.

1.23. “IRS” means the United States Internal Revenue Service.

1.24. “ISO” has the meaning given to that term in Section 5.

1.25. “Non-Employee Director” means a Director who is not an Employee of the Company or any Parent, Subsidiary or Affiliate.

1.26. “NSO” has the meaning given to that term in Section 5.

1.27. “Option” means an award of an option to purchase Shares pursuant to Section 5.

1.28. “Parent” means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if each of such corporations other than the Company

owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.29. “*Participant*” means a person who holds an Award under this Plan.

1.30. “*Performance Award*” means an award covering cash, Shares or other property granted pursuant to Section 10 or Section 12 of the Plan.

1.31. “*Performance Factors*” means any of the factors selected by the Committee and specified in an Award Agreement, from among the following objective measures, either individually, alternatively or in any combination, applied to the Company as a whole or any business unit or Subsidiary, either individually, alternatively, or in any combination, on a GAAP or non-GAAP basis, and measured, to the extent applicable on an absolute basis or relative to a pre-established target, to determine whether the performance goals established by the Committee with respect to applicable Awards have been satisfied:

- (a) Profit Before Tax;
- (b) Sales;
- (c) Expenses;
- (d) Billings;
- (e) Revenue;
- (f) Net revenue;
- (g) Earnings (which may include earnings before interest and taxes, earnings before taxes, net earnings, stock-based compensation expenses, depreciation and amortization);
- (h) Operating income;
- (i) Operating margin;
- (j) Operating profit;
- (k) Controllable operating profit, or net operating profit;
- (l) Net Profit;
- (m) Gross margin;
- (n) Operating expenses or operating expenses as a percentage of revenue;
- (o) Net income;
- (p) Earnings per share;

- (q) Total stockholder return;
- (r) Market share;
- (s) Return on assets or net assets;
- (t) The Company's stock price;
- (u) Growth in stockholder value relative to a pre-determined index;
- (v) Return on equity;
- (w) Return on invested capital;
- (x) Cash Flow (including free cash flow or operating cash flows) ;
- (y) Balance of cash, cash equivalents and marketable securities;
- (z) Cash conversion cycle;
- (aa) Economic value added;
- (bb) Individual confidential business objectives;
- (cc) Contract awards or backlog;
- (dd) Overhead or other expense reduction;
- (ee) Credit rating;
- (ff) Completion of an identified special project;
- (gg) Completion of a joint venture or other corporate transaction;
- (hh) Strategic plan development and implementation;
- (ii) Succession plan development and implementation;
- (jj) Improvement in workforce diversity;
- (kk) Employee satisfaction;
- (ll) Employee retention;
- (mm) Customer indicators and/or satisfaction;
- (nn) New product invention or innovation;
- (oo) Research and development expenses;

- (pp) Attainment of research and development milestones;
- (qq) Improvements in productivity;
- (rr) Bookings;
- (ss) Working-capital targets and changes in working capital;
- (tt) Attainment of objective operating goals and employee metrics; and
- (uu) Any other metric that is capable of measurement as determined by the Committee in its sole discretion.

The Committee may, in recognition of unusual or non-recurring items such as acquisition-related activities or changes in applicable accounting rules, provide for one or more equitable adjustments (based on objective standards) to the Performance Factors to preserve the Committee's original intent regarding the Performance Factors at the time of the initial award grant. It is within the sole discretion of the Committee to make or not make any such equitable adjustments.

1.32. “Performance Period” means one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Factors will be measured for the purpose of determining a Participant's right to, and the payment of, a Performance Award.

1.33. “Performance Share” means an Award granted pursuant to Section 10 or Section 12 of the Plan, consisting of a unit valued by reference to a designated number of Shares, the value of which may be paid to the Participant by delivery of Shares or, if set forth in the instrument evidencing the Award, of such property as the Committee shall determine, including, without limitation, cash, other property, or any combination thereof, upon the attainment of performance goals, as established by the Committee, and other terms and conditions specified by the Committee.

1.34. “Performance Unit” means an Award granted pursuant to Section 10 or Section 12 of the Plan, consisting of a unit valued by reference to a designated amount of property other than Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including, without limitation, cash, Shares, other property, or any combination thereof, upon the attainment of performance goals, as established by the Committee, and other terms and conditions specified by the Committee.

1.35. “Permitted Transferee” means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law (including adoptive relationships) of the Employee, any person sharing the Employee's household (other than a tenant or employee), a trust in which these persons (or the Employee) have more than 50% of the beneficial interest, a foundation in which these persons (or the Employee) control the management of assets, and any other entity in which these persons (or the Employee) own more than 50% of the voting interests.



1.36. “*Plan*” means this Sonos, Inc., 2018 Equity Incentive Plan.

1.37. “*Purchase Price*” means the price to be paid for Shares acquired under the Plan, other than Shares acquired upon exercise of an Option or SAR.

1.38. “*RSA*” means an award of Shares pursuant to Section 7 or Section 12 of the Plan, or issued pursuant to the early exercise of an Option.

1.39. “*RSU*” means an Award granted pursuant to Section 6 or Section 12 of the Plan.

1.40. “*SAR*” means an Award granted pursuant to Section 9 or Section 12 of the Plan.

1.41. “*Service*” shall mean service as an Employee, Consultant, Director or Non-Employee Director, subject to such further limitations as may be set forth in the Plan or the applicable Award Agreement. An Employee will not be deemed to have ceased to provide Service in the case of any leave of absence approved by the Company. In the case of any Employee on an approved leave of absence or a reduction in hours worked (for illustrative purposes only, a change in schedule from that of full-time to part-time), the Committee may make such provisions, including pursuant to a policy that the Committee may adopt, revoke and/or modify from time to time in the Committee’s sole discretion, respecting suspension of or modification to vesting of the Award while the Employee is on leave from the employ of the Company or a Parent, Subsidiary or Affiliate, or during such change in working hours, as the Committee may deem appropriate, except that in no event may an Award be exercised after the expiration of the term set forth in the applicable Award Agreement. In the event of military or other protected leave, if required by applicable laws, vesting shall continue for the longest period that vesting continues under any other statutory or Company approved leave of absence and, upon a Participant’s returning from such leave (under conditions that would entitle him or her to protection upon such return under the Uniform Services Employment and Reemployment Rights Act or other applicable law), he or she shall be given vesting credit with respect to Awards to the same extent as would have applied had the Participant continued to provide Service to the Company throughout the leave on the same terms as he or she was providing Service immediately prior to such leave. An employee shall have terminated employment as of the date he or she ceases to provide Service (regardless of whether the termination is in breach of local employment laws or is later found to be invalid) and employment shall not be extended by any notice period or garden leave mandated by local law, *provided, however*, that a change in status between an employee, consultant, advisor or director shall not terminate the service provider’s Service, unless determined by the Committee, in its discretion. The Committee will have sole discretion to determine whether a Participant has ceased to provide Service and the effective date on which the Participant ceased to provide Service.

1.42. “*Shares*” means shares of Common Stock and the common stock of any successor entity.

1.43. “*Stock Bonus Award*” means an Award granted pursuant to Section 8 or Section 12 of the Plan.

1.44. “*Subsidiary*” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last

corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.45. “*Unvested Shares*” means Shares that have not yet vested or are subject to a right of repurchase in favor of the Company (or any successor thereto).

2. SHARES SUBJECT TO THE PLAN.

2.1. Number of Shares Available. Subject to Sections 2.6 and 21 and any other applicable provisions hereof, the total number of Shares reserved and available for grant and issuance pursuant to this Plan as of the date of adoption of the Plan by the Board, is 21,200,000,¹ plus (a) any reserved shares not issued or subject to outstanding grants under the Company’s Amended and Restated 2003 Stock Plan (the “*Prior Plan*”) on the Effective Date, (b) shares that are subject to stock options or other awards granted under the Prior Plan that cease to be subject to such stock options or other awards, by forfeiture or otherwise, after the Effective Date, (c) shares issued under the Prior Plan before or after the Effective Date pursuant to the exercise of stock options that are forfeited after the Effective Date, and (d) shares issued under the Prior Plan that are repurchased by the Company at the original issue price; however, shares that are subject to stock options or other awards under the Prior Plan that are used to pay the exercise price of an option or withheld to satisfy the tax withholding obligations related to any award will not become available for future grant or sale under the Plan.

2.2. Lapsed, Returned Awards. Shares subject to Awards, and Shares issued under the Plan under any Award, will again be available for grant and issuance in connection with subsequent Awards under this Plan to the extent such Shares: (a) are subject to issuance upon exercise of an Option or SAR granted under this Plan but which cease to be subject to the Option or SAR for any reason other than exercise of the Option or SAR; (b) are subject to Awards granted under this Plan that are forfeited or are repurchased by the Company at the original issue price; (c) are subject to Awards granted under this Plan that otherwise terminate without such Shares being issued; or (d) are surrendered pursuant to an Exchange Program. To the extent an Award under the Plan is paid out in cash or other property rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Shares used to pay the exercise price of an Award or withheld to satisfy the tax withholding obligations related to an Award will not become available for future grant or sale under the Plan. For the avoidance of doubt, Shares that otherwise become available for grant and issuance because of the provisions of this Section 2.2 shall not include Shares subject to Awards that initially became available because of the substitution clause in Section 21.2 hereof.

2.3. Minimum Share Reserve. At all times the Company shall reserve and keep available a sufficient number of Shares as shall be required to satisfy the requirements of all outstanding Awards granted under this Plan.

2.4. Automatic Share Reserve Increase. The number of Shares available for grant and issuance under the Plan shall be increased on January 1, of each of 2019 through 2028, by the lesser of (a) five percent (5%) of the number of Shares and common stock equivalents (including options, RSUs, warrants and preferred stock on an as-converted basis) issued and outstanding on

¹ Adjusted to reflect a 2-for-1 stock split that was effected on July 19, 2018.



each December 31 immediately prior to the date of increase and (b) such number of Shares determined by the Board.

2.5. ISO Limitation. No more than 42,400,000,² Shares shall be issued pursuant to the exercise of ISOs.

2.6. Adjustment of Shares. If the outstanding Shares are changed by a stock dividend, extraordinary dividends or distributions (whether in cash, shares or other property, other than a regular cash dividend), spin-off, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital structure of the Company, without consideration, then (a) the number and class of Shares reserved for issuance and future grant under the Plan set forth in Section 2.1, (b) the Exercise Prices of and number and class of Shares subject to outstanding Options and SARs, (c) the number and class of Shares subject to other outstanding Awards, and (d) the maximum number and class of Shares that may be issued as ISOs set forth in Section 2.5 shall be proportionately adjusted, subject to any required action by the Board or the stockholders of the Company and in compliance with applicable securities laws; *provided* that fractions of a Share will not be issued.

If, by reason of an adjustment pursuant to this Section 2.6, a Participant's Award Agreement or other agreement related to any Award or the Shares subject to such Award covers additional or different shares of stock or securities, then such additional or different shares, and the Award Agreement or such other agreement in respect thereof, shall be subject to all of the terms, conditions and restrictions which were applicable to the Award or the Shares subject to such Award prior to such adjustment.

3. ELIGIBILITY. ISOs may be granted only to Employees. All other Awards may be granted to Employees, Consultants, Directors and Non-Employee Directors; *provided* such Consultants, Directors and Non-Employee Directors render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction.

4. ADMINISTRATION.

4.1. Committee Composition; Authority. This Plan will be administered by the Committee or by the Board acting as the Committee. Subject to the general purposes, terms and conditions of this Plan, and to the direction of the Board, the Committee will have full power to implement and carry out this Plan, except, however, the Board shall establish the terms for the grant of an Award to Non-Employee Directors. The Committee will have the authority to:

- (a) construe and interpret this Plan, any Award Agreement and any other agreement or document executed pursuant to this Plan;
- (b) prescribe, amend and rescind rules and regulations relating to this Plan or any Award;
- (c) select persons to receive Awards;

² Adjusted to reflect a 2-for-1 stock split that was effected on July 19, 2018.



(d) determine the form and terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may vest and be exercised (which may be based on performance criteria) or settled, any vesting acceleration or waiver of forfeiture restrictions, the method to satisfy tax withholding obligations or any other tax liability legally due and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Committee will determine;

(e) determine the number of Shares or other consideration subject to Awards;

(f) determine the FMV in good faith and interpret the applicable provisions of this Plan and the definition of FMV in connection with circumstances that impact the FMV, if necessary;

(g) determine whether Awards will be granted singly, in combination with, in tandem with, in replacement of, or as alternatives to, other Awards under this Plan or any other incentive or compensation plan of the Company or any Parent, Subsidiary or Affiliate;

(h) grant waivers of Plan or Award conditions;

(i) determine the vesting, exercisability and payment of Awards;

(j) correct any defect, supply any omission or reconcile any inconsistency in this Plan, any Award or any Award Agreement;

(k) determine whether an Award has been earned or has vested;

(l) determine the terms and conditions of any, and to institute any Exchange Program;

(m) reduce or waive any criteria with respect to Performance Factors;

(n) adjust Performance Factors to take into account changes in law and accounting or tax rules as the Committee deems necessary or appropriate to reflect the impact of extraordinary or unusual items, events or circumstances to avoid windfalls or hardships;

(o) adopt rules and/or procedures (including the adoption of any subplan under this Plan) relating to the operation and administration of the Plan to accommodate requirements of local law and procedures outside of the United States or qualify Awards for special tax treatment under laws of jurisdictions other than the United States;

(p) make all other determinations necessary or advisable for the administration of this Plan;

(q) delegate any of the foregoing to one or more executive officers pursuant to a specific delegation as permitted by applicable law, including Section 157(c) of the Delaware General Corporation Law; and

(r) to exercise negative discretion on Performance Awards, reducing or eliminating the amount to be paid to Participants.

4.2. Committee Interpretation and Discretion. Any determination made by the Committee with respect to any Award shall be made in its sole discretion at the time of grant of the Award or, unless in contravention of any express term of the Plan or Award, at any later time, and such determination shall be final and binding on the Company and all persons having an interest in any Award under the Plan. Any dispute regarding the interpretation of the Plan or any Award Agreement shall be submitted by the Participant or Company to the Committee for review. The resolution of such a dispute by the Committee shall be final and binding on the Company and the Participant. The Committee may delegate to one or more executive officers the authority to review and resolve disputes with respect to Awards held by Participants who are not Insiders, and such resolution shall be final and binding on the Company and the Participant.

4.3. Documentation. The Award Agreement for a given Award, the Plan and any other documents may be delivered to, and accepted by, a Participant or any other person in any manner (including electronic distribution or posting) that meets applicable legal requirements.

4.4. Foreign Award Recipients. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws and practices in other countries in which the Company and its Subsidiaries and Affiliates operate or have employees or other individuals eligible for Awards, the Committee, in its sole discretion, shall have the power and authority to: (a) determine which Subsidiaries and Affiliates shall be covered by the Plan; (b) determine which individuals outside the United States are eligible to participate in the Plan, which may include individuals who provide services to the Company, Subsidiary or Affiliate under an agreement with a foreign nation or agency; (c) modify the terms and conditions of any Award granted to individuals outside the United States or foreign nationals to comply with applicable foreign laws, policies, customs and practices; (d) establish subplans and modify exercise procedures and other terms and procedures, to the extent the Committee determines such actions to be necessary or advisable (and such subplans and/or modifications shall be attached to this Plan as appendices); *provided, however*, that no such subplans and/or modifications shall increase the share limitations contained in Section 2.1 hereof; and (e) take any action, before or after an Award is made, that the Committee determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

5. OPTIONS. An Option is the right but not the obligation to purchase a Share, subject to certain conditions, if applicable. The Committee will determine whether such Options will be Incentive Stock Options within the meaning of the Code ("**ISOs**") or Nonqualified Stock Options ("**NSOs**") and may grant Options to eligible Employees, Consultants and Directors and the number of Shares subject to the Option, the Exercise Price of the Option, the period during

which the Option may vest and be exercised, and all other terms and conditions of the Option, subject to the following terms of this section.

5.1. Option Grant. Each Option granted under this Plan will identify the Option as an ISO or an NSO. An Option may be, but need not be, awarded upon satisfaction of such Performance Factors during any Performance Period as are set out in advance in the Participant's individual Award Agreement. If the Option is being earned upon the satisfaction of Performance Factors, then the Committee will: (a) determine the nature, length and starting date of any Performance Period for each Option; and (b) select from among the Performance Factors to be used to measure the performance, if any. Performance Periods may overlap and Participants may participate simultaneously with respect to Options that are subject to different performance goals and other criteria.

5.2. Date of Grant. The date of grant of an Option will be the date on which the Committee makes the determination to grant such Option, or a specified future date. The Award Agreement will be delivered to the Participant within a reasonable time after the granting of the Option.

5.3. Exercise Period. Options may be vested and exercisable within the times or upon the conditions as set forth in the Award Agreement governing such Option; *provided, however*, that no Option will be exercisable after the expiration of ten (10) years from the date the Option is granted; and *provided further* that no ISO granted to a person who, at the time the ISO is granted, directly or by attribution owns more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any Parent or Subsidiary ("**Ten Percent Stockholder**"), will be exercisable after the expiration of five (5) years from the date the ISO is granted. The Committee also may provide for Options to become exercisable at one time or from time to time, periodically or otherwise, in such number of Shares or percentage of Shares as the Committee determines.

5.4. Exercise Price. The Exercise Price of an Option will be determined by the Committee when the Option is granted; *provided that*: (a) the Exercise Price of an Option will be not less than one hundred percent (100%) of the FMV of the Shares on the date of grant and (b) the Exercise Price of any ISO granted to a Ten Percent Stockholder will not be less than one hundred ten percent (110%) of the FMV of the Shares on the date of grant. Payment for the Shares purchased may be made in accordance with Section 11 and the Award Agreement and in accordance with any procedures established by the Company.

5.5. Method of Exercise. Any Option granted hereunder will be vested and exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Committee and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share. An Option will be deemed exercised when the Company receives: (a) notice of exercise (in such form as the Committee may specify from time to time) from the person entitled to exercise the Option (and/or via electronic execution through the authorized third-party administrator), and (b) full payment for the Shares with respect to which the Option is exercised together with applicable withholding taxes. Full payment may consist of any consideration and method of payment authorized by the Committee and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the

name of the Participant. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 2.6 of the Plan. Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

5.6. Termination of Service. If the Participant's Service terminates for any reason except for Cause or the Participant's death or Disability, then the Participant may exercise such Participant's Options only to the extent that such Options would have been exercisable by the Participant on the date Participant's Service terminates no later than three (3) months after the date Participant's Service terminates (or such shorter or longer time period as may be determined by the Committee, with any exercise beyond three (3) months after the date Participant's employment terminates deemed to be the exercise of an NSO), but in any event no later than the expiration date of the Options, except as required by applicable law.

(a) **Death.** If the Participant's Service terminates because of the Participant's death (or the Participant dies within three (3) months after Participant's Service terminates other than for Cause or because of the Participant's Disability), then the Participant's Options may be exercised only to the extent that such Options would have been exercisable by the Participant on the date Participant's Service terminates and must be exercised by the Participant's legal representative, or authorized assignee, no later than twelve (12) months after the date Participant's Service terminates (or such shorter or longer time period as may be determined by the Committee), but in any event no later than the expiration date of the Options, except as required by applicable law.

(b) **Disability.** If the Participant's Service terminates because of the Participant's Disability, then the Participant's Options may be exercised only to the extent that such Options would have been exercisable by the Participant on the date Participant's Service terminates and must be exercised by the Participant (or the Participant's legal representative or authorized assignee) no later than twelve (12) months after the date Participant's Service terminates (or such shorter or longer time period as may be determined by the Committee, with any exercise beyond (a) three (3) months after the date Participant's employment terminates when the termination of Service is for a Disability that is not a "permanent and total disability" as defined in Section 22(e)(3) of the Code, or (b) twelve (12) months after the date Participant's employment terminates when the termination of Service is for a Disability that is a "permanent and total disability" as defined in Section 22(e)(3) of the Code, deemed to be exercise of an NSO), but in any event no later than the expiration date of the Options.

5.7. Limitations on ISOs. With respect to Awards granted as ISOs, to the extent that the aggregate FMV of the Shares with respect to which such ISOs are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars (\$100,000), such Options will be treated as



NSOs. For purposes of this Section 5.7, ISOs will be taken into account in the order in which they were granted. The FMV of the Shares will be determined as of the time the Option with respect to such Shares is granted. In the event that the Code or the regulations promulgated thereunder are amended after the Effective Date to provide for a different limit on the FMV of Shares permitted to be subject to ISOs, such different limit will be automatically incorporated herein and will apply to any Options granted after the effective date of such amendment.

5.8. Modification, Extension or Renewal. The Committee may modify, extend or renew outstanding Options and authorize the grant of new Options in substitution thereof, *provided* that any such action may not, without the written consent of a Participant, impair any of such Participant's rights under any Option previously granted, unless for the purpose of complying with applicable laws and regulations. Any outstanding ISO that is modified, extended, renewed or otherwise altered will be treated in accordance with Section 424(h) of the Code. Subject to Section 18 of this Plan, by written notice to affected Participants, the Committee may reduce the Exercise Price of outstanding Options without the consent of such Participants by a written notice to them; *provided, however*, that the Exercise Price may not be reduced below the minimum Exercise Price that would be permitted under Section 5.4 for Options granted on the date the action is taken to reduce the Exercise Price.

5.9. No Disqualification. Notwithstanding any other provision in this Plan, no term of this Plan relating to ISOs will be interpreted, amended or altered, nor will any discretion or authority granted under this Plan be exercised, so as to disqualify this Plan under Section 422 of the Code or, without the written consent of the Participant, to disqualify any Participant's ISO under Section 422 of the Code.

6. RESTRICTED STOCK UNITS. A restricted stock unit ("**RSU**") is an award to an eligible Employee, Consultant, or Director covering a number of Shares that may be settled in cash or by issuance of those Shares (which may consist of Restricted Stock). No Purchase Price shall apply to an RSU settled in Shares. All RSUs shall be made pursuant to an Award Agreement.

6.1. Terms of RSUs. The Committee will determine the terms of an RSU including, without limitation: (a) the number of Shares subject to the RSU; (b) the time or times during which the RSU may be settled; (c) the consideration to be distributed on settlement; and (d) the effect of the Participant's termination of Service on each RSU; *provided* that no RSU shall have a term longer than ten (10) years. An RSU may be awarded upon satisfaction of such performance goals based on Performance Factors during any Performance Period as are set out in advance in the Participant's Award Agreement. If the RSU is being earned upon satisfaction of Performance Factors, then the Committee will: (i) determine the nature, length and starting date of any Performance Period for the RSU; (ii) select from among the Performance Factors to be used to measure the performance, if any; and (iii) determine the number of Shares deemed subject to the RSU. Performance Periods may overlap and participants may participate simultaneously with respect to RSUs that are subject to different Performance Periods and different performance goals and other criteria.

6.2. Form and Timing of Settlement. Payment of earned RSUs shall be made as soon as practicable after the date(s) determined by the Committee and set forth in the Award



Agreement. The Committee, in its sole discretion, may settle earned RSUs in cash, Shares, or a combination of both. The Committee may also permit a Participant to defer payment under a RSU to a date or dates after the RSU is earned provided that the terms of the RSU and any deferral satisfy the requirements of Section 409A of the Code.

6.3. Termination of Service. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such date Participant's Service terminates (unless determined otherwise by the Committee).

6.4. Dividend Equivalent Payments. The Committee may permit Participants holding RSUs to receive dividend equivalent payments on outstanding RSUs if and when dividends are paid to stockholders on Shares. In the discretion of the Committee, such dividend equivalent payments may be paid in cash or Shares, and they may either be paid at the same time as dividend payments are made to stockholders or be delayed until Shares are issued pursuant to the RSU grants and may be subject to the same vesting or performance requirements as the RSUs. If the Committee permits dividend equivalent payments to be made on RSUs, the terms and conditions for such dividend equivalent payments will be set forth in the RSU Agreement.

7. RESTRICTED STOCK AWARDS. A restricted stock award ("**RSA**") is an offer by the Company to sell to an eligible Employee, Consultant, or Director Shares that are subject to restrictions ("**Restricted Stock**"). The Committee will determine to whom an offer will be made, the number of Shares the Participant may purchase, the Purchase Price, the restrictions under which the Shares will be subject and all other terms and conditions of the RSA, subject to the Plan.

7.1. Restricted Stock Purchase Agreement. All purchases under an RSA will be evidenced by an Award Agreement. Except as may otherwise be provided in an Award Agreement, a Participant accepts an RSA by signing and delivering to the Company an Award Agreement with full payment of the Purchase Price, within thirty (30) days from the date the Award Agreement was delivered to the Participant. If the Participant does not accept such Award within thirty (30) days, then the offer of such RSA will terminate, unless the Committee determines otherwise.

7.2. Purchase Price. The Purchase Price for shares sold pursuant to an RSA will be determined by the Committee on the date the RSA is granted, and if permitted by law, no cash consideration will be required in connection with the payment for the Purchase Price where consideration is services rendered. Payment of the Purchase Price must be made in accordance with Section 11 of the Plan, and the Award Agreement and in accordance with any procedures established by the Company.

7.3. Terms of RSAs. RSAs will be subject to such restrictions as the Committee may impose or are required by law. These restrictions may be based on completion of a specified number of years of service with the Company or upon completion of Performance Factors, if any, during any Performance Period as set out in advance in the Participant's Award Agreement. Prior to the grant of an RSA, the Committee shall: (a) determine the nature, length and starting date of any Performance Period for the RSA; (b) select from among the Performance Factors to be used to measure performance goals, if any; and (c) determine the number of Shares that may



be awarded to the Participant. Performance Periods may overlap and a Participant may participate simultaneously with respect to RSAs that are subject to different Performance Periods and having different performance goals and other criteria.

7.4. Termination of Service. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such date Participant's Service terminates (unless determined otherwise by the Committee).

7.5. Dividends and Other Distributions. Participants holding RSAs will be entitled to receive all dividends and other distributions paid with respect to such Shares, unless the Committee provides otherwise at the time the Award is granted. In the discretion of the Committee, such dividends and other distributions may be paid in cash or Shares, and unless otherwise specified in the applicable Award Agreement, all such dividends and distributions will be subject to the same restrictions on transferability and forfeitability as apply to the RSAs with respect to which they were paid and may either be paid at the same time as dividend payments are made to other stockholders or be delayed until the vesting or performance requirements are satisfied for the RSAs with respect to which such dividends or distributions are paid.

8. STOCK BONUS AWARDS. A stock bonus award ("*Stock Bonus Award*") is an award to an eligible Employee, Consultant, or Director of Shares for Services to be rendered or for past Services already rendered to the Company or any Parent, Subsidiary or Affiliate. All Stock Bonus Awards shall be made pursuant to an Award Agreement. No payment from the Participant will be required for Shares awarded pursuant to a Stock Bonus Award.

8.1. Terms of Stock Bonus Awards. The Committee will determine the number of Shares to be awarded to the Participant under a Stock Bonus Award and any restrictions thereon. These restrictions may be based upon completion of a specified number of years of service with the Company or upon satisfaction of performance goals based on Performance Factors during any Performance Period as set out in advance in the Participant's Stock Bonus Agreement. Prior to the grant of any Stock Bonus Award the Committee shall: (a) determine the nature, length and starting date of any Performance Period for the Stock Bonus Award; (b) select from among the Performance Factors to be used to measure performance goals; and (c) determine the number of Shares that may be awarded to the Participant. Performance Periods may overlap and a Participant may participate simultaneously with respect to Stock Bonus Awards that are subject to different Performance Periods and different performance goals and other criteria.

8.2. Form of Payment to Participant. Payment may be made in the form of cash, whole Shares, or a combination thereof, based on the FMV of the Shares earned under a Stock Bonus Award on the date of payment, as determined in the sole discretion of the Committee.

8.3. Termination of Service. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such date Participant's Service terminates (unless determined otherwise by the Committee).

9. STOCK APPRECIATION RIGHTS. A stock appreciation right ("*SAR*") is an award to an eligible Employee, Consultant, or Director that may be settled in cash, or Shares (which may consist of Restricted Stock), having a value equal to (a) the difference between the FMV on

the date of exercise over the Exercise Price multiplied by (b) the number of Shares with respect to which the SAR is being settled (subject to any maximum number of Shares that may be issuable as specified in an Award Agreement). All SARs shall be made pursuant to an Award Agreement.

9.1. Terms of SARs. The Committee will determine the terms of each SAR including, without limitation: (a) the number of Shares subject to the SAR; (b) the Exercise Price and the time or times during which the SAR may be settled; (c) the consideration to be distributed on settlement of the SAR; and (d) the effect of the Participant's termination of Service on each SAR. The Exercise Price of the SAR will be determined by the Committee when the SAR is granted, and may not be less than FMV on the date of grant. A SAR may be awarded upon satisfaction of Performance Factors, if any, during any Performance Period as are set out in advance in the Participant's individual Award Agreement. If the SAR is being earned upon the satisfaction of Performance Factors, then the Committee will: (i) determine the nature, length and starting date of any Performance Period for each SAR; and (ii) select from among the Performance Factors to be used to measure the performance, if any. Performance Periods may overlap and Participants may participate simultaneously with respect to SARs that are subject to different Performance Factors and other criteria.

9.2. Exercise Period and Expiration Date. A SAR will be exercisable within the times or upon the occurrence of events determined by the Committee and set forth in the Award Agreement governing such SAR. The SAR Agreement shall set forth the expiration date; *provided* that no SAR will be exercisable after the expiration of ten (10) years from the date the SAR is granted. The Committee may also provide for SARs to become exercisable at one time or from time to time, periodically or otherwise (including, without limitation, upon the attainment during a Performance Period of performance goals based on Performance Factors), in such number of Shares or percentage of the Shares subject to the SAR as the Committee determines. Except as may be set forth in the Participant's Award Agreement, vesting ceases on the date Participant's Service terminates (unless determined otherwise by the Committee). Notwithstanding the foregoing, the rules of Section 5.6 also will apply to SARs.

9.3. Form of Settlement. Upon exercise of a SAR, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying (a) the difference between the FMV of a Share on the date of exercise over the Exercise Price; times (b) the number of Shares with respect to which the SAR is exercised. At the discretion of the Committee, the payment from the Company for the SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof. The portion of a SAR being settled may be paid currently or on a deferred basis with such interest or Dividend Equivalent Right, if any, as the Committee determines, *provided* that the terms of the SAR and any deferral satisfy the requirements of Section 409A of the Code.

9.4. Termination of Service. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such date Participant's Service terminates (unless determined otherwise by the Committee).

10. PERFORMANCE AWARDS. A Performance Award is an award to an eligible Employee, Consultant, or Director that is based upon the attainment of performance goals, as



established by the Committee, and other terms and conditions specified by the Committee, and may be settled in cash, Shares (which may consist of, without limitation, Restricted Stock), other property, or any combination thereof. Grants of Performance Awards shall be made pursuant to an Award Agreement that cites Section 10 of the Plan.

10.1. Types of Performance Awards. Performance Awards shall include Performance Shares, Performance Units, and cash-based Awards as set forth in Sections 10.1(a), 10.1(b), and 10.1(c) below.

(a) Performance Shares. The Committee may grant Awards of Performance Shares, designate the Participants to whom Performance Shares are to be awarded and determine the number of Performance Shares and the terms and conditions of each such Award.

(b) Performance Units. The Committee may grant Awards of Performance Units, designate the Participants to whom Performance Units are to be awarded and determine the number of Performance Units and the terms and conditions of each such Award.

(c) Cash-Settled Performance Awards. The Committee may also grant cash-settled Performance Awards to Participants under the terms of this Plan.

(d) Dividend Equivalent Payments. The Committee may permit Participants holding Performance Shares and/or Performance Units (collectively, "***Performance Awards***") to receive dividends, distributions and/or dividend equivalent payments on outstanding Performance Awards if and when dividends are paid to stockholders on Shares. In the discretion of the Committee, such dividends, distributions and/or dividend equivalent payments may be paid in cash or Shares, and they may either be paid at the same time as dividend payments are made to stockholders or be delayed until Shares are issued (if applicable) pursuant to the Performance Awards and may be subject to the same performance requirements as apply to the Performance Awards. If the Committee permits dividends, distributions and/or dividend equivalent payments to be made on Performance Awards, the terms and conditions for such dividends, distributions and/or dividend equivalent payments will be set forth in the applicable Award Agreement(s).

The amount to be paid under any Performance Award may be adjusted on the basis of such further consideration as the Committee shall determine in its sole discretion.

10.2. Terms of Performance Awards. Performance Awards will be based on the attainment of performance goals using the Performance Factors within this Plan that are established by the Committee for the relevant Performance Period. The Committee will determine, and each Award Agreement shall set forth, the terms of each Performance Award including, without limitation: (a) the amount of any cash bonus, (b) the number of Shares deemed subject to an award of Performance Shares; (c) the Performance Factors and Performance Period that shall determine the time and extent to which each award of Performance Shares shall be settled; (d) the consideration to be distributed on settlement, and (e) the effect of the Participant's termination of Service on each Performance Award. In establishing

Performance Factors and the Performance Period the Committee will: (i) determine the nature, length and starting date of any Performance Period; (ii) select from among the Performance Factors to be used; and (z) determine the number of Shares deemed subject to the award of Performance Shares. Each Performance Share will have an initial value equal to the FMV of a Share on the date of grant. Prior to settlement the Committee shall determine the extent to which Performance Awards have been earned. Performance Periods may overlap and Participants may participate simultaneously with respect to Performance Awards that are subject to different Performance Periods and different performance goals and other criteria.

10.3. Termination of Service. Except as may be set forth in the Participant's Award Agreement, vesting ceases on the date Participant's Service terminates (unless determined otherwise by the Committee).

11. PAYMENT FOR SHARE PURCHASES. Payment from a Participant for Shares acquired pursuant to this Plan may be made in cash or cash equivalents or, where approved for the Participant by the Committee and where permitted by law (and to the extent not otherwise set forth in the applicable Award Agreement):

- (a) by cancellation of indebtedness of the Company owed to the Participant;
- (b) by surrender of shares of Company capital stock held by the Participant that are clear of all liens, claims, encumbrances or security interests that have an FMV on the date of surrender equal to the aggregate exercise price of the Shares as to which said Award will be exercised or settled;
- (c) by waiver of compensation due or accrued to the Participant for services rendered or to be rendered to the Company or a Parent, Subsidiary or Affiliate;
- (d) by consideration received by the Company pursuant to a broker-assisted or other form of cashless exercise program implemented by the Company in connection with the Plan;
- (e) by any combination of the foregoing; or
- (f) by any other method of payment as is permitted by applicable law.

The Committee may limit the availability of any method of payment, to the extent the Committee determines, in its discretion, that such limitation is necessary or advisable to comply with applicable law or facilitate the administration of the Plan.

12. GRANTS TO NON-EMPLOYEE DIRECTORS. Non-Employee Directors are eligible to receive any type of Award offered under this Plan except ISOs. Awards pursuant to this Section 12 may be automatically made pursuant to policy adopted by the Board, or made from time to time as determined in the discretion of the Board. The aggregate grant date fair value of Awards granted to a Non-Employee Director pursuant to this Section 12 in any calendar year shall not exceed \$600,000.



12.1. Eligibility. Awards pursuant to this Section 12 shall be granted only to Non-Employee Directors. A Non-Employee Director who is elected or re-elected as a member of the Board will be eligible to receive an Award under this Section 12.

12.2. Vesting, Exercisability and Settlement. Except as set forth in Section 21, Awards shall vest, become exercisable and be settled as determined by the Board. With respect to Options and SARs, the exercise price granted to Non-Employee Directors shall not be less than the FMV of the Shares at the time that such Option or SAR is granted.

12.3. Election to receive Awards in Lieu of Cash. A Non-Employee Director may elect to receive his or her annual retainer payments and/or meeting fees from the Company in the form of cash or Awards or a combination thereof, as determined by the Committee. Such Awards shall be issued under the Plan. An election under this Section 12.3 shall be filed with the Company on the form prescribed by the Company.

13. WITHHOLDING TAXES. Prior to any relevant taxable or tax withholding events in connection with the Awards under this Plan, the Company may require the Participant to pay or make adequate arrangements satisfactory to the Company with respect to any or all income tax, social insurance, payroll tax, fringe benefits tax, payment on account and other tax-related items related to the Participant's participation in this Plan and legally applicable to the Participant (collectively, "*Tax-Related Obligations*"). The Committee may, in its sole discretion and pursuant to such procedures as it may specify from time to time, require or permit a Participant to satisfy withholding obligations for such Tax-Related Obligations, in whole or in part by (without limitation) (a) paying cash, (b) having the Company withhold otherwise deliverable cash or Shares having a value equal to the Tax-Related Obligations to be withheld, (c) delivering to the Company already-owned Shares having a value equal to the Tax-Related Obligations to be withheld, or (d) withholding from proceeds of the sale of Shares issued pursuant to an Award either through a voluntary sale or through a mandatory sale arranged by the Company, *provided* that, in all instances, the satisfaction of the Tax-Related Obligations will not result in any adverse accounting consequence to the Company, as the Committee may determine in its sole discretion. The Company may withhold or account for these Tax-Related Obligations by considering applicable statutory withholding rates or other applicable withholding rates, including maximum rates for the applicable tax jurisdiction to the extent consistent with applicable laws. Unless otherwise determined by the Committee, the FMV of the Shares will be determined as of the date that the taxes are required to be withheld and such Shares shall be valued based on the FMV of the Shares as of the previous trading day, unless otherwise determined by the Committee.

14. TRANSFERABILITY.

14.1. Transfer Generally. Unless determined otherwise by the Committee or pursuant to Section 14.2, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution. If the Committee makes an Award transferable, including, without limitation, by instrument to an inter vivos or testamentary trust in which the Awards are to be passed to beneficiaries upon the death of the trustor (settlor) or by gift or by domestic relations order to a Permitted Transferee, such Award will contain such additional terms and conditions as the Committee deems appropriate. All Awards shall be exercisable: (a) during the Participant's lifetime only by (i) the Participant,



or (ii) the Participant's guardian or legal representative; (b) after the Participant's death, by the legal representative of the Participant's heirs or legatees; and (c) in the case of all awards except ISOs, by a Permitted Transferee.

14.2. Award Transfer Program. Notwithstanding any contrary provision of the Plan, the Committee shall have all discretion and authority to determine and implement the terms and conditions of any Award Transfer Program instituted pursuant to this Section 14.2 and shall have the authority to amend the terms of any Award participating, or otherwise eligible to participate in, the Award Transfer Program, including (but not limited to) the authority to (a) amend (including to extend) the expiration date, post-termination exercise period and/or forfeiture conditions of any such Award, (b) amend or remove any provisions of the Award relating to the Award holder's continued Service to the Company or its Parent, Subsidiary, or Affiliate, (c) amend the permissible payment methods with respect to the exercise or purchase of any such Award, (d) amend the adjustments to be implemented in the event of changes in the capitalization and other similar events with respect to such Award, and (e) make such other changes to the terms of such Award as the Committee deems necessary or appropriate in its sole discretion.

15. PRIVILEGES OF STOCK OWNERSHIP; RESTRICTIONS ON SHARES.

15.1. Voting and Dividends. No Participant will have any of the rights of a stockholder with respect to any Shares until the Shares are issued to the Participant, except for any Dividend Equivalent Rights permitted by an applicable Award Agreement. In addition, the Committee may provide that any Dividend Equivalent Rights permitted by an applicable Award Agreement shall be deemed to have been reinvested in additional Shares or otherwise reinvested. After Shares are issued to the Participant, the Participant will be a stockholder and have all the rights of a stockholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares; *provided*, that if such Shares are Restricted Stock, then any new, additional or different securities the Participant may become entitled to receive with respect to such Shares by virtue of a stock dividend, stock split or any other change in the corporate or capital structure of the Company will be subject to the same restrictions as the Restricted Stock; *provided, further*, that the Participant will have no right to retain such stock dividends or stock distributions with respect to Shares that are repurchased at the Participant's Purchase Price or Exercise Price, as the case may be, pursuant to Section 15.2. However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Award that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Shares underlying an Award during the period beginning on the date the Award is granted and ending, with respect to each Share subject to the Award, on the earlier of the date on which the Award is exercised or settled or the date on which it is forfeited. Such Dividend Equivalent Rights, if any, shall be credited to the Participant in the form of cash or additional whole Shares, as determined by the Committee in its sole discretion, as of the date of payment of such cash dividends on Shares. Notwithstanding the foregoing, dividends and Dividend Equivalent Rights may accrue with respect to unvested Awards, but will not be paid or issued until such Award is fully vested and the Shares are issued to Participant and such Shares are no longer subject to any vesting requirements or repurchase rights on behalf of the Company.



15.2. Restrictions on Shares. At the discretion of the Committee, the Company may reserve to itself and/or its assignee(s) a right to repurchase (a “*Right of Repurchase*”) a portion of any or all Unvested Shares held by a Participant following such Participant’s termination of Service at any time within ninety (90) days (or such longer or shorter time determined by the Committee) after the later of the date Participant’s Service terminates and the date the Participant purchases Shares under this Plan, for cash and/or cancellation of purchase money indebtedness, at the Participant’s Purchase Price or Exercise Price, as the case may be.

16. CERTIFICATES. All Shares or other securities whether or not certificated, delivered under this Plan will be subject to such stock transfer orders, legends and other restrictions as the Committee may deem necessary or advisable, including restrictions under any applicable U.S. federal, state or foreign securities law, or any rules, regulations and other requirements of any stock exchange or automated quotation system upon which the Shares may be listed or quoted and any non-U.S. exchange controls or securities law restrictions to which the Shares are subject.

17. ESCROW; PLEDGE OF SHARES. To enforce any restrictions on a Participant’s Shares, the Committee may require the Participant to deposit all written or electronic certificates (if any) representing Shares, together with stock powers or other instruments of transfer approved by the Committee, appropriately endorsed in blank, with the Company or an agent designated by the Company to hold in escrow until such restrictions have lapsed or terminated, and the Committee may cause a legend or legends referencing such restrictions to be placed on the certificate. Any Participant who is permitted to execute a promissory note as partial or full consideration for the purchase of Shares under this Plan will be required to pledge and deposit with the Company all or part of the Shares so purchased as collateral to secure the payment of Participant’s obligation to the Company under the promissory note; *provided, however*, that the Committee may require or accept other or additional forms of collateral to secure the payment of such obligation and, in any event, the Company will have full recourse against the Participant under the promissory note notwithstanding any pledge of the Participant’s Shares or other collateral. In connection with any pledge of the Shares, Participant will be required to execute and deliver a written pledge agreement in such form as the Committee will from time to time approve. The Shares purchased with the promissory note may be released from the pledge on a pro rata basis as the promissory note is paid.

18. REPRICING; EXCHANGE AND BUYOUT OF AWARDS. Without prior stockholder approval, the Committee may (a) reprice Options or SARs (and where such repricing is a reduction in the Exercise Price of outstanding Options or SARs, the consent of the affected Participants is not required provided written notice is provided to them, notwithstanding any adverse tax consequences to them arising from the repricing), and (b) with the consent of the respective Participants (unless not required pursuant to Section 5.8 of the Plan), pay cash or issue new Awards in exchange for the surrender and cancellation of any, or all, outstanding Awards.

19. SECURITIES LAW AND OTHER REGULATORY COMPLIANCE. An Award will not be effective unless such Award is in compliance with all applicable U.S. and foreign federal and state securities and exchange control laws, rules and regulations of any governmental body, and the requirements of any stock exchange or automated quotation system upon which the Shares may then be listed or quoted, as they are in effect on the date of grant of the Award



and also on the date of exercise or other issuance. Notwithstanding any other provision in this Plan, the Company will have no obligation to issue or deliver written or electronic certificates (if any) for Shares under this Plan prior to: (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and/or (b) completion of any registration or other qualification of such Shares under any state or federal or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable. The Company will be under no obligation to register the Shares or to effect compliance with the registration, qualification or listing requirements of any foreign, national or state securities laws, exchange control laws, stock exchange or automated quotation system, and the Company will have no liability for any inability or failure to do so.

20. NO OBLIGATION TO EMPLOY. Nothing in this Plan or any Award granted under this Plan will confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company or any Parent, Subsidiary or Affiliate or limit in any way the right of the Company or any Parent, Subsidiary or Affiliate to terminate Participant's employment or other relationship at any time.

21. CORPORATE TRANSACTIONS.

21.1. Assumption or Replacement of Awards by Successor. In the event that the Company is subject to a Corporate Transaction, outstanding Awards acquired under the Plan shall be subject to the agreement evidencing the Corporate Transaction, which need not treat all outstanding Awards in an identical manner. Such agreement, without the Participant's consent, shall provide for one or more of the following with respect to all outstanding Awards as of the effective date of such Corporate Transaction:

- (a) The continuation of an outstanding Award by the Company (if the Company is the successor entity).
- (b) The assumption of an outstanding Award by the successor or acquiring entity (if any) of such Corporate Transaction (or by its parents, if any), which assumption, will be binding on all selected Participants; *provided* that the exercise price and the number and nature of shares issuable upon exercise of any such option or stock appreciation right, or any award that is subject to Section 409A of the Code, will be adjusted appropriately pursuant to Section 424(a) of the Code and/or Section 409A of the Code, as applicable.
- (c) The substitution by the successor or acquiring entity in such Corporate Transaction (or by its parents, if any) of equivalent awards with substantially the same terms for such outstanding Awards (except that the exercise price and the number and nature of shares issuable upon exercise of any such option or stock appreciation right, or any award that is subject to Section 409A of the Code, will be adjusted appropriately pursuant to Section 424(a) of the Code and/or Section 409A of the Code, as applicable).
- (d) The full or partial acceleration of exercisability or vesting and accelerated expiration of an outstanding Award and lapse of the Company's right to repurchase or re-



acquire shares acquired under an Award or lapse of forfeiture rights with respect to shares acquired under an Award.

(e) The settlement of the full value of such outstanding Award (whether or not then vested or exercisable) in cash, cash equivalents, or securities of the successor entity (or its parent, if any) with a FMV equal to the required amount, followed by the cancellation of such Awards; *provided however*, that such Award may be cancelled if such Award has no value, as determined by the Committee, in its discretion. Subject to Section 409A of the Code, such payment may be made in installments and may be deferred until the date or dates the Award would have become exercisable or vested. Such payment may be subject to vesting based on the Participant's continued service, *provided* that the vesting schedule shall not be less favorable to the Participant than the schedule under which the Award would have become vested or exercisable. For purposes of this Section 21.1(e), the FMV of any security shall be determined without regard to any vesting conditions that may apply to such security.

(f) The cancellation of outstanding Awards in exchange for no consideration.

The Board shall have full power and authority to assign the Company's right to repurchase or re-acquire or forfeiture rights to such successor or acquiring corporation. In addition, in the event such successor or acquiring corporation (if any) refuses to assume, convert, replace or substitute Awards, as provided above, pursuant to a Corporate Transaction, the Committee will notify the Participant in writing or electronically that such Award will be exercisable for a period of time determined by the Committee in its sole discretion, and such Award will terminate upon the expiration of such period. Awards need not be treated similarly in a Corporate Transaction.

21.2. Assumption of Awards by the Company. The Company, from time to time, also may substitute or assume outstanding awards granted by another company, whether in connection with an acquisition of such other company or otherwise, by either; (a) granting an Award under this Plan in substitution of such other company's award; or (b) assuming such award as if it had been granted under this Plan if the terms of such assumed award could be applied to an Award granted under this Plan. Such substitution or assumption will be permissible if the holder of the substituted or assumed award would have been eligible to be granted an Award under this Plan if the other company had applied the rules of this Plan to such grant. In the event the Company assumes an award granted by another company, the terms and conditions of such award will remain unchanged (*except* that the Purchase Price or the Exercise Price, as the case may be, and the number and nature of Shares issuable upon exercise or settlement of any such Award will be adjusted appropriately pursuant to Section 424(a) of the Code and/or Section 409A of the Code, as applicable). In the event the Company elects to grant a new Option in substitution rather than assuming an existing option, such new Option may be granted with a similarly adjusted Exercise Price. Substitute Awards shall not be deducted from the number of Shares authorized for grant under the Plan or authorized for grant to a Participant in a calendar year.

21.3. Non-Employee Directors' Awards. Notwithstanding any provision to the contrary herein, in the event of a Corporate Transaction, the vesting of all Awards granted to Non-



Employee Directors shall accelerate and such Awards shall become exercisable (as applicable) in full prior to the consummation of such event at such times and on such conditions as the Committee determines.

22. ADOPTION AND STOCKHOLDER APPROVAL. This Plan shall be submitted for the approval of the Company's stockholders, consistent with applicable laws, within twelve (12) months before or after the date this Plan is adopted by the Board.

23. TERM OF PLAN/GOVERNING LAW. Unless earlier terminated as provided herein, this Plan will become effective on the Effective Date and will terminate ten (10) years from the date this Plan is adopted by the Board. This Plan and all Awards granted hereunder shall be governed by and construed in accordance with the laws of the State of Delaware (excluding its conflict of law rules).

24. AMENDMENT OR TERMINATION OF PLAN. The Board may at any time terminate or amend this Plan in any respect, including, without limitation, amendment of any form of Award Agreement or instrument to be executed pursuant to this Plan; *provided, however*, that the Board will not, without the approval of the stockholders of the Company, amend this Plan in any manner that requires such stockholder approval; *provided further*, that a Participant's Award shall be governed by the version of this Plan then in effect at the time such Award was granted. No termination or amendment of the Plan shall affect any then-outstanding Award unless expressly provided by the Committee; in any event, no termination or amendment of the Plan or any outstanding Award may adversely affect any then outstanding Award without the consent of the Participant, unless such termination or amendment is necessary to comply with applicable law, regulation or rule.

25. NON-EXCLUSIVITY OF THE PLAN. Neither the adoption of this Plan by the Board, the submission of this Plan to the stockholders of the Company for approval, nor any provision of this Plan will be construed as creating any limitations on the power of the Board to adopt such additional compensation arrangements as it may deem desirable, including, without limitation, the granting of stock options and other equity awards and bonuses otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

26. INSIDER TRADING POLICY. Each Participant who receives an Award shall comply with any policy adopted by the Company from time to time covering transactions in the Company's securities by Employees, officers and/or directors of the Company, as well as with any applicable insider trading or market abuse laws to which the Participant may be subject.

27. ALL AWARDS SUBJECT TO COMPANY CLAWBACK OR RECOUPMENT POLICY. All Awards shall, subject to applicable law, be subject to clawback or recoupment pursuant to any compensation clawback or recoupment policy adopted by the Board or the Committee or required by law during the term of Participant's employment or other service with the Company that is applicable to executive officers, employees, directors or other service providers of the Company, and in addition to any other remedies available under such policy and applicable law, may require the cancelation of outstanding Awards and the recoupment of any gains realized with respect to Awards.



**NOTICE OF STOCK OPTION GRANT
(GLOBAL)**

**SONOS, INC.
2018 EQUITY INCENTIVE PLAN
GRANT NUMBER:**

Unless otherwise defined herein, the terms defined in the Sonos, Inc. (the “*Company*”), 2018 Equity Incentive Plan (the “*Plan*”) shall have the same meanings in this Notice of Stock Option Grant (the “*Notice of Grant*”) and the attached Stock Option Agreement, including the International Supplement attached hereto (the “*Supplement*”), which is generally applicable to you if you live or work outside the United States, and any special terms and conditions for your country set forth therein (collectively, the “*Option Agreement*”). You have been granted an Option to purchase shares of Common Stock of the Company under the Plan subject to the terms and conditions of the Plan, this Notice of Grant and the Option Agreement.

Name: _____

Address: _____

Number of Shares: _____

Exercise Price Per Share: _____

Date of Grant: _____

Vesting Commencement Date: _____

Type of Option: _____

Expiration Date: _____; this Option expires earlier if your Service terminates earlier, as described in the Option Agreement.

Vesting Schedule:

Vesting Acceleration:

This Notice of Grant may be executed and delivered electronically, whether via the Company’s intranet or the Internet site of a third party or via email or any other means of electronic delivery specified by the Company. You acknowledge that the vesting of the Shares pursuant to this Notice of Grant is earned only by continuing Service, but you understand that your employment or consulting relationship with the Company or a Parent, Subsidiary or Affiliate is for an unspecified duration, can be terminated at any time, and that nothing in this Notice of Grant, the Option Agreement or the Plan changes the nature of that relationship. By accepting this Option, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan, this Notice of Grant and the Option Agreement. By accepting this

Option, you consent to the electronic delivery and acceptance as further set forth in the Option Agreement.

**STOCK OPTION AGREEMENT
SONOS, INC.
2018 EQUITY INCENTIVE PLAN**

You have been granted an Option by Sonos, Inc. (the “*Company*”), under the 2018 Equity Incentive Plan (the “*Plan*”) to purchase Shares (the “*Option*”), subject to the terms, restrictions and conditions of the Plan, the Notice of Stock Option Grant (the “*Notice of Grant*”) and this Stock Option Agreement, including the Supplement, which is generally applicable to you if you live or work outside the United States, and any special terms and conditions for your country set forth therein (collectively, the “*Agreement*”).

1. Grant of Option. You have been granted the Option for the number of Shares set forth in the Notice of Grant at the Exercise Price per Share set forth in the Notice of Grant. In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan shall prevail.

If you are a U.S. taxpayer and the Option is designated in the Notice of Grant as an Incentive Stock Option (“*ISO*”), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an ISO, to the extent that it exceeds the \$100,000 limit under Code Section 422(d), it shall be treated as a Nonqualified Stock Option (“*NSO*”).

2. Termination.

(a) General Rule. If your Service terminates for any reason except death or Disability, then this Option will expire at the close of business at Company headquarters on the date three months after your termination of Service (subject to the expiration detailed in Section 6).

You acknowledge and agree that the vesting schedule set forth in the Notice of Grant may change prospectively in the event that your service status changes between full and part-time status in accordance with Company policies relating to work schedules and vesting of awards. You acknowledge that the vesting of the Shares pursuant to this Agreement is earned only by continuing Service.

(b) Death; Disability. If you die before your Service terminates or you die within three months of your termination of Service, then this Option will expire at the close of business at Company headquarters on the date 12 months after the date of death (subject to the expiration detailed in Section 6). If your Service terminates because of your Disability, then this Option will expire at the close of business at Company headquarters on the date 12 months after your termination date (subject to the expiration detailed in Section 6).

(c) Termination Date. For purposes of this Option, your Service will be considered terminated as of the date you are no longer actively providing services to the Company or a Parent, Subsidiary or Affiliate (regardless of the reason for such termination and whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or consulting agreement, if any), and your period of Service will not include any contractual notice period or any period of “garden



leave” or similar period mandated under labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or consulting agreement, if any. The Committee shall have the exclusive discretion to determine when you are no longer actively providing services for purposes of this Option (including whether you may still be considered to be providing services while on a leave of absence).

(d) No Notice. You are responsible for keeping track of these exercise periods following your termination of Service for any reason. The Company will not provide further notice of such periods. In no event shall this Option be exercised later than the Expiration Date set forth in the Notice of Grant.

3. Exercise of Option.

(a) Right to Exercise. This Option is exercisable during its term in accordance with the vesting schedule set forth in the Notice of Grant and the applicable provisions of the Plan and this Agreement. In the event of your death, Disability, or other cessation of Service, the exercisability of the Option is governed by the applicable provisions of the Plan, the Notice of Grant and this Agreement. This Option may not be exercised for a fraction of a Share.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice in a form specified by the Company (the “*Exercise Notice*”), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the “*Exercised Shares*”), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be delivered in person, by mail, via electronic mail or by other authorized method to the Secretary of the Company or other person designated by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of a fully executed Exercise Notice accompanied by the aggregate Exercise Price and any applicable withholding of Tax-Related Items as detailed in Section 8 below.

4. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at your election:

(a) your personal check, wire transfer, or a cashier’s check;

(b) for U.S. taxpayers only: certificates for shares of Company stock that you own, along with any forms needed to effect a transfer of those shares to the Company; the value of the shares, determined as of the effective date of the Option exercise, will be applied to the Exercise Price. Instead of surrendering shares of Company stock, you may attest to the ownership of those shares on a form provided by the Company and have the same number of shares subtracted from the Exercised Shares issued to you. However, you may not surrender, or attest to the ownership of, shares of Company stock in payment of the Exercise Price of your Option if your action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to this Option for financial reporting purposes;



(c) cashless exercise through irrevocable directions to a securities broker approved by the Company to sell all or part of the Exercised Shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the Exercise Price and any withholding of Tax-Related Items. The balance of the sale proceeds, if any, will be delivered to you. The directions must be given by signing a special notice of exercise form provided by the Company; or

(d) other method authorized by the Company.

5. Non-Transferability of Option. In general, except as provided below, only you may exercise this Option prior to your death. You may not transfer or assign this Option, except as provided below. For instance, you may not sell this Option or use it as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid.

However, if you are a U.S. taxpayer, you may dispose of this Option in your will or in a beneficiary designation. If you are a U.S. taxpayer and this Option is designated as a NSO in the Notice of Grant, then the Committee may, in its sole discretion, allow you to transfer vested Shares subject to this Option (whether exercised or unexercised) as a gift to one or more family members. For purposes of this Agreement, “family member” means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law (including adoptive relationships), any individual sharing your household (other than a tenant or employee), a trust in which one or more of these individuals have more than 50% of the beneficial interest, a foundation in which you or one or more of these persons control the management of assets, and any entity in which you or one or more of these persons own more than 50% of the voting interest. The Committee will allow you to transfer this Option only if both you and the transferee(s) execute the forms prescribed by the Committee, which include the consent of the transferee(s) to be bound by this Agreement.

This Option may not be transferred in any manner other than by will or by the laws of descent or distribution or court order and may be exercised during the lifetime of you only by you, your guardian, or legal representative, as permitted in the Plan and applicable local laws. The terms of the Plan and this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of you.

6. Term of Option. This Option shall in any event expire on the expiration date set forth in the Notice of Grant, which date is ten years after the grant date (five years after the grant date if this Option is designated as an ISO in the Notice of Grant and Section 5.3 of the Plan applies).

7. Tax Obligations. You should consult a tax adviser for tax obligations relating to this Option in the jurisdiction in which you are subject to tax. **YOU SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.**

(a) Exercising the Option. You will not be allowed to exercise this Option unless you make arrangements acceptable to the Company to pay any withholding of Tax-Related Items.



(b) Notice of Disqualifying Disposition of ISO Shares. If you sell or otherwise dispose of any of the Shares acquired pursuant to an ISO on or before the later of (i) two years after the grant date, or (ii) one year after the exercise date, you shall immediately notify the Company in writing of such disposition. You agree that you may be subject to income tax withholding by the Company on the compensation income recognized from such early disposition of ISO Shares by payment in cash or out of the current compensation paid to you.

8. Responsibility for Taxes. Regardless of any action the Company or, if different, your actual employer (the “*Employer*”) takes with respect to any or all income tax, social insurance contributions, payroll tax, fringe benefits tax, payment on account or other tax-related withholding (“*Tax-Related Items*”), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of this Option, including the grant, vesting or exercise of this Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (2) do not commit to structure the terms of the grant or any aspect of this Option to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. You acknowledge that if you are subject to Tax-Related Items in more than one jurisdiction, the Company and/or the Employer may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to exercise of the Option, you shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Item withholding and payment on account obligations of the Company and/or the Employer. In this regard, you authorize the Company and/or the Employer, and their respective agents, to withhold taxes from the proceeds of the sale of the Shares, through a mandatory sale arranged by the Company (on your behalf and pursuant to this authorization).

If any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of your participation in the Plan or your purchase of Shares cannot be satisfied by the means previously described, then you authorize the Company or the Employer, and their respective agents, at their discretion, to withhold all applicable Tax-Related Items legally payable by you, if permissible under local law, from your wages or other cash compensation paid to you by the Company and/or the Employer. With the Company’s consent, you may request alternative withholding arrangements, which may also include, if permissible under local law, (a) withholding Shares that otherwise would be issued to you when you exercise this Option, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum statutory withholding amount, (b) having the Company withhold taxes from the proceeds of the sale of the Shares through a voluntary sale arranged by the Company, (c) your payment of a cash amount or (d) any other arrangement approved by the Company; all under such rules as may be established by the Committee and in compliance with the Company’s Insider Trading Policy and 10b5-1 Trading Plan Policy, if applicable; provided, however, that if you are a Section 16 officer of the Company under the Exchange Act, then the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) shall establish the method of withholding prior to the taxable or withholding event. The Fair Market Value of these Shares, determined as of the effective date of the Option exercise, will be applied as a credit against the Tax-Related Items.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, as determined in the sole discretion of the Company or the Employer. In any case, you will not receive a refund from the Company of any over-withheld amount in cash and will have no entitlement to the Shares equivalent. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Shares, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items. You acknowledge that the Company has no obligation to deliver Shares to you until you have satisfied the obligations in connection with the Tax-Related Items as described in this Section.

9. Nature of Grant. In accepting this Option, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

(b) the grant of this Option is voluntary and occasional and does not create any contractual or other right to receive future grants of stock options, or benefits in lieu of stock options, even if stock options have been granted in the past;

(c) all decisions with respect to future stock options or other grants, if any, will be at the sole discretion of the Company;

(d) you are voluntarily participating in the Plan;

(e) this Option and any Shares acquired under the Plan, and the income and value of same, are not intended to replace any pension rights or compensation;

(f) this Option and any Shares acquired under the Plan, and the income and value of same, are not part of normal or expected compensation for purpose of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or payments or welfare benefits or similar payments;

(g) unless otherwise agreed with the Company, this Option and any Shares acquired under the Plan, and the income and value of same, are not granted as consideration for, or in connection with, any Service you may provide as a director of any Parent, Subsidiary or Affiliate;

(h) the future value of the Shares underlying this Option is unknown, indeterminable, and cannot be predicted with certainty;

(i) if the underlying Shares do not increase in value, this Option will have no value;

(j) if you exercise this Option and acquire Shares, the value of such Shares may increase or decrease in value, even below the Exercise Price;

(k) no claim or entitlement to compensation or damages shall arise from forfeiture of this Option resulting from the termination of your Service (for any reason whatsoever, whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or service agreement, if any), and in consideration of the grant of this Option to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, the Employer or any Parent, Subsidiary or Affiliate, waive your ability, if any, to bring any such claim, and release the Company, the Employer or any Parent, Subsidiary or Affiliate from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claim; and

(l) if you are providing Service outside the United States, neither the Employer, the Company nor any Parent, Subsidiary or Affiliate shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of this Option or of any amounts due to you pursuant to the exercise of this Option or the subsequent sale of any Shares acquired upon exercise.

10. Acknowledgement. The Company and you agree that this Option is granted under and governed by the Notice of Grant, this Agreement and the provisions of the Plan (incorporated herein by reference). You: (i) acknowledge receipt of a copy of the Plan prospectus, (ii) represent that you have carefully read and are familiar with the provisions in the grant documents, and (iii) hereby accept this Option subject to all of the terms and conditions set forth in this Agreement and those set forth in the Plan and the Notice of Grant. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions relating to the Plan, the Notice of Grant and this Agreement.

11. Consent to Electronic Delivery and Acceptance of All Plan Documents and Disclosures. By your acceptance of this Option, you consent to the electronic delivery of the Notice of Grant, this Agreement, account statements, Plan prospectuses required by the SEC, U.S. financial reports of the Company, and all other documents that the Company is required to deliver to its stockholders (including, without limitation, annual reports and proxy statements) or other communications or information related to this Option. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other delivery determined at the Company's discretion. You acknowledge that you may receive from the Company a paper copy of any documents delivered electronically at no cost if you contact the Company by telephone, through a postal service or electronic mail at sonos-stockadmin@sonos.com. You further acknowledge that you will be provided with a paper copy of any documents delivered electronically if electronic delivery fails; similarly, you understand that you must provide on request to the Company or any designated third party a paper copy of any documents delivered electronically if electronic delivery fails. You agree to participate in the Plan through an on-line or electronic system established and maintained by the



Company or a third party designated by the Company. Also, you understand that your consent may be revoked or changed, including any change in the electronic mail address to which documents are delivered (if you have provided an electronic mail address), at any time by notifying the Company of such revised or revoked consent by telephone, postal service or electronic mail at sonos-stockadmin@sonos.com. Finally, you understand that you are not required to consent to electronic delivery.

12. Compliance with Laws and Regulations. The exercise of this Option will be subject to and conditioned upon compliance by the Company and you with all applicable state, federal and foreign laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer, which compliance the Company shall, in its absolute discretion, deem necessary or advisable. You understand that the Company is under no obligation to register or qualify the Common Stock with any state, federal or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. Further, you agree that the Company shall have unilateral authority to amend the Plan and this Agreement without your consent to the extent necessary to comply with securities or other laws applicable to issuance of Shares. Finally, the Shares issued pursuant to this Agreement shall be endorsed with appropriate legends, if any, determined by the Company.

13. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the underlying Shares. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

14. Governing Law; Venue. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law. For purposes of litigating any dispute that may arise directly or indirectly from the Plan, the Notice of Grant and this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California in Santa Barbara County, California, or the federal courts of the United States for the Southern District of California and no other courts.

15. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of this Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this Agreement shall be enforceable in accordance with its terms.

16. No Rights as Employee, Director or Consultant. Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or a Parent, Subsidiary or Affiliate of the Company, to terminate your Service, for any reason, with or without Cause.



17. Adjustment. In the event of a stock split, a stock dividend or a similar change in Company stock, the number of Shares covered by this Option and the Exercise Price per Share may be adjusted pursuant to the Plan.

18. Lock-Up Agreement. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, you hereby agree not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company however and whenever acquired (other than those included in the registration), except pursuant to a transfer for no consideration in accordance with Section 5 above, without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred eighty (180) days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the public offering; provided however that, if during the last seventeen (17) days of the restricted period the Company issues an earnings release or material news or a material event relating to the Company occurs, or prior to the expiration of the restricted period the Company announces that it will release earnings results during the sixteen (16)-day period beginning on the last day of the restricted period, then, upon the request of the managing underwriter, to the extent required by any FINRA rules, the restrictions imposed by this Section shall continue to apply until the end of the third trading day following the expiration of the fifteen (15)-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. In no event will the restricted period extend beyond two hundred sixteen (216) days after the effective date of the registration statement.

19. Award Subject to Company Clawback or Recoupment. To the extent permitted by applicable law, the Option shall be subject to clawback or recoupment pursuant to any clawback or recoupment policy adopted by the Board or required by law during the term of your employment or other Service that is applicable to you. In addition to any other remedies available under such policy, applicable law may require the cancellation of your Option (whether vested or unvested) and the recoupment of any gains realized with respect to your Option.

20. Entire Agreement; Enforcement of Rights. This Agreement, the Plan and the Notice of Grant constitute the entire agreement and understanding of the parties relating to the subject matter herein and supersede all prior discussions between them. Any prior agreements, commitments or negotiations concerning this Option are superseded. No modification or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing and signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

21. Insider Trading Restrictions/Market Abuse Laws. You acknowledge that you may be subject to insider trading restrictions and/or market abuse laws, which may affect your ability to acquire or sell the Shares or rights to Shares under the Plan during such times as you are considered to have "inside information" regarding the Company (as defined by the laws in your country). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy.



You acknowledge that it is your responsibility to comply with any applicable restrictions, and you are advised to speak to your personal advisor on this matter.

22. Language. If you have received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

23. International Supplement. Notwithstanding any provisions in this Agreement, this Option shall be subject to the Supplement if you live or work outside the United States, including any special terms and conditions set forth therein for your country. Moreover, if you relocate to a country other than the United States, then the Supplement, including the special terms and conditions for such country, will apply to you to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Supplement constitutes part of this Agreement.

24. Imposition of Other Requirements. The Company reserves the right to impose other requirements on your participation in the Plan, on this Option and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

25. Waiver. You acknowledge that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other Participant.

BY ACCEPTING THIS OPTION, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

**NOTICE OF RESTRICTED STOCK UNIT AWARD
(SECTION 16 OFFICERS)**

**SONOS, INC.
2018 EQUITY INCENTIVE PLAN
GRANT NUMBER:**

Unless otherwise defined herein, the terms defined in the Sonos, Inc. (the “**Company**”), 2018 Equity Incentive Plan (the “**Plan**”) shall have the same meanings in this Notice of Restricted Stock Unit Award (the “**Notice**”) and the attached Award Agreement, including the International Supplement attached hereto (the “**Supplement**”), which is generally applicable to you if you live or work outside the United States, and any special terms and conditions for your country set forth therein (collectively, the “**RSU Agreement**”). You (“**you**”) have been granted an award of Restricted Stock Units (“**RSUs**”) under the Plan subject to the terms and conditions of the Plan, this Notice and the attached RSU Agreement.

Name:

Address:

Number of RSUs:

Date of Grant:

Vesting Commencement Date:

Expiration Date: The earlier to occur of: (a) the settlement of all vested RSUs granted hereunder and (b) the tenth anniversary of the Date of Grant. The RSUs expire earlier if your Service terminates earlier, as described in the RSU Agreement.

Vesting Dates:

Vesting Schedule:

Vesting Acceleration: [Notwithstanding the foregoing and anything contrary in the RSU Agreement or the Plan, if your Service is terminated by the Company or a successor corporation as a result of an Involuntary Termination (as defined below) within the period of time commencing two months prior to a Corporate Transaction (as defined below) and ending 12 months following a Corporate Transaction, you shall also fully vest in the Accelerated RSUs (as defined below).

“**Involuntary Termination**” means, without your express written consent, any of the following: (a) your resignation following (i) a significant reduction of your duties, position or responsibilities relative to your duties,

position or responsibilities in effect immediately prior to such reduction; (ii) a material reduction by the Company of your base salary, as in effect immediately prior to such reduction; and/or (iii) your relocation by the Company to a facility or a location more than fifty (50) miles from your current location; or (b) any termination of your Service by the Company other than for Cause (as defined below); in either of the foregoing cases, provided that such resignation or termination constitutes a “separation from service” within the meaning of Section 409A of the Code and the Treasury regulations promulgated thereunder.

“*Cause*” means any of the following: (i) any act of personal dishonesty, taken by you in connection with your responsibilities as a service provider of the Company, which is intended to result in your personal enrichment, (ii) your conviction of, or plea of nolo contendere to, a felony, (iii) any act by you that constitutes material misconduct and is injurious to the Company, or (iv) continued violations by you of your obligations to the Company.

“*Accelerated RSUs*” means 100% of the then-unvested RSUs.

Notwithstanding anything contrary in the RSU Agreement or the Plan, if you are subject to an Involuntary Termination prior to a Corporate Transaction, your then-unvested RSUs shall remain outstanding for two months but shall not continue vesting following such Involuntary Termination to the minimum extent necessary to permit the vesting acceleration described above.]

This Grant Notice may be executed and delivered electronically, whether via the Company’s intranet or the Internet site of a third party or via email or any other means of electronic delivery specified by the Company. You acknowledge that the vesting of the RSUs pursuant to this Notice is earned only by continuing Service, but you understand that your employment or consulting relationship with the Company or a Parent, Subsidiary or Affiliate is for an unspecified duration, can be terminated at any time, and that nothing in this Notice of Grant, the RSU Agreement or the Plan changes the nature of that relationship. By accepting this award, you and the Company agree that this award is granted under and governed by the terms and conditions of the Plan, this Notice and the RSU Agreement. By accepting this award of RSUs, you consent to the electronic delivery and acceptance as further set forth in the RSU Agreement.

**RESTRICTED STOCK UNIT AGREEMENT
SONOS, INC.
2018 EQUITY INCENTIVE PLAN**

You have been granted Restricted Stock Units (“RSUs”) by Sonos, Inc. (the “Company”), subject to the terms, restrictions and conditions of the Plan, the Notice of Restricted Stock Unit Award (the “Notice”) and this Restricted Stock Unit Agreement, including the Supplement, which is generally applicable to you if you live or work outside the United States, and any special terms and conditions for your country set forth therein (collectively, this “RSU Agreement”).

1. Nature of Grant. In accepting this award of RSUs, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

(b) the grant of the RSUs is voluntary and occasional and does not create any contractual or other right to receive future awards of RSUs, or benefits in lieu of RSUs, even if RSUs have been granted in the past;

(c) all decisions with respect to future RSUs or other grants, if any, will be at the sole discretion of the Company;

(d) you are voluntarily participating in the Plan;

(e) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not intended to replace any pension rights or compensation;

(f) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(g) unless otherwise agreed with the Company, the RSUs and any Shares acquired under the Plan, and the income and value of same, are not granted as consideration for, or in connection with, any service you may provide as a director of the Company, or a Parent or Subsidiary of the Company;

(h) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(i) no claim or entitlement to compensation or damages shall arise from forfeiture of the RSUs resulting from the termination of your Service (for any reason whatsoever whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are providing Service or the terms of your employment or service agreement, if any), and in consideration of the grant of the RSUs to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, the Employer (as defined below), or any other Parent or



Subsidiary of the Company, waive your ability, if any, to bring any such claim, and release the Company, the Employer and its Parent or Subsidiaries from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claim; and

(j) the following provisions apply only if you are providing Service outside the United States:

(i) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not part of normal or expected compensation or salary for any purpose; and

(ii) neither the Company, the Employer nor any Parent or Subsidiary of the Company shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of the RSUs or the subsequent sale of any Shares acquired upon settlement.

2. Settlement. Settlement of RSUs shall be made, in any case, on or before March 15 of the calendar year following the calendar year of the applicable date of vesting under the vesting schedule set forth in the Notice. Settlement of RSUs shall be in Shares. Settlement means the delivery to you of the Shares vested under the RSUs. Fractional Shares will not be issued.

3. No Stockholder Rights. Unless and until such time as Shares are issued in settlement of vested RSUs, you shall have no ownership of the Shares allocated to the RSUs and shall have no right to dividends or to vote such Shares.

4. Dividend Equivalents. Dividend equivalents, if any, shall not be credited to you, except as otherwise permitted by the Committee.

5. No Transfer. RSUs may not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of in any manner other than by will or by the laws of descent or distribution or court order or unless otherwise permitted by the Committee on a case-by-case basis.

6. Termination. If your Service terminates for any reason, all unvested RSUs shall be forfeited to the Company forthwith, and all rights you have to such RSUs shall immediately terminate, without payment of any consideration to you. For purposes of this award of RSUs, your Service will be considered terminated as of the date you are no longer providing Service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or the terms of your employment or service agreement, if any) and will not be extended by any notice period mandated under local employment laws (e.g., Service would not include a period of “garden leave” or similar period). In case of any dispute as to whether your termination of Service has occurred, the Committee shall have sole discretion to determine whether such termination has occurred (including whether you may still be considered to be providing Services while on a leave of absence) and the effective date of such termination.

7. Tax Consequences. You acknowledge that there will be certain consequences with regard to income tax, national or social insurance contributions, payroll tax, fringe benefits tax, payment



on account or other tax-related items (“**Tax-Related Items**”) upon settlement of the RSUs or disposition of the Shares, if any, received in connection therewith, and you should consult a tax adviser regarding your tax obligations prior to such settlement or disposition in the jurisdiction where you are subject to tax.

8. Responsibility for Taxes. Regardless of any action the Company or, if different, your actual employer (the “**Employer**”) takes with respect to any or all Tax-Related Items withholding or required deductions, you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the award, including the grant, vesting or settlement of the RSUs, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends; and (2) do not commit to structure the terms of the award or any aspect of the RSUs to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. You acknowledge that if you are subject to Tax-Related Items in more than one jurisdiction, the Company and/or the Employer may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

You acknowledge that the Company’s obligation to issue or deliver Shares shall be subject to your satisfaction of all Company and/or Employer withholding obligations for Tax-Related Items that arise as a result of this Award and the vesting and/or settlement of the RSUs that are subject to this Award. In this regard, you authorize the Company and/or the Employer, and their respective agents, to withhold Shares that otherwise would be issued to you upon settlement of the RSUs to satisfy the Company and/or the Employer’s tax withholding obligations. You acknowledge that you will not receive a refund in cash or Shares from the Company and/or the Employer with respect to any withheld Shares, whose value exceeds the Company and/or the Employer’s withholding obligations for Tax-Related Items, and that the Company and/or the Employer will include such excess amount in the taxes that the Company will pay to the applicable tax authorities on your behalf. You must pay to the Company and/or the Employer any amount of the Tax-Related Items that the Company and/or the Employer may be required to withhold that cannot be satisfied through share withholding. For tax purposes, you are deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items. You acknowledge that the Company has no obligation to deliver Shares to you until you have satisfied the obligations in connection with the Tax-Related Items as described in this Section 8.

9. Acknowledgement. The Company and you agree that the RSUs are granted under and governed by the Notice, this RSU Agreement and the provisions of the Plan. You: (i) acknowledge receipt of a copy of the Plan prospectus, (ii) represent that you have carefully read and are familiar with the provisions in the grant documents, and (iii) hereby accept the RSUs subject to all of the terms and conditions set forth in this RSU Agreement and those set forth in the Notice. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions relating to the Plan, the Notice and this RSU Agreement.

10. Entire Agreement; Enforcement of Rights. This RSU Agreement, the Plan and the Notice constitute the entire agreement and understanding of the parties relating to the subject



matter herein and supersede all prior discussions between them. Any prior agreements, commitments or negotiations concerning the purchase of the Shares hereunder are superseded. No modification of or amendment to this RSU Agreement, nor any waiver of any rights under this RSU Agreement, shall be effective unless in writing and signed by the parties to this RSU Agreement. The failure by either party to enforce any rights under this RSU Agreement shall not be construed as a waiver of any rights of such party.

11. Compliance with Laws and Regulations. The issuance of Shares will be subject to and conditioned upon compliance by the Company and you with all applicable state, federal and foreign laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer, which compliance the Company shall, in its absolute discretion, deem necessary or advisable. You understand that the Company is under no obligation to register or qualify the Common Stock with any state, federal or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. Further, you agree that the Company shall have unilateral authority to amend the Plan and this RSU Agreement without your consent to the extent necessary to comply with securities or other laws applicable to issuance of Shares. Finally, the Shares issued pursuant to this RSU Agreement shall be endorsed with appropriate legends, if any, determined by the Company.

12. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the underlying Shares. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

13. Governing Law; Venue. This RSU Agreement, all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law. For purposes of litigating any dispute that may arise directly or indirectly from the Plan, the Notice and this RSU Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California in Santa Barbara County, California, or the federal courts of the United States for the Southern District of California and no other courts.

14. Severability. If one or more provisions of this RSU Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this RSU Agreement, (ii) the balance of this RSU Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this RSU Agreement shall be enforceable in accordance with its terms.

15. No Rights as Employee, Director or Consultant. Nothing in this RSU Agreement shall affect in any manner whatsoever the right or power of the Company, or a Parent or Subsidiary of the Company, to terminate your Service, for any reason, with or without Cause.



16. Consent to Electronic Delivery and Acceptance of All Plan Documents and Disclosures. By your acceptance of this award of RSUs, you consent to the electronic delivery of the Notice, this RSU Agreement, the Plan, account statements, Plan prospectuses required by the SEC, U.S. financial reports of the Company, and all other documents that the Company is required to deliver to its stockholders (including, without limitation, annual reports and proxy statements) or other communications or information related to the RSUs. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other delivery determined at the Company's discretion. You acknowledge that you may receive from the Company a paper copy of any documents delivered electronically at no cost if you contact the Company by telephone, through a postal service or electronic mail at sonos-stockadmin@sonos.com. You further acknowledge that you will be provided with a paper copy of any documents delivered electronically if electronic delivery fails; similarly, you understand that you must provide on request to the Company or any designated third party a paper copy of any documents delivered electronically if electronic delivery fails. You agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company. Also, you understand that your consent may be revoked or changed, including any change in the electronic mail address to which documents are delivered (if you have provided an electronic mail address), at any time by notifying the Company of such revised or revoked consent by telephone, postal service or electronic mail at sonos-stockadmin@sonos.com. Finally, you understand that you are not required to consent to electronic delivery.

17. Insider Trading Restrictions/Market Abuse Laws. You acknowledge that, depending on your country, you may be subject to insider trading restrictions and/or market abuse laws, which may affect your ability to acquire or sell the Shares or rights to Shares under the Plan during such times as you are considered to have "inside information" regarding the Company (as defined by the laws in your country). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. You acknowledge that it is your responsibility to comply with any applicable restrictions, and you are advised to speak to your personal advisor on this matter.

18. Language. If you have received this RSU Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

19. International Supplement. Notwithstanding any provisions in this RSU Agreement, this award of RSUs shall be subject to the Supplement if you live or work outside the United States, including any special terms and conditions set forth therein for your country. Moreover, if you relocate to a country other than the United States, then the Supplement, including the special terms and conditions for such country will, apply to you to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Supplement constitutes part of this RSU Agreement.

20. Imposition of Other Requirements. The Company reserves the right to impose other requirements on your participation in the Plan, on the RSUs and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative



reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

21. Waiver. You acknowledge that a waiver by the Company of breach of any provision of this RSU Agreement shall not operate or be construed as a waiver of any other provision of this RSU Agreement, or of any subsequent breach by you or any other Participant.

22. Code Section 409A. For purposes of this RSU Agreement, a termination of employment will be determined consistent with the rules relating to a “separation from service” as defined in Section 409A of the Code and the regulations thereunder (“**Section 409A**”). Notwithstanding anything else provided herein, to the extent any payments provided under this RSU Agreement in connection with your termination of employment constitute deferred compensation subject to Section 409A, and you are deemed at the time of such termination of employment to be a “specified employee” under Section 409A, then such payment shall not be made or commence until the earlier of (i) the expiration of the six-month period measured from your separation from service from the Company or (ii) the date of your death following such a separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to you including, without limitation, the additional tax for which you would otherwise be liable under Section 409A(a)(1)(B) in the absence of such a deferral. To the extent any payment under this RSU Agreement may be classified as a “short-term deferral” within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this section are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

23. Award Subject to Company Clawback or Recoupment. To the extent permitted by applicable law, the RSUs shall be subject to clawback or recoupment pursuant to any clawback or recoupment policy adopted by the Board or required by law during the term of your employment or other Service that is applicable to you. In addition to any other remedies available under such policy, applicable law may require the cancellation of your RSUs (whether vested or unvested) and the recoupment of any gains realized with respect to your RSUs.

BY ACCEPTING THIS RESTRICTED STOCK UNIT AWARD, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

**RESTRICTED STOCK UNIT AGREEMENT
SONOS, INC.
2018 EQUITY INCENTIVE PLAN**

You have been granted Restricted Stock Units (“*RSUs*”) by Sonos, Inc. (the “*Company*”), subject to the terms, restrictions and conditions of the Plan, the Notice of Restricted Stock Unit Award (the “*Notice*”) and this Restricted Stock Unit Agreement, including the Supplement, which is generally applicable to you if you live or work outside the United States, and any special terms and conditions for your country set forth therein (collectively, this “*RSU Agreement*”).

1. Nature of Grant. In accepting this award of RSUs, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

(b) the grant of the RSUs is voluntary and occasional and does not create any contractual or other right to receive future awards of RSUs, or benefits in lieu of RSUs, even if RSUs have been granted in the past;

(c) all decisions with respect to future RSUs or other grants, if any, will be at the sole discretion of the Company;

(d) you are voluntarily participating in the Plan;

(e) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not intended to replace any pension rights or compensation;

(f) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(g) unless otherwise agreed with the Company, the RSUs and any Shares acquired under the Plan, and the income and value of same, are not granted as consideration for, or in connection with, any service you may provide as a director of the Company, or a Parent or Subsidiary of the Company;

(h) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(i) no claim or entitlement to compensation or damages shall arise from forfeiture of the RSUs resulting from the termination of your Service (for any reason whatsoever whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are providing Service or the terms of your employment or service agreement, if any), and in consideration of the grant of the RSUs to which you are otherwise not entitled, you irrevocably agree never to

institute any claim against the Company, the Employer (as defined below), or any other Parent or Subsidiary of the Company, waive your ability, if any, to bring any such claim, and release the Company, the Employer and its Parent or Subsidiaries from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claim; and

(j) the following provisions apply only if you are providing Service outside the United States:

(i) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not part of normal or expected compensation or salary for any purpose; and

(ii) neither the Company, the Employer nor any Parent or Subsidiary of the Company shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of the RSUs or the subsequent sale of any Shares acquired upon settlement.

2. Settlement. Settlement of RSUs shall be made, in any case, on or before March 15 of the calendar year following the calendar year of the applicable date of vesting under the vesting schedule set forth in the Notice. Settlement of RSUs shall be in Shares. Settlement means the delivery to you of the Shares vested under the RSUs. Fractional Shares will not be issued.

3. No Stockholder Rights. Unless and until such time as Shares are issued in settlement of vested RSUs, you shall have no ownership of the Shares allocated to the RSUs and shall have no right to dividends or to vote such Shares.

4. Dividend Equivalents. Dividend equivalents, if any, shall not be credited to you, except as otherwise permitted by the Committee.

5. No Transfer. RSUs may not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of in any manner other than by will or by the laws of descent or distribution or court order or unless otherwise permitted by the Committee on a case-by-case basis.

6. Termination. If your Service terminates for any reason, all unvested RSUs shall be forfeited to the Company forthwith, and all rights you have to such RSUs shall immediately terminate, without payment of any consideration to you. For purposes of this award of RSUs, your Service will be considered terminated as of the date you are no longer providing Service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or the terms of your employment or service agreement, if any) and will not be extended by any notice period mandated under local employment laws (*e.g.*, Service would not include a period of “garden leave” or similar period). In case of any dispute as to whether your termination of Service has occurred, the Committee shall have sole discretion to determine whether such termination has occurred (including whether you may still be considered to be providing Services while on a leave of absence) and the effective date of such termination.



7. **Tax Consequences.** You acknowledge that there will be certain consequences with regard to income tax, national or social insurance contributions, payroll tax, fringe benefits tax, payment on account or other tax-related items (“***Tax-Related Items***”) upon settlement of the RSUs or disposition of the Shares, if any, received in connection therewith, and you should consult a tax adviser regarding your tax obligations prior to such settlement or disposition in the jurisdiction where you are subject to tax.

8. **Responsibility for Taxes.** Regardless of any action the Company or, if different, your actual employer (the “***Employer***”) takes with respect to any or all Tax-Related Items withholding or required deductions, you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the award, including the grant, vesting or settlement of the RSUs, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends; and (2) do not commit to structure the terms of the award or any aspect of the RSUs to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. You acknowledge that if you are subject to Tax-Related Items in more than one jurisdiction, the Company and/or the Employer may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the settlement of your RSUs, you shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items withholding and payment on account obligations of the Company and/or the Employer. In this regard, you authorize the Company and/or the Employer, and their respective agents, to withhold taxes from the proceeds of the sale of the Shares, through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization).

If any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of your participation in the Plan or the vesting and settlement of the RSUs cannot be satisfied by the means previously described, then you authorize the Company and/or the Employer, and their respective agents, at their discretion, to withhold all applicable Tax-Related Items legally payable by you, if permissible under local law, from your wages or other cash compensation paid to you by the Company and/or the Employer. With the Company’s consent, you may request alternative withholding arrangements, which may also include, if permissible under local law, (a) withholding Shares that otherwise would be issued to you upon settlement of the RSUs, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum statutory withholding amount, (b) having the Company withhold taxes from the proceeds of the sale of the Shares through a voluntary sale arranged by the Company, (c) your payment of a cash amount or (d) any other arrangement approved by the Company; all under such rules as may be established by the Committee and in compliance with the Company’s Insider Trading Policy and 10b5-1 Trading Plan Policy, if applicable; provided, however, that if you are a Section 16 officer of the Company under the Exchange Act, then the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) shall establish the method of withholding prior to the taxable or withholding event. The Fair Market Value of these Shares, determined as of the effective date when taxes otherwise would have been withheld in cash, will be applied as a credit against the Tax-Related Items.



Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, as determined in the sole discretion of the Company or the Employer. In any case, you will not receive a refund from the Company of any over-withheld amount in cash and will have no entitlement to the Shares equivalent. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items. You acknowledge that the Company has no obligation to deliver Shares to you until you have satisfied the obligations in connection with the Tax-Related Items as described in this Section.

9. Acknowledgement. The Company and you agree that the RSUs are granted under and governed by the Notice, this RSU Agreement and the provisions of the Plan. You: (i) acknowledge receipt of a copy of the Plan prospectus, (ii) represent that you have carefully read and are familiar with the provisions in the grant documents, and (iii) hereby accept the RSUs subject to all of the terms and conditions set forth in this RSU Agreement and those set forth in the Notice. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions relating to the Plan, the Notice and this RSU Agreement.

10. Entire Agreement; Enforcement of Rights. This RSU Agreement, the Plan and the Notice constitute the entire agreement and understanding of the parties relating to the subject matter herein and supersede all prior discussions between them. Any prior agreements, commitments or negotiations concerning the purchase of the Shares hereunder are superseded. No modification of or amendment to this RSU Agreement, nor any waiver of any rights under this RSU Agreement, shall be effective unless in writing and signed by the parties to this RSU Agreement. The failure by either party to enforce any rights under this RSU Agreement shall not be construed as a waiver of any rights of such party.

11. Compliance with Laws and Regulations. The issuance of Shares will be subject to and conditioned upon compliance by the Company and you with all applicable state, federal and foreign laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer, which compliance the Company shall, in its absolute discretion, deem necessary or advisable. You understand that the Company is under no obligation to register or qualify the Common Stock with any state, federal or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. Further, you agree that the Company shall have unilateral authority to amend the Plan and this RSU Agreement without your consent to the extent necessary to comply with securities or other laws applicable to issuance of Shares. Finally, the Shares issued pursuant to this RSU Agreement shall be endorsed with appropriate legends, if any, determined by the Company.

12. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the underlying Shares. You are hereby advised to consult



with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

13. Governing Law; Venue. This RSU Agreement, all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law. For purposes of litigating any dispute that may arise directly or indirectly from the Plan, the Notice and this RSU Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California in Santa Barbara County, California, or the federal courts of the United States for the Southern District of California and no other courts.

14. Severability. If one or more provisions of this RSU Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this RSU Agreement, (ii) the balance of this RSU Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this RSU Agreement shall be enforceable in accordance with its terms.

15. No Rights as Employee, Director or Consultant. Nothing in this RSU Agreement shall affect in any manner whatsoever the right or power of the Company, or a Parent or Subsidiary of the Company, to terminate your Service, for any reason, with or without Cause.

16. Consent to Electronic Delivery and Acceptance of All Plan Documents and Disclosures. By your acceptance of this award of RSUs, you consent to the electronic delivery of the Notice, this RSU Agreement, the Plan, account statements, Plan prospectuses required by the SEC, U.S. financial reports of the Company, and all other documents that the Company is required to deliver to its stockholders (including, without limitation, annual reports and proxy statements) or other communications or information related to the RSUs. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other delivery determined at the Company's discretion. You acknowledge that you may receive from the Company a paper copy of any documents delivered electronically at no cost if you contact the Company by telephone, through a postal service or electronic mail at sonos-stockadmin@sonos.com. You further acknowledge that you will be provided with a paper copy of any documents delivered electronically if electronic delivery fails; similarly, you understand that you must provide on request to the Company or any designated third party a paper copy of any documents delivered electronically if electronic delivery fails. You agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company. Also, you understand that your consent may be revoked or changed, including any change in the electronic mail address to which documents are delivered (if you have provided an electronic mail address), at any time by notifying the Company of such revised or revoked consent by telephone, postal service or electronic mail at sonos-stockadmin@sonos.com. Finally, you understand that you are not required to consent to electronic delivery.



17. Insider Trading Restrictions/Market Abuse Laws. You acknowledge that, depending on your country, you may be subject to insider trading restrictions and/or market abuse laws, which may affect your ability to acquire or sell the Shares or rights to Shares under the Plan during such times as you are considered to have “inside information” regarding the Company (as defined by the laws in your country). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. You acknowledge that it is your responsibility to comply with any applicable restrictions, and you are advised to speak to your personal advisor on this matter.

18. Language. If you have received this RSU Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

19. International Supplement. Notwithstanding any provisions in this RSU Agreement, this award of RSUs shall be subject to the Supplement if you live or work outside the United States, including any special terms and conditions set forth therein for your country. Moreover, if you relocate to a country other than the United States, then the Supplement, including the special terms and conditions for such country will, apply to you to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Supplement constitutes part of this RSU Agreement.

20. Imposition of Other Requirements. The Company reserves the right to impose other requirements on your participation in the Plan, on the RSUs and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

21. Waiver. You acknowledge that a waiver by the Company of breach of any provision of this RSU Agreement shall not operate or be construed as a waiver of any other provision of this RSU Agreement, or of any subsequent breach by you or any other Participant.

22. Code Section 409A. For purposes of this RSU Agreement, a termination of employment will be determined consistent with the rules relating to a “separation from service” as defined in Section 409A of the Code and the regulations thereunder (“**Section 409A**”). Notwithstanding anything else provided herein, to the extent any payments provided under this RSU Agreement in connection with your termination of employment constitute deferred compensation subject to Section 409A, and you are deemed at the time of such termination of employment to be a “specified employee” under Section 409A, then such payment shall not be made or commence until the earlier of (i) the expiration of the six-month period measured from your separation from service from the Company or (ii) the date of your death following such a separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to you including, without limitation, the additional tax for which you would otherwise be liable under Section 409A(a)(1)(B) in the absence of such a deferral. To the extent any payment under this RSU Agreement may be classified as a “short-term deferral” within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of



Section 409A. Payments pursuant to this section are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

23. Lock-Up Agreement. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, you hereby agree not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company however and whenever acquired (other than those included in the registration), except pursuant to a transfer for no consideration in accordance with Section 5 above, without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred eighty (180) days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the public offering; provided however that, if during the last seventeen (17) days of the restricted period the Company issues an earnings release or material news or a material event relating to the Company occurs, or prior to the expiration of the restricted period the Company announces that it will release earnings results during the sixteen (16)-day period beginning on the last day of the restricted period, then, upon the request of the managing underwriter, to the extent required by any FINRA rules, the restrictions imposed by this Section shall continue to apply until the end of the third trading day following the expiration of the fifteen (15)-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. In no event will the restricted period extend beyond two hundred sixteen (216) days after the effective date of the registration statement.

24. Award Subject to Company Clawback or Recoupment. To the extent permitted by applicable law, the RSUs shall be subject to clawback or recoupment pursuant to any clawback or recoupment policy adopted by the Board or required by law during the term of your employment or other Service that is applicable to you. In addition to any other remedies available under such policy, applicable law may require the cancellation of your RSUs (whether vested or unvested) and the recoupment of any gains realized with respect to your RSUs.

BY ACCEPTING THIS RESTRICTED STOCK UNIT AWARD, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-226516 and 333-229558) of Sonos, Inc. of our report dated November 25, 2019 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
November 25, 2019

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Patrick Spence and Brittany Bagley, and each of them, such individual's true and lawful attorneys-in-fact and agents with full power of substitution, for such individual and in such individual's name, place and stead, in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as such individual might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Patrick Spence</u> Patrick Spence	Chief Executive Officer <i>(Principal Executive Officer)</i>	November 25, 2019
<u>/s/ Brittany Bagley</u> Brittany Bagley	Chief Financial Officer <i>(Principal Financial Officer and Principal Accounting Officer)</i>	November 25, 2019
<u>/s/ Robert Bach</u> Robert Bach	Director	November 25, 2019
<u>/s/ Karen Boone</u> Karen Boone	Director	November 25, 2019
<u>/s/ Thomas Conrad</u> Thomas Conrad	Director	November 25, 2019
<u>/s/ Julius Genachowski</u> Julius Genachowski	Director	November 25, 2019
<u>/s/ John Maeda</u> John Maeda	Director	November 25, 2019
<u>/s/ Michelangelo Volpi</u> Michelangelo Volpi	Director and Chairperson of the Board of Directors	November 25, 2019

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick Spence, certify that:

1. I have reviewed this annual report on Form 10-K of Sonos, 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; and
 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.
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Date: November 25, 2019

/s/ Patrick Spence

Patrick Spence

Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brittany Bagley, certify that:

1. I have reviewed this annual report on Form 10-K of Sonos, 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; and
 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.
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Date: November 25, 2019

/s/ Brittany Bagley

Brittany Bagley

Chief Financial Officer
(Principal Financial Officer
and Principal Accounting Officer)

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

I, Patrick Spence, Chief Executive Officer of Sonos, Inc. (the "Company"), 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, this annual report on Form 10-K of the Company for the fiscal year ended September 28, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 25, 2019 By:

/s/ Patrick Spence

Patrick Spence
Chief Executive Officer
(Principal Executive Officer)

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

I, Brittany Bagley, Chief Financial Officer of Sonos, Inc. (the "Company"), 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, this annual report on Form 10-K of the Company for the fiscal year ended September 28, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 25, 2019 By:

/s/ Brittany Bagley

Brittany Bagley
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)